

THE EFFECT OF DIVIDEND PAYOUT RATIO ON SHARE PRICES OF NON-FINANCIAL FIRMS QUOTED ON THE NAIROBI SECURITIES EXCHANGE

BY

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D61/68001/2011

**A RESEARCH PROJECT SUMMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS
ADMINISTRATION DEGREE OF THE UNIVERSITY OF NAIROBI**

NOVEMBER 2014

DECLARATION

This research project is my original work and has not been presented for a degree or any other examination to any other university.

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ACKNOWLEDGEMENTS

I take this opportunity to thank the Almighty God for the gift of life and His amazing grace that has seen me accomplish this project in good time. I am also thankful to the School of Business, University of Nairobi for giving me an opportunity to pursue and complete my Master degree.

Special thanks go to my supervisor, Mr. Herick Ondigo, for his invaluable guidance, supervision, critique, encouragement and patience in reading; correcting, re-reading and refining this work. Many thanks for being my supervisor and accommodating me in your busy schedule as the Head of Department, Finance and Accounting.

I am heavily indebted to my wife, daughter, son, parents, siblings, family and friends for their constant encouragement and understanding that played a pivotal role towards completion of this project. Special gratitude goes to my wife, Lorna Solopian, for her immense moral support before commencement, during this project and at all times when the going got tough. This truly contributed to the success of this Master degree.

I also acknowledge Eric Mwenda and everyone else who assisted me in completing this study and am glad for your input and your willingness to help. However, any errors or omission found in the document remains mine.

DEDICATION

I dedicate this Master degree to my wife Solopian, daughter Karimi, son Kithinji, dear parents and siblings for being there every moment for me in terms motivation, push, encouragement and prayers. Their love, care, concern, support, encouragement and enthusiasm were the inspiration behind the achievement of this goal.

May God bless you all in ways that surpass human understanding.

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LIST OF ABBREVIATIONS

BV	Book Value
CMA	Capital Markets Authority of Kenya
D/E	Debt-Equity Ratio
DSE	Dhaka Stock Exchange
EPS	Earnings per Share
LSE	London Stock Exchange
MM	Modigliani and Miller
NPV	Net Present Value
NSE	Nairobi Securities Exchange
NYSE	New York Stock Exchange
PV	Present Value
SPSS	Statistical Package for Social Science

ABSTRACT

In the commercial world dividends are a critical part of the firm performance as they are a major cash outlay and the major means through which investors receive a return on their investment of shares. Dividends do have informational value which the firms have to safeguard. The cash payment for dividends conveys to shareholders that the company is profitable and financially strong. When a firm changes its dividend pay-out policy in a significant manner, investors take it that it is in response to an expected change in the firm's profitability, which will last long into the future. An increase in dividend payout signals to shareholders a long-term increase in a company's expected earnings, cash-flows and general prospects. On the other hand, a dividend cut is usually not a voluntary, planned change in dividend pay-out policy. It usually signals to shareholders that management does not believe the current dividend policy is sustainable. Consequently, expectations of future dividends should generally be revised downwards. Therefore, dividends are an important part of a firm. However, little has been done in Kenya to determine the relationship between dividend payouts and share prices at the NSE. Therefore, this study sought to find out the effect of dividend payout ratio on share prices of non-financial firms quoted on the NSE. The study adopted a descriptive research design targeting secondary data collected from NSE for all the non-financial trading companies listed in NSE, which informed the study. The study found that that dividend payout ratio affects the share prices of non-financial firms quoted in NSE. This study therefore recommends diligence in the handling of dividend payout information among the sector players in a bid to ensure that there is inclusivity of the stock market stakeholders. Therefore, policies guiding the sharing of this information should be availed to enhance market control. It also recommends that further research should be done on dividend payout ratio effects on the share prices of listed financial institutions in the NSE so as to determine whether similar findings can be realized from the sector to enhance the study's findings.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Dividends are critical in the commercial world. This is because they are a major cash outlay for companies and constitute the key method by which investors receive a return on their investment or shares in a given company (Ross et al, 2010).

Financial managers do not routinely pay out all of a firm's cash-flows as dividends in the real world. A plausible explanation for this restraint is that financial market imperfections (taxes, brokerage costs and flotation costs) and asymmetric information make internal financing less expensive than new external financing which influence share prices (Emery, 1998).

Many conflicting theories have been formulated with a view to explain the effect of dividends on value of shares. There are theories which hold that an increase in dividend payouts increase value of shares whereas there are other theories which do not find any impact of dividend payouts on share prices. There also theories which claim that dividend payouts reduce value of the shares. Unfortunately, the conflicting theories do not help financial managers, who are responsible for deciding on a company's dividend payment patterns, as they would want to know how dividend payouts affects the value of their share prices. Nevertheless, in the real world of corporate finance, determining the appropriate dividend payments is considered an important issue (Pandey, 2010).

It could be financial managers who view dividend payout patterns as irrelevant on share prices might be missing some important aspect in their discussions. Therefore, this calls for more studies in this area with a view to establish an empirical correlation between dividend payouts and share price (Brigham and Daves, 2010).

1.1.1 Dividend Payout Ratio

Dividend payout ratio is the fraction of net income a firm pays to its shareholders in dividends. The part of the earnings that is not paid to investors is left for investment to provide for future earnings growth. The term 'dividend' is usually used to refer to cash paid out of earnings to a company's shareholders. If a payment is made from sources other than current or accumulated retained earnings, the term 'distribution' rather than dividend is used (Ross et al, 2010). Firms pay dividends in various forms which include cash dividend, bonus shares and buyback of shares.

The usual practice is to pay dividends in cash. A firm should have sufficient funds in the bank when cash dividends are declared. If there is not enough cash in the bank, arrangements are usually made to borrow funds. The cash account and reserve account of a company reduces when a cash dividend is paid. Thus both the total assets and the net worth of the company are reduced when a cash dividend is declared and paid. The market price of the share tends to drop by the amount of the cash dividend distributed (Pandey, 2010).

On the other hand, an issue of bonus shares refers to the distribution of shares free of cost to the existing shareholders. It could be the only means to pay dividend under financial

difficulty and contractual obligations. Issuing bonus shares increases the number of outstanding shares of the company. The bonus shares are distributed proportionately to the existing shareholders and hence there is no dilution of ownership. In most cases the issue of bonus shares does not affect the wealth of shareholders. The earnings per share and market price per share will fall proportionately to the bonus issue. However, the market value of shares may improve where a bonus issue is followed by increased dividends in the immediate future. If the dividends do not increase, it is likely that the market price may fall (Brigham and Daves, 2010).

The share split is not a form of dividend but it has similar effects as bonus shares. A share split is a method to increase the number of outstanding shares through a proportional reduction in the par value of the share. A share split affects only the par value and the number of outstanding shares whilst the shareholders' total funds remain the same (Emery, 1998).

The buyback of shares refers to the re-purchase of its own shares by a company. In cases where firm executes a buyback of shares, the bought up shares will be extinguished and will not be re-issued. This will permanently reduce the amount of equity capital and the number of outstanding shares. If the firm distributes surplus cash and maintains its operating efficiency, earning per share (EPS) will increase and consequently the share price will increase (Pandey, 2010).

1.1.2 Share Prices

Share price refers to the price of a single share of a number of saleable stocks of a company (Huang, 2004). Once the stock is purchased, the owner becomes a shareholder of the company that issued the share. Shareholders have certain rights and privileges by virtue of owning shares in a firm (Brigham and Daves, 2010). Shareholders invest their money in the shares of a company in the expectation of a return on their invested capital. The return consists of dividend and capital gain.

In financial and economic theory, analysts use random walk techniques to model behaviour of asset prices, in particular share prices on stock markets, currency exchange rates and commodity prices. This practice has its basis in the presumption that investors act rationally and without bias, and that at any moment they estimate value of an asset based on future expectations. Under these conditions, all existing information affects the price, which changes only when new information comes out. The new information comes out randomly and influences prices randomly (Huang, 2004).

Fama and French (2004) concluded from their study that some of the biggest price deviations from random walks result from seasonal and temporal patterns. In particular, returns in January significantly exceed those in other months (January effect) and on Monday's stock prices go down more than any other day. However, when analyzed over long periods, the share price is directly related to the earnings and dividends of the firm (Gujarati, 2004). For a long time, the best source of share price for firms quoted on the Nairobi Securities Exchange (NSE) was the business section of daily newspapers. One

problem with newspapers is that they are printed once a day. However, it is now possible to get daily prices on a real time basis from NSE website, www.nse.co.ke.

1.1.3 Effect of Dividend Payout Ratio on Share Prices

Many theories have been formulated with a view to explain the effect of dividends on value of shares. The theories, with opposing points of view, can be grouped in three categories. On one side, there are theorists who believe that an increase in dividend payouts increase value of the firm. On the other hand, there is a group of theorists who share the view that an increase in dividend payouts reduces value of the firm. In the middle, lies a set of theorists who claim that dividend payouts do not affect value of the firm. Gordon and Lintner (1963) argued that high dividend payouts reduce risks and this affects share prices. On the other hand, Litzenberger and Ramaswamy (1979) argued that low dividend payouts attract reduced taxes which influence share prices. Miller and Modigliani (1961), in the middle, propagated a theory that dividend policy does not have any effect on share price because the value of a firm depends only on its basic earning power and its business risk.

Although the validity of the perfect world is not empirically testable, the dividend irrelevance theory forms the basis for formulation of additional theories that attempt to explain different imperfections in the real world. Bhattacharya (1979) hypothesized that changes in dividend payout are clear signals concerning the present and future cash-flows, sent out consciously by management to shareholders. Miller and Rock (1985) worked on the premise of asymmetric information with regard to the quantum of a firm's present cash-flows generated internally, but symmetric information to the level of the firm's intended

investment and value of assets. Their study focused on impact of dividend payouts and their positive influence on share prices.

Talmor and Titman (1990) noted that Miller and Modigliani (1961) assumption that taxes do not exist in a realistic world. Investors have to pay taxes on dividends and capital gains. In most countries, the marginal tax rate for dividend income is higher than the capital gains tax rate. In addition, capital gains tax is payable only when the shares are actually sold. The effect of the favourable tax shelter in case of capital gains will result in tax savings which leads to a higher value of the shares. Therefore, the tax advantage of capital gains over dividends strongly favours a low dividend payment policy which also results in increased share prices.

Rozeff (1982) also suggested that firms declare dividends to deprive managers of the unsupervised access to internal financing that can lead to decisions that are detrimental to shareholders value. He found out that companies whose owners were separated from managers and dispersed had the least abilities to closely monitor managers and therefore paid out a higher proportion of earnings as dividends. This finding gives credence to the idea that owners are concerned about the agency costs of retaining earnings in the firm. The agency cost theory implies that a cut in cash dividend signals a reduction in a firm's equity value and consequently a reduced share price.

Many researchers have developed and empirically tested various models to explain dividend behavior. Its importance derives from the fact that dividends are related to the ability of firms to fulfill the needs of various stakeholders. After years of studies, financial economists have not arrived at a conclusion on how and to which extent the dividend policy

of a firm impacts value, performance and governance. Nevertheless, studies and empirical findings of the last decades have at least shown that dividend payout policy has more importance than in the simplistic model propagated by Miller and Modigliani (1961).

1.1.4 The Nairobi Securities Exchange

The NSE was established in 1954 and it is the principal securities exchange in Kenya. However, stock broking activities commenced in the early 1920s with no formal market, rules and regulation. In 1953, London Stock Exchange (LSE) officially recognized the setting up of stock broking activities in Kenya. The business of dealing in shares was then reserved to European Community until 1963 when Africans and other communities were allowed to trade in securities. The NSE had 61 companies listed as at 31 December 2013.

Most firms quoted in the NSE usually pay dividends in the form of cash dividend and bonus shares. Firms also execute share splits although share splits are not dividends. Buy back of shares as a form of dividend is rare in Kenya. Cash dividends are usually paid twice in any given financial year as interim, in the middle of the year, and final dividend which is paid after end of the financial year. In some years when there is unexpected income, firms pay a one-off dividend extra dividend which is not repeated in the subsequent years. However, there are some firms which have not paid a dividend for many years because of financial difficulties such as Uchumi Supermarkets. Other firms such as National Bank stayed for a long period of time before paying a dividend (Ratib, 2013).

The NSE is regulated by the Capital Markets Authority of Kenya (CMA) which is constituted under Capital Markets Authority Act Cap 485A. The CMA was established to

regulate and oversee the orderly development of Kenya's capital markets (NSE handbook, 2012).

1.2 Research Problem

It is believed that dividends are relevant because they have informational value. Solomon (1963) stated that in an uncertain world in which verbal statements can be ignored or misinterpreted, dividend action does provide a clear-cut means of '*making a statement*' that speaks louder than a thousand words. The cash payment for dividends conveys to shareholders that the company is profitable and financially strong. When a firm changes its dividend policy in a significant manner, investors take it that it is response to an expected change in the firm's profitability, which will last long into the future. An increase in dividend payout signals to shareholders a long-term increase in a company's expected earnings, cash-flows and general prospects. On the other hand, a dividend cut is usually not a voluntary, planned change in dividend policy. It usually signals to shareholders that management does not believe the current dividend policy is sustainable. Consequently, expectations of future dividends should generally be revised downwards. The PV of expected future dividends falls, and so does the share price. Therefore, share price would seem to be affected by the information content in the dividend and not the dividend per se.

Firms quoted on the NSE usually declare their dividends and shareholders on the firm's share register as at a given cut-off date become eligible to receive a dividend once it is paid out. Once a dividend is declared, the share prices commence trading cum-dividend until the dividend payment is made to shareholders. Shares trading cum dividend tend to sell at higher prices as they are expected to factor the proposed dividend component. The shares

start trading as ex-dividend immediately the dividend is paid and the share prices tend to come down on the NSE.

Corporate dividend payout policy has captured the interest of financial economists of this century and over the last five decades, it has been the subject of intensive theoretical modeling and empirical examination around the world. A number of conflicting theoretical models, which lack in strong empirical support, define current attempts to explain corporate dividend behavior. Black (1976) best captures this unfortunate situation in his article “The Dividend Puzzle” where he said, “What should the corporation do about dividend policy? We don’t know.”

Few research studies have been conducted in Kenya to determine the relationship between dividend payouts and share prices at the NSE. The studies appear to give mixed conclusions on the effect of dividend payouts on share prices at the NSE. There is also no recent research study in Kenya to establish the effect of dividend payouts on share prices for firms recently quoted on the NSE. Karanja (1987) conducted a study on dividend practices of companies that are listed on the NSE and established that there are many reasons why firms paid dividends to shareholders. One of the key reasons was inadequate investment opportunities which promise sufficient returns. A company’s cash position would be the most important consideration when making dividend decisions.

Njoroge (2001) studied the relationship dividend payments and certain financial ratios such as return on assets. He found out that the most significant variable in making dividend decisions is return on assets while return on equity and growth in assets are not considered in making dividend decisions. Mulwa (2006) carried out a study on the relationship

between dividend changes and future profitability of firms. He discovered that at least in the year of dividend change a relationship was in existence. In the subsequent first and second year after the dividend, he noted an insignificant relationship.

Ngunjiri (2010) in his analysis of the relationship between dividend payment policies and share price volatility observed that dividend payment policies had a great impact on the share price volatility. Abdi (2010) did a study on signaling effect of dividend payment on the earnings of the firms in NSE. He concluded that dividend payout ratio is positively related with future earnings although the association is low. Correlation tests indicated a moderate association at 0.478 of which dividend pay-out ratio accounted for 22.8% of the changes in earnings.

This study answered the question; what is the effect of dividend payout ratio on share prices of non-financial firms quoted on the NSE?

1.3 Objective of the Study

To establish the effect of dividend payout ratio on share prices of non-financial firms listed on the NSE.

1.4 Value of the Study

This is an educative research that would be of interest to various stakeholders, especially management of quoted companies, who would be better placed to make informed decisions with the knowledge of the effect of dividend payouts on share prices.

The Government of Kenya would make informed decisions as pertaining fiscal and monetary policies as they impact payment of dividends by companies. For example, the study would provide more information on implication of taxes on dividends payouts and capital gains. Investors are interested in return on their investment. This study would provide information on how dividend payouts affect value of their investment with a view to make better investment choices that maximizes value on quoted companies.

Stock broker managers and other investment consultants would find the effect of dividends on share prices useful when advising their clients on investment decisions. Finance scholars have conducted many studies with a view to explain dividend policy but there are no unanimous conclusions. Academicians may consider using the findings of the study to conduct more research in this and related areas.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter summarizes literature, theories and empirical studies that have been done in connection with the relationship between dividend payouts and share prices. The chapter commences with a discussion on dividend policies and factors that determine payment of dividends. The other areas covered are dividend hypothesis and empirical works conducted in the past focusing on this topic.

2.2 Theoretical Review

Retained earnings are the most significant internal sources of financing growth of a firm. On the other hand, dividends may be considered desirable from shareholder's point of view as they tend to increase their current income. Dividends, however, constitute the use of the firm's funds. Dividend policy involves the balancing of the shareholders' desire for current dividends and the firm's needs for funds for growth (Ross *et al.*, 2010).

A high dividend payout policy means more current dividends and less retained earnings, which may consequently result in slower growth and perhaps lower market price per share. On the other hand, low dividend payout policy means less current dividends, more retained earnings, higher capital gains, and probably higher market price per share. The following theories have been advanced to explain the relationship between dividend payout policy and the value of the firm (Pandey, 2010).

2.2.1 Dividend Irrelevance Theory

Miller and Modigliani (1961) theorized that the firm's value is determined only by its basic earning power and its business risk. They argued that the value of the firm depends only on the income produced by its assets, not on how this income is split between dividends and retained earnings. Their theory was based on the premise that the valuation of all shares of the firm will be determined by the principle that the rate of return on every share will remain the same in the market over a period of time. If this is not true, shareholders with low returns could increase their ultimate wealth by selling these shares and investing the arising proceeds in shares offering high returns. The arbitrage process would have the tendency to push down the prices of low return shares and push up the prices of high until the variance in the rate of return is evened out.

2.2.2 Bird-in-the-Hand Theory

Gordon (1963) and Lintner (1956) proposed that a stock's risk declines as dividend increase because a return in the form of dividends is a certain thing while a return in the form of capital gains is risky. Dividend payments are more certain as compared to capital gains which rely on demand and supply forces to derive share price.

Gordon explained in his dividend capitalization model that the market value of a share is equivalent to the PV of the dividends receivable by the shareholders into the future. Therefore, a company that has a high dividend payout policy will have a high value because lower rates of return will be used by shareholders to discount the expected future streams

of dividends. It is for this reason that one bird in the hand i.e. sure dividend income is more desirable than two birds in the bush i.e. uncertain capital gains.

2.2.3 Tax Preference Theory

Litzenberger and Ramaswamy (1979) conducted a study which gave credence to tax preference theory. Their study was conducted on the premise that individuals fell into five tax clienteles and that each clientele holds one-fifth of the market of all New York Stock Exchange (NYSE) shares. Their conclusion was that there is positive but non-linear relationship between common share returns and dividend returns. Dividend income is usually treated as ordinary income whereas capital gains are specially treated for tax purposes. Generally capital gains tax is lower when compared to income tax rate applicable to dividend income.

If dividends are taxed more heavily than capital gains, investors should pay more for stocks with low dividend yields. In other words, they should accept a lower tax rate of return from securities offering returns in the form of capital gains rather than dividends as this maximizes share value. This is what is postulated by the tax preference theory.

Different groups of shareholders prefer different dividend payout policies. For example, there are those investors who prefer cash income such as retired individuals, endowment funds and therefore they may wish for the firm to pay out a high percentage of its earnings. Such investors are often in low or even zero tax brackets, so taxes are of no concern to them. On the other hand, there are the wealthy investors who might prefer reinvestment of available income and would simply reinvest dividends received, after first paying income

taxes on those dividends. This tax differential attracts tax clientele effect, which implies that investors in high-tax brackets should own low-payout shares while those investors in low-tax bracket should acquire high-payout shares. Evidence from several studies indicates that there is indeed a clientele effect (Petit, 1977). However, there is no conclusion from studies that the aggregate make-up of investors which allow firms to disregard clientele effects.

2.3 Determinants of Share Prices of Listed Firms

Determinants of share prices are numerous and inexhaustible. They can be categorized into firm, industry, country and international or market and non-market factors and economic and non-economic factors. All the determinants can be summarized into two classes i.e. micro and macro determinants. Determinants in each class of the classification are inexhaustible. We set out below the predominant determinants of share prices:

2.3.1 Dividend Payment

According to Huang (2004), dividend is the portion of the profit after tax, which is distributed to the shareholders for their investment bearing risk in the firm. It has a significant influence on the market price of the share. Dividend per share (DPS) shows how much the company has paid out as dividend. It refers to the actual amount of dividend (gross) declared per share. The net profit after taxes belong to shareholders but the income that they really receive is the amount of earnings distributed and paid as cash dividend

Dividend seeking investors who prefer current income in the form of dividend to capital appreciation would favour shares that pay out higher dividends. Their preference for higher

dividend paying shares result in greater demand for such shares, thereby enhancing their market price. Dividend is therefore expected to influence share prices.

2.3.2 Leverage

Leverage which is measured as debt-equity ratio (DE) indicates the relative proportion of equity and debt that a firm is using to finance its assets, Sunde and Sanderson (2009). It is a measure of how much a firm is relying on debt. Since raising capital via debt involves periodic interest payments on part of a firm, increased use of debt by a firm would result in higher interest payments by the firm. This would in turn lower the earnings that are available to the equity shareholders of the firm and hence, investors generally prefer firms that have lower debt content in their capital structure. This influences share price.

2.3.3 Size of the Firm

The size reflects the order of magnitude of the firm in real terms. This can be constructed by taking the average market value of common stocks of the firm. There is evidence that the relationship between the information content in earnings announcement and changes in share prices tend to be influenced by size of the firm and that the change is more significant for smaller firms. This is because larger firms' earnings announcements have relatively less new information content. Larger firms have more information already circulated about them (for example, media and analysts) therefore earnings announcements will be more anticipated and hence already reflected in the share price (Cheung and Lilian, 1992).

2.3.4 Management

Sunde and Sanderson (2009) found out that the strength of management team plays a very crucial role in determining the price of a share. Changes in the management team affect both the risk and returns associated with the counter. If the incumbent management team is perceived to be strong due to its past performance, changes in such a team can result in the dropping of share price and vice versa. Sunde and Sanderson also established that the sudden drop in the share price of National Merchant Bank of Zimbabwe (NMBZ) in March 2004 was a result of the fleeing of senior managers of the bank out of the country after it had been discovered that they had committed fraud.

2.3.5 Corporate Governance

Carcello and Neal (2003) observed that good corporate governance has been evident to be associated with greater firm performance. It was observed that failure to implement standard corporate governance procedures has been the bane of the financial disposition of numerous corporations. In any firm, the share price is the first brief pinpoint when one thinks about an indicator for the performance of a listed company. If it is on an increase, the default reaction is that things are going well in that corporation and people do buy the shares. However, if it is on a decline, one may not be so sure about the way the business is shaping up its operations. As observed by Klein (1998), implementing a better corporate governance practice is anticipated to improve the monitoring of management and reduces information asymmetry problems. This invariably will increase the firm's value.

2.4 Empirical Review

International and local studies have been carried out by many scholars at different times to determine the effect of dividend payments on share prices. This section discusses some of the studies conducted in the past and their conclusion.

2.4.1 International Evidence

Lintner (1956) carried out a study using regression analysis on dividend pattern of 28 well established industrial firms in the US for the period from 1947 to 1953. He found out that companies will raise their dividend payout when financial managers are satisfied by the expected future performance and they will be hesitant to lower dividend payout unless they are convinced the company's earnings will decline permanently in future. Lintner also concluded that a significant proportion of a company's dividend would be linked to the company's target dividend payment and preferred pay-out ratio.

Fama and Babiak (1968) examined the determinants of dividend payouts by companies over the period from 1946 to 1964 using simulations, regression analysis and prediction tests. The conclusion of their study published in the US was that net income appears to give a more accurate measure of dividend when compared with either cash-flow or net income and depreciation as different variables in their model.

Litzenberger and Ramaswamy (1979) conducted a study covering the period 1936 to 1977 using multiple regression analysis and concluded that it is not desirable for investors to be paid dividends where their marginal rate of tax is greater than zero and investors discounting rate (after-tax expected rate of return) is a function of dividend yield and

systematic risk. This explains why stock prices tend to decrease when an increase in dividends is announced in the market. These findings were further supported by Brennan (1970) from his study.

Miller and Rock (1985) carried out a study in the US and observed that due to information asymmetry between companies and shareholders dividends may serve as signals to the outside world. They did their study on the premise that earnings are correlated over time and once current earnings are established, future earnings can be derived by the investors. Miller and Rock concluded that dividend payments indirectly relay private information about future earnings.

Kim and Viswanath (1992) conducted a study to establish the impact of transaction and agency costs on dividend payments by firms. They conducted cross-sectional tests on a sample of 357 companies for the period from 1979 to 1981 and related dividend payment ratios to variables such as portion of shares held by insiders, total number of shareholders, past and expected future growth, firm's beta, firm's total risk and firm's investment in research and development. It was revealed that transaction and agency costs influence a firm's dividend policy.

Khan (2009) conducted an empirical study on companies listed on Dhaka Stock Exchange (DSE) in Bangladesh to find out the importance of dividends, retained earnings and other variables on share prices. He found out from his study that dividends and retained earnings have a non-static relationship with share prices in the market. Khan concluded that the overall impact of dividend on share prices is better when compared with that of retained

earnings and that expected dividend payments have a profound effect in the determination of share prices.

2.4.2 Local Evidence

Farida (1993) examined factors which influence payments of dividends in the greatest manner in Kenya. The population of her study comprised all companies listed on the NSE as at 31 December 1992 while the sample was drawn from companies that had been listed for eight years to 1991. The period of eight years was considered suitable by the researcher because this was viewed to be sufficient time to identify any existing relationships between dividends and dependent and independent variables. She concluded that cash-flow, working capital, liquidity, profits and investments were the most significant factors that determine dividends in publicly quoted companies.

Nura (2000) carried out a study on companies consistently quoted on the NSE for the period from 1997 to 2000 to establish the effect of dividend payouts on share prices. He relied on daily stock price data published by NSE to calculate excess shareholder returns and to evaluate dividend announcement for each firm in his sample. Nura's study concluded that dividend payouts had a significant effect on share prices.

Bitok (2004) examined the impact of dividend policy on the value of firms listed consistently at the NSE for the period of six years from 1998 to 2003. He used secondary data from NSE, Stockbrokers as well as CMA and employed regression and correlation statistical techniques for analysis. The results of the study showed that there is significant relationship between dividend payout ratio and the value of the firm.

Mulwa (2006) evaluated whether signaling efficiency of dividend changes on future profitability of companies listed on NSE. The population was constituted by 48 companies quoted at NSE covering the five year period from 1998 to 2002. Secondary data concerning actual dividend payments and earnings of the companies was analyzed using regression analysis. It was found out from the study that at least in the year of dividend payment a relationship exists. However, in the first and second year thereafter, a relationship exists but a very insignificant one.

Kiptoo (2006) studied the information content of dividends announced by companies listed on the NSE. A sample of 13 companies that met the researcher's criteria was drawn from a population of all 48 companies quoted on the bourse and regression analysis was employed on the data. The conclusion of the study was that cash dividend payment has an effect on share prices and earnings in the companies listed on the NSE.

Njuru (2007) conducted a study to establish whether the behaviour of stock prices following stock dividend announcement revealed evidence of 'under reaction' anomaly at NSE. A sample of companies that declared stock bonus was taken from a population of all 48 companies that were listed during the eight year period from 1999 to 2006. A comparison-period-return approach (CPRA) was used in analyzing price movement. The comparative period taken was the 50 days period commencing 60 days before the event and ending 10 days to the event. The 10 trading days prior to the event was factored in to prevent potential distortions in prices owing to insider trading. His study concluded that there was a continuation in the positive returns following the stock dividend announcement,

implying the effect of stock dividend announcement at the NSE was not fully incorporated in stock prices on the day of event.

Aduda and Chemarum (2010) studied the effect of stock splits at the NSE. A sample of nine companies that had done stock splits in a population of all companies listed on the NSE during the period from 2002 to 2008. The study used daily adjusted prices for sample stock for the event window of 101 days, consisting of 50 days before and 50 days after the stock split. The event study methodology was employed in the determination of the effects of the split. The study concluded that the market reacted positively to stock splits, as revealed by a general increase in volumes of shares traded around the stock split. This was in line with the signaling theory, which hypothesizes that financial managers split shares of their companies with a view to communicate information to shareholders and potential investors in the market.

Ahmed (2011) conducted a study on the relationship between dividend per share and firm value on companies listed on the NSE. The target population was all the 55 companies listed on the NSE for the period from 2005 to 2009 and only companies that have continuously paid dividends and met researcher requirements were sampled. Secondary data was used for the study and data sourced from NSE hand book and data base. Multiple regression statistical method was used to analyze the data. He concluded that there was a positive between dividend payout and value of companies.

Leisen (2012) studied the effect of stock split on stock prices of listed companies in the NSE. The study employed event study methodology where the impact of stock split on stock prices was examined for a period of 181 days before and after the effective date of

the stock split. The study covered the period from 2002 to 2011. The results of the study indicated that there was an increase in the volumes of shares traded when stock splits were announced. The conclusion was that there was a positive announcement effect on shares traded as a result of stock splits.

Ratib (2013) conducted a study on effect of bonus share issues on stock returns of firms listed at the NSE. The study employed event study methodology where the impact of bonus shares on stock prices was measured over the five year period from 2008 to 2012. From the findings the study showed that bonus issue announcements led to statistically significant positive average abnormal returns around the announcement dates. This means the Kenyan market reacted positively to bonus issue announcements.

2.5 Summary of Literature Review

Literature reviewed as set out above reveals that many scholars around the world have studied the impact of dividends payouts on share prices for a long period of time. International studies and empirical evidences do not seem to arrive at a unanimous conclusion regarding the implication of dividend on share prices. This position is also echoed by studies carried out on the Kenyan market. In addition, many of the studies have been conducted in the developed countries and much less in developing countries where Kenya lies. The implication is that more studies need to be conducted on a regular basis in the changing market environment with a view to arrive at a definite conclusion.

This research will serve to bring out a clear view of the impact of dividend payments on share prices. A study period of 5 years (2009 - 2013) is deemed adequate to support a well thought out findings and capture any details that may have changed with passage of time.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methods that were used in gathering of data relevant in answering the research question. The objective was to explain how data was collected and analyzed with a view to obtain proper and optimal information pertinent to the subject under study.

3.2 Research Design

Research design is a procedural plan that guides the investigator in the process of collecting, analyzing and interpreting observations, in a valid, objective, accurate and economical manner. It is a logical model of proof that allows the researcher to draw inferences concerning causal relations among the variables under investigation. This problem was studied using a descriptive research design. A descriptive research attempts to describe systematically a situation, problem, phenomenon, service or programme, or provides information about, say, living condition of a community, or describes attitudes towards an issue (Kothari, 1985). This design is the most appropriate for this project because it allows for prudent comparison of the research findings. The study, in this case, was designed to establish the effect of dividend payments on share prices of firms quoted on the NSE.

3.3 Population

The population of interest in this study consisted of all the 61 firms quoted at the NSE for the five year period from 2009 to 2013 but excluding financial institutions. This choice is informed by lack of pertinent data from companies that are not quoted on the NSE as their shares are not easily transferrable by the public. Companies that are quoted have their shares floated to the public on NSE and the shares can be sought or bought in the NSE.

3.4 Data Collection

This study gave emphasis to data that was collected from eligible firms quoted on the NSE over the five year period from 2009 to 2013. The data was primarily secondary in nature because it was obtained from companies' published financial statements and the NSE. NSE maintains a record of financial statements of all quoted companies since their listing on the exchange. Data on share prices was obtained from the daily price listing that is also circulated by NSE to the market and available to the public. The total dividend payment declared by each company constituting the sample was used for the purpose of this study.

3.5 Data Analysis

Data collected was arranged to facilitate coding and tabulation before final analysis. The data was analyzed using SPSS. The secondary data was analyzed using simple linear regression and correlation analysis.

3.5.1 Analytical Model

To assess the effect of dividend payout ratio on share prices, the regression equation below was derived:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Where

Y = change in market share prices on the date dividend payment is announced.

This will be picked from NSE daily share price schedules

a = the intercept of the regression equation which represents the share prices without payment of a dividend

β = the gradient which represents the degree in which the share prices vary as the quantum of dividends, leverage and size of the firm vary

X_1 = total annual dividend payment to net operating earnings ratio of the firm

X_2 = the amount of leverage by the firm as determined by D/E, excluding financial institutions

X_3 = size of the firm as determined by natural logarithm (ln) of market value of common stocks of the firm

e = error term, which reflects other factors that influence share prices.

3.5.2 Test of Significance

Linear and correlation regression analysis implements a statistical model that, when relationships between the independent variable and the dependent variables are almost linear, cause and effect relationship is expected. The strength of the relationship between the independent variable and the dependent variables is also shown. The significance of announcement date and information value of dividend on share price was tested at the confidence level of 95%.

Correlation analysis was used to describe the degree to which one variable is related to another variable. The relationship between the two variables was assumed to be linear. In this study, coefficient (r) and coefficient of determination (r^2) were estimated to determine the nature and magnitude of the relationship. Correlation coefficient was used to evaluate the extent of relationship between dividend payout ratio and the company's share price. The size of the sample coefficient of correlation is expected to indicate the strength of linear relationship.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

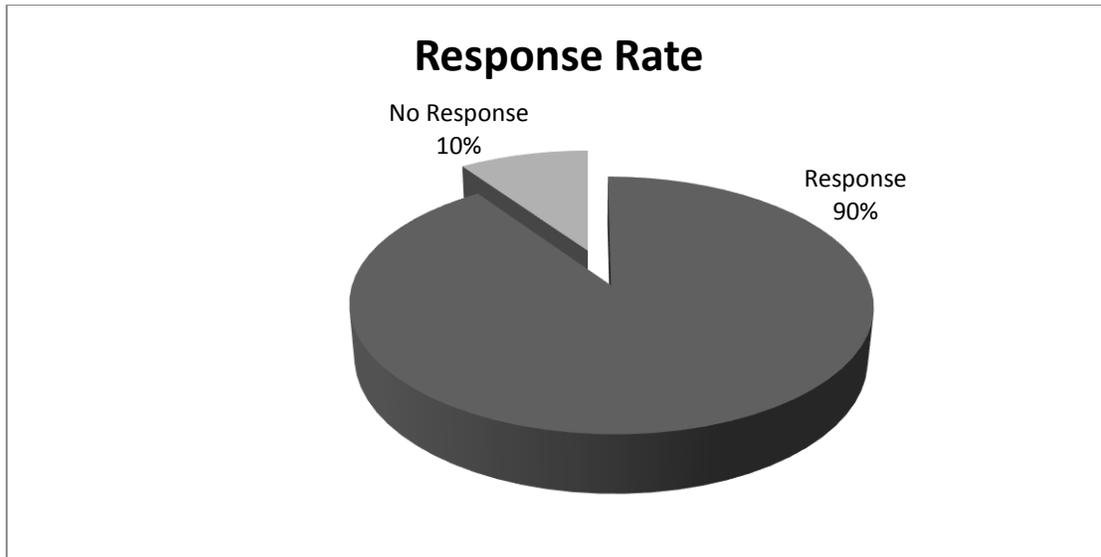
This chapter presents the findings of the study. Data analysis involved intensive analysis of secondary data sourced from the institutions that are trading at the NSE. Since the study analysis mainly involved qualitative data, specific procedures for data analysis were adopted. This section represents the outcomes for data analysis which consists of subsections of response rate, data validity, descriptive analysis, correlation analysis, regression analysis and discussion of study findings.

4.2 Demographic Statistics

4.2.1 Response Rate

The study relied on secondary data on financial performance of the institutions trading at the NSE. This data includes financial reports from each of the financial institutions in NSE. After the researcher made a formal request for the data, some of the companies complied and offered the information and the figure below shows this response rate.

Figure 4.1: Study Response Rate



Source: Research Findings

The study targeted all the 61 firms currently listed at the Nairobi Securities Exchange (NSE) excluding those in the financial sector to give a total of 52 firms. However, the study was only able to access data from only 90% (47) of the target companies while 10% of the targeted institutions were unable to provide the requisite data, though some of the 10% (5) provided some of the data that the study found not sufficient to warrant the company to get involved in the study as the information was considered inadequate. However, the study response rate of 90% of the targeted study sample was observed as sufficient to meet the study needs and objective.

4.2.2 Data Validity

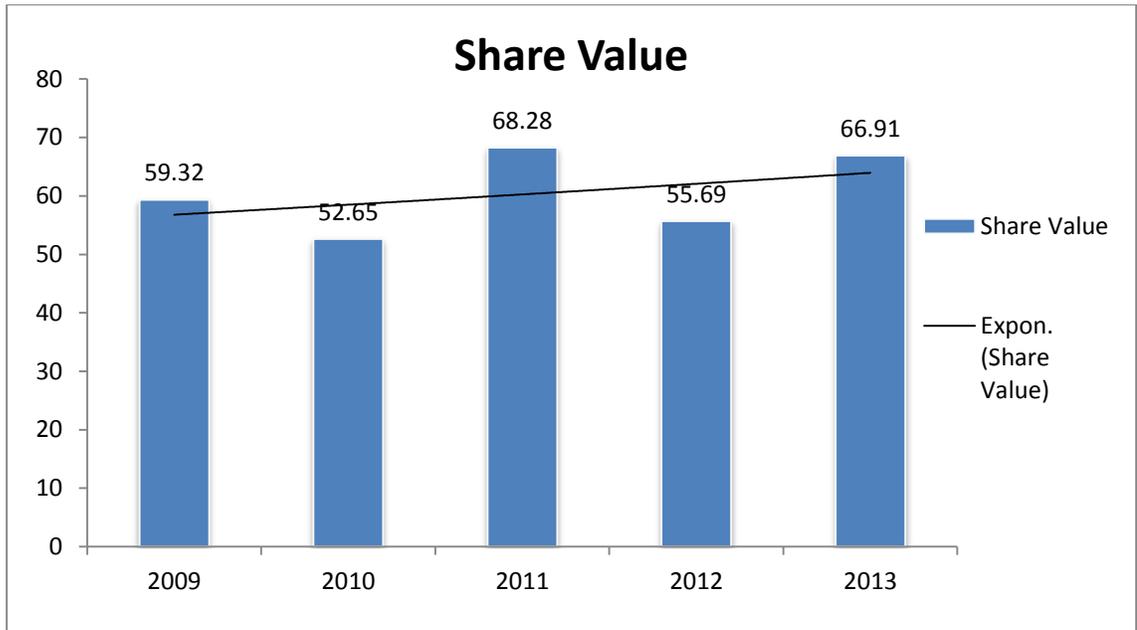
The study looked for data that would be able to answer the research question. The study sought financial data that would be able to inform each of the study variables such as share prices (annual and on the day of dividend announcement, dividends value, and leverage).

This data was collected from NSE for the period of 5 years (2009 to 2013) and the study also collected the data from the premises of 10 of the firms involved in the study themselves which was used as a benchmark to test the validity of the two (one collected from NSE and one collected from the firm). These were cross checked for errors. The study found that the two data sources provided similar data except in one financial report out of the 10 which was different, which after cross examination showed that there were notes in the company reports which were not included in the financial statement at the time the data was captured, hence explaining the difference, therefore giving the study no reason to doubt the data collected and proving the data as valid. The data was fully able to meet the study needs and therefore was considered reliable for the study. The collected data was used to provide the outcomes of the study. The findings were presented using tables, charts, graphs and simplified discourse. A brief explanation accompanies each figure so as to make the findings more user-friendly and easy to understand.

4.3 Descriptive Statistics

The study was done using a descriptive research design and the data analysis provided some descriptive statistics that explains the study variables. The study looked at the descriptive variables of each of the study variables which were presented in graphical format as seen in this section. The study considered factors such as share value on the day of dividend announcement, leverage, size of the firm and dividends. Figure 4.2 shows the share values on the dividend announcement period.

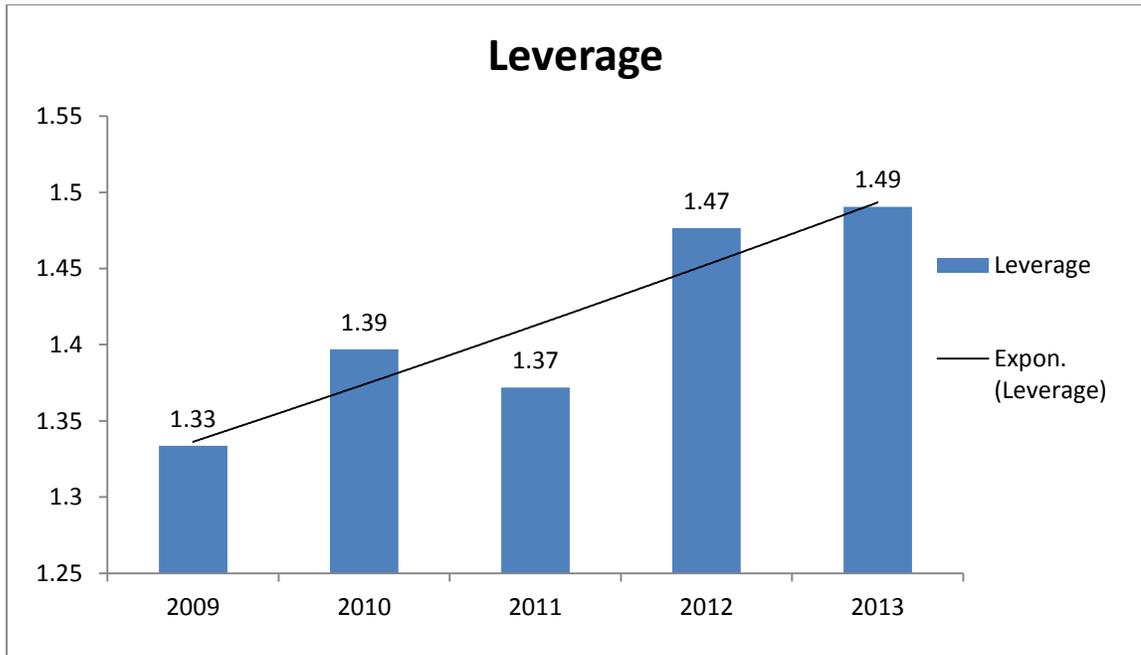
Figure 4.2: Share Value Analysis



Source: Research Findings

The study considered share value at the time of dividend announcement as the dependent variable. The study considered the annual average values of share value at the time of dividend announcement as the variable. The variable was found to vary over the 5-year study period with a decline from 2009 to 2010, an increase between 2010 and 2011, a decline between 2011 and 2012 and eventually an increase in 2013. This however did not deter an increasing trend to be observed in the factor indicated by a moderately inclining trend line. The increasing trend line indicates that the share prices of the listed companies has been increasing over the years and future increase in the share value may be expected. The study also looked at leverage as an independent variable. The factor is presented in figure 4.3.

Figure 4.3: Leverage Analysis

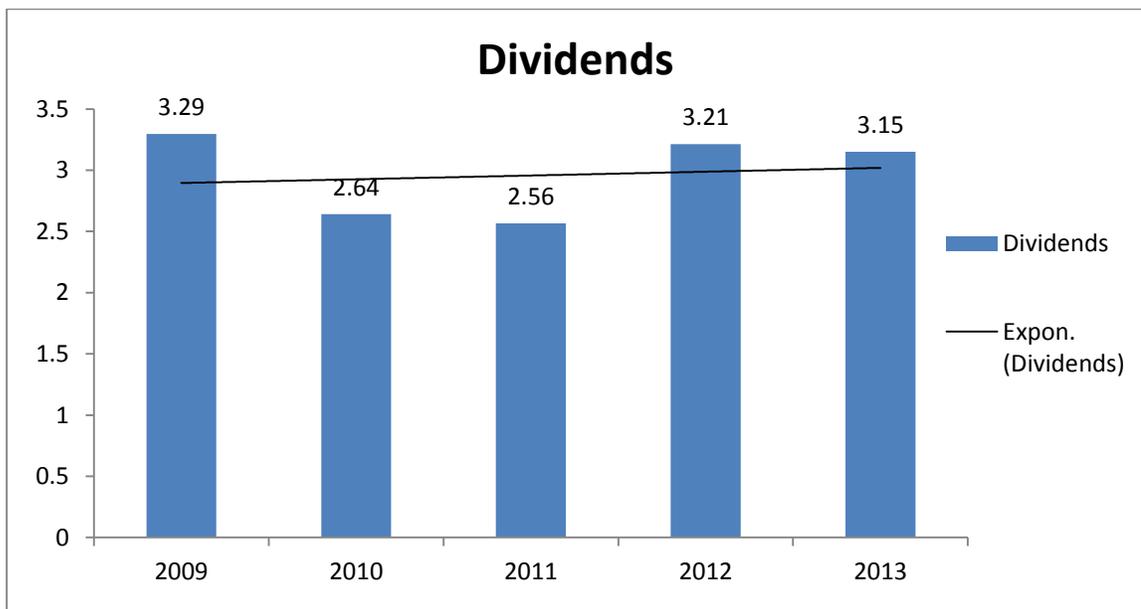


Source: Research Findings

The study looked at the leverage among the non-financial institutions trading at the NSE that was tabulated as the ratio of debts to equity of the firm. The annual average of the firms' leverage is shown in figure 4.3 above where the study found a very steep increase between 2009 and 2013. This shows that even though both debts and equity are increasing at the firms in Kenya, the difference between the two is increasing with debts acquiring an upper hand in this case. This shows an increase in borrowing in trading institutions in NSE that indicates increased investments and widened capital gains, making the institutions more profitable. This scenario is further indicated by an increasing trend line. Leverage in the institutions was observed to retain a low level which is less than 2.0 which indicates that the borrowing in the firms is still at the safe region of operation and hence the firms are not being involved in risky borrowing, indicating that the firms are performing well.

The study also looked at the dividends payments among the involved firms. It was observed that some of the financial institutions announced zero dividends in some of the financial years which was also expected to affect the share prices. The analysis of dividends was done and the following were the outcomes of the study as presented in figure 4.4.

Figure 4.4: Dividend Analysis

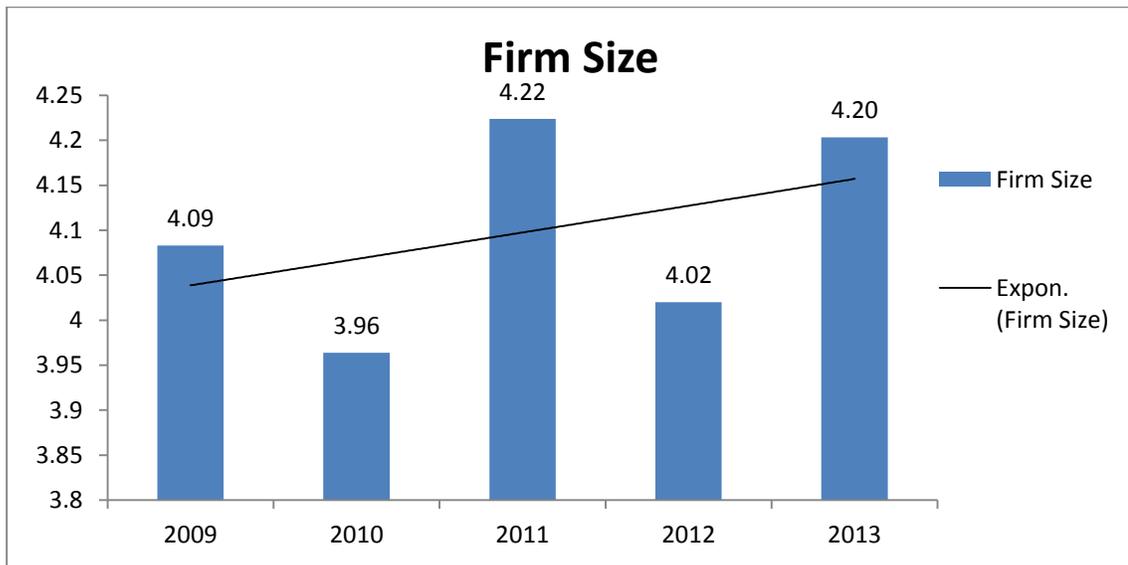


Source: Research Findings

The study found a very small variability in the annual average dividend payments in Kenyan listed firms where even though an increasing trend in dividend was observed, the highest dividends were observed in 2009 (3.26), declining in 2010 (2.64) and 2011 (2.56) which then increased in 2012 (3.21) and decreased slightly in 2013 (3.15). A very slight increasing trend was recorded here indicating future increases, to indicate better dividends for the shareholders of firms listed in NSE.

The study also looked at the firm size of the firms listed in NSE, which was measured by the natural logarithm of firm's annual market value within the study period. An overall annual average of these measures was considered in the study and was observed to show the following outcomes in the study presented in figure 4.5.

Figure 4.5: Firm Size Analysis



Source: Research Findings

The study found that the firm size slightly varied within the study period with periodic increase and decrease over the years. Firm size in firms listed in NSE was observed to be at a natural logarithm value of 4.09, reducing to 3.96 in 2010 while the highest level was observed in 2011 at 4.22, which reduced to 4.02 in 2012 and later increased to 4.20 in 2013. Despite these variances, the firm size was observed to show an increasing trend over the study period with expected increase in future. This shows that annual average increase in share market value should be expected in future.

4.4 Inferential Statistics

The statistics shall be used to test hypotheses and make estimations using sample data collected from the study and eventually to draw conclusions. The statistics shall therefore infer predictions about the larger population than the sample represented in this study.

4.4.1 Correlation Analysis

A correlation analysis was carried out among the study variables where the relationship between the dependent variable and independent variables was assessed and also the relationship among the variables themselves to ensure that the study lacks auto-correlation errors, where a study variable is fully explained by another, hence making the variable irrelevant and insignificant. The study correlation analysis outcomes are as presented in table 4.1.

Table 4.1: Correlation Analysis

Variables		Change in SHARE VALUES	DIVIDENDS	LEVERAGE	Firm Size
Change in SHARE VALUES	Pearson Correlation	1	.613**	.025	.719**
	Sig. (2-tailed)		.002	.049	.002
	N	47	47	47	47
DIVIDENDS	Pearson Correlation	.613**	1	.030	.593**
	Sig. (2-tailed)	.002		.084	.002
	N	47	47	47	47
LEVERAGE	Pearson Correlation	.025	.030	1	.110
	Sig. (2-tailed)	.049	.084		.460
	N	47	47	47	47
Firm Size	Pearson Correlation	.719**	.593**	.110	1
	Sig. (2-tailed)	.001	.002	.460	
	N	47	47	47	47

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Research Findings

The study found that the relationship among the study variable was statistically significant. Change in share values which is the dependent variable was observed to have positive coefficients for the other study variables. Changes in share values had a strong positive correlation with dividends (0.613) with a p-value of 0.002 (which is less than the maximum significance value of 0.05) and firm size 0.719 with a p-value of 0.001, indicating that the factor is statistically significant, while the factor showed a weak positive correlation to leverage (0.025), with a p-value of 0.049 which indicated that the outcome is statistically significant. The relationship between dividend and leverage was observed not to be statistically significant though low at a correlation coefficient of 0.030 (p-value of 0.084, which is greater than 0.05). Similar findings were observed for the relationship between

leverage and firm size with a positive correlation coefficient of 0.110 and a high p-value of 0.460. A statistically significant correlation among the independent variables was observed between firm size and dividends with a coefficient of 0.593 and a p-value of 0.02. The study therefore confirms the study variables as statistically significant especially between the independent variables and the dependent variable. The correlation analysis showed that the independent variables were fully able to predict the dependent variable. Therefore, the study variables were confirmed by the correlation analysis.

4.4.2 Regression Analysis

The study carried out a regression analysis to determine the value of the relationship of the dependent variable to the independent variable. The study found the following outcomes from this regression analysis. A model summary was as presented in table 4.2

Table 4.2: Regression model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.757 ^a	.572	.543	3.3833146

a. Predictors: (Constant), Firm Size, LEVERAGE, DIVIDENDS

Source: Research Findings

The study found the regression model to have a correlation coefficient (R) of 0.757 and a coefficient of determination of 0.543, This indicates that the model have a high correlation among the study variables and the model can be able to explain 54.3% of the dependent variable. The study however realized a high error level in the model with a standard error of the estimate (e) of 3.3833. However, this error estimate cannot be considered as highly influential since it is a representation of the unexplained part of the model (45.7%) which

indicates presence of other factors that would improve the model. This therefore indicates that the model is reliable in predicting the dependent variable. The study regression analysis also provided an ANOVA for the study model and the following was the outcomes of the analysis as presented in table 4.3.

Table 4.3: Regression Model ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	659.063	3	219.688	19.192	.003 ^a
	Residual	492.213	43	11.447		
	Total	1151.276	46			

a. Predictors: (Constant), Firm Size, LEVERAGE, DIVIDENDS

b. Dependent Variable: Change in SHARE VALUES

Source: Research Findings

The regression model ANOVA indicates that the regression had a higher sum of squares (659.063) compared to the model residual's (492.213) with a mean square of 219.688 for the regression and 11.47 for the residuals. The p-value of 0.003 was realized from the model to indicate that the ANOVA outcomes were statistically significant with an F statistic value of 19.192. The ANOVA of the study model therefore indicates that the model is applicable and able to provide the requisite relationships. The regression analysis model brought out the following findings presented in table 4.5. The model shows the relationship and ability of the independent variables to predict and explain the dependent variable.

Table 4.4: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-3.394	3.283		-1.034	.037
	DIVIDENDS	.329	.142	.286	2.309	.026
	LEVERAGE	-.985	2.192	-.045	-.449	.046
	Firm Size	2.173	.489	.554	4.442	.001

a. Dependent Variable: Change in SHARE VALUES

Source: Research Findings

The regression model outcomes show that the independent variables have differing relationship to the dependent variable. The study's model shows the relationship between share prices on the day of dividend announcement and share dividends, firm leverage and firm size. The model provided a constant with a negative coefficient at -3.394, though it was observed to be statistically significant as indicated by a p-value that is less than the maximum allowed value of 0.037. The model provided dividends as a significant determinant of change in share value during dividend announcements with a positive coefficient of 0.329 with a p-value of 0.026. Leverage on the other hand was provided as a significant variable with a negative coefficient at -0.985 and a p-value of 0.046. Firm size was also confirmed a statistically significant factor in determining the change in share value with the highest positive coefficient of 2.173 and a p-value of 0.01. This indicates that all the model independent variables had the ability to predict the dependent variable. The study model therefore can be summarized as follows:

$$Y = -3.394 + 0.329X_1 + -0.985X_2 + 2.173X_3 + e$$

Where

Y = change in market share prices on the date dividend payment is announced.

This will be picked from NSE daily share price schedules

X_1 = total annual dividend payment

X_2 = the amount of leverage by the firm as determined by D/E, excluding financial institutions

X_3 = size of the firm as determined by natural logarithm (ln) of market value of common stocks of the firm

e = error term, which reflects other factors that influence share prices.

It can be confirmed therefore that the share prices without payment of a dividend are affected by the total annual dividend payment, the leverage of the firm and the size of the firm. However, the model has space for more variables to be included in it since 45.7% of the dependent variable is not yet explained by the model.

4.5 Interpretation of the Findings

The study aimed at finding out the impact of dividend payout on the stock prices in non-financial firms quoted in NSE, which relied on secondary data collected for all targeted firms trading at the NSE. The study acquired a large enough response rate at 90%, which was considered sufficient to meet the study information needs. The study data was directed to a span of 5 years between 2009 and 2013. The validity of this data was ensured through

cross checking with the data from a different source that confirmed that the collected data was similar and therefore valid as data representation from those institutions. Therefore, the collected data was found to be valid, and reliable.

The share values of the firms operating in NSE showed that the factor change varied over the study period with increase and decrease being observed over this time. An increasing trend was however observed in the factor, which indicates that share values for the NSE are improving over the years and future increments can be expected. A look at the firms' leverage in the sector indicates an increasing trend between 2009 and 2013, indicating that though both debts and equity are increasing among the listed firms, debts is increasing at a higher rate than equity. However, leverage among the firms was observed to be at a relatively low rate at the sector which is below 2.0, indicating that the firms are operating within a safe leverage level. A look at dividends on the other hand shows a lot of variance over the years where the leverage for the firms involved in the study was observed to vary from one period to another. However, a slight increase in dividends was observed over the study period by a trend line. Firm size is another factor that the study considered that was measured by determining the natural log of the annual market value of the firms involved in the study. Firm size was observed to increase moderately within the study period. This shows that the sector's performance is improving over the study period and better performance in share prices and the value of the firms listed in NSE is expected.

A correlation analysis among the study independent variables and dependent variable indicates a statistically significant strong positive relationship between change in share values for firms operating in NSE and dividends, leverage, and firm size with an indication

that the variables have a capability to predict the dependent variable. A regression analysis done on the study factors represented the study model. The model's correlation was observed to be high at a coefficient of 0.757 and a coefficient of determination of 0.572 indicating that the study model can be able to predict 57.2% of the dependent variable. The ANOVA analysis of the model indicated that the model shows statistically significant variance among the variables that ensures their applicability in the study, thus enforcing the views observed in the correlation analysis. From the regression model, dividends were observed to show a positive coefficient, leverage showed a negative coefficient and firm size shows a positive coefficient. The study observed that the model showed a negative regression coefficient with of -3.394, while dividend had a coefficient of 0.329, leverage (-) 0.985, and firm size 2.173. Leverage therefore showed that it have an inverse relationship to share values due to its negative coefficient, since an increase in leverage indicates a worse balance between equity and debts in these firms. Dividends and firm size on the other hand showed direct relationship where an increase in firm size measure would lead to a direct increase in share value. The study confirmed that there exists a relationship between share value and dividend, leverage and firm size. The study therefore can conclude that dividend payout ratio affects share prices of non-financial firms quoted in NSE.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the summary of findings, conclusion, recommendations, and the limitations of the study and therefore offers suggestions for further research. The chapter gives simplified review of the study findings and outcomes.

5.2 Summary

This study sought to determine the effect of dividend payout ratio on share prices of non-financial firms listed on the NSE. This was supposed to be done by assessing the impact of annual dividend payment to net operating earnings ratio, the leverage of the firm and the size of the firm given by the natural logarithm of market value of common market of the firm. The study found that the Kenyan securities market is very vibrant with the firms showing increasing share prices. A look at the firms' leverage showed an increasing trend which might not be good for the improved performance of the firms but the leverage ratio was observed to be retained at a very safe operating level. Dividends on the other hand showed an increasing trend with great variance. Firm size was observed to increase moderately within the study period therefore impact at the start of the study period differed from the one observed at the end of the study period.

The outcomes of the correlation analysis among the independent variables and the dependent variable showed that share values have a significant correlation with dividends, leverage and firm size. The study model showed a constant with negative regression

coefficient at -3.394, while dividend had a coefficient of 0.329, leverage (-) 0.985, and firm size 2.173. The study therefore formed a model represented by:

$$Y = -3.394 + 0.329X_1 + -0.985X_2 + 2.173X_3 + e$$

Where Y is change in market share prices on the date dividend payment is announced;

X_1 is total annual dividend payment; X_2 is leverage; and, X_3 is size of the firm.

This is an indication that the change in market share prices on the date of dividend payment announcement is positively impacted by annual dividend payment and the size of the trading firm while leverage impacts the variable negatively. An increase in annual dividend announced, a decreasing leverage and a greater firm size indicate an increasing change in market share prices on the date of dividend payment. On the other hand, a decreasing annual dividend announced, an increasing leverage and a smaller firm size indicate that the expected change in share prices on the day of announcement will be very low. This indicates that the model has the capability of explaining the relationship between change in market share prices on the date of dividend payment announcement and the amount of dividend announced, the leverage and the firm size. It shows that a consideration of dividend amount, leverage and firm size can be used in determining the change in share prices on the day of the announcement. Firm size, leverage and dividend amount are all determinants of dividend payout ratio and therefore shows that dividend payout ratio has an impact on share prices of non-financial firms quoted on the NSE.

5.3 Conclusion

The study concludes that the non-financial firms quoted in the NSE have shown a great improvement in terms of share prices, leverage and dividends within the study period of 2009 to 2013. The study found the four factors of share price on the day of dividend announcement, which is the dependent variable, firm leverage, firm dividend amount, and the firm size to have a positive correlation. However, the firm leverage was found to have a negative impact on share price, while firm leverage and firm dividend amount showed positive impact on share price. This is an indication that dividend payout ratio affects the share prices of non-financial firms quoted in NSE. The study therefore supports the outcomes of Kiptoo (2006), Njuru (2007), and Ahmed (2011) who found that there is a positive relationship between dividend payout and the value of companies, and adds to their findings by coming up with the factors that directly bring out this relationship.

5.4 Recommendations for Policy

The study confirmed a relationship between dividend payout ratio and share prices of firms operating in NSE. This study therefore recommends diligence in the handling of dividend payout information among the sector players in a bid to ensure that there is inclusivity of the stock market stakeholders. Therefore, policies guiding the sharing of this information should be availed to enhance market control.

The study observes that investors in the non-financial firms trading in the NSE might benefit by considering the factors of firm size, leverage and the dividend paid in determination of the expected increase in share prices as a result of dividend

announcement, using the model given in this study so as to reap maximum gains from their investments.

5.5 Limitations of the Study

The study is limited to non-financial institutions and does not include the financial sector listed firms and therefore the findings may not apply in the Kenyan banking sector. The study is limited to the Kenyan case and therefore may be unable to be generalized to other regions and globally.

This study applied secondary data in meeting its mandate and was time series in nature hence making it dependent on the accuracy of those involved in recording the data. A review of the same case using primary data sources involving the experts in stock market might bring out different outcomes, although the secondary data based would be more acceptable as it rides on the real values and not respondent views.

The study considered the period between 2009 and 2013, a period of 5 years. Within this period many changes occurred in the stock market that the study did not account for such as share splits for some of the companies considered in the study. These unaccounted for issues may have in one way or another affected the outcomes of the study. However, this effect was not expected for the study since the occurrence of such cases is rare and none was recorded within the study period for the firms involved in the study, though one share split was observed in the market for a firm not involved in the study. Therefore, the study was limited to the study factors only.

5.6 Suggestions for Further Research

Further research should be done on dividend payout ratio effects on the share prices of listed financial institutions in the NSE so as to determine whether similar findings can be realized from the sector to enhance the study's findings. In addition, similar studies should be done in other countries to determine the relationship between dividend payout ratio and effects on the share prices of listed financial institutions in the NSE. Importantly, an empirical study should be done to bring together findings from various countries and regions together on the same issue to bring out this key findings.

The current study used secondary data to bring out the study findings. However, similar outcomes may not be observed if a study based on expert traders' opinion was done. Therefore, a research should be done based on primary data targeting the stock market experts on the effect of dividend pay-out ratio on share prices of trading firms. This would bring out the view point of experts that would combine the findings of this study and their study to give a comprehensive review of this effect.

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www.nse.co.ke

APPENDICES

Appendix I: Introductory Letter

The Chief Executive Office
Nairobi Securities Exchange
Nairobi

Dear Sir,

RE: REQUEST TO CONDUCT A RESEARCH ON EFFECT OF DIVIDEND PAYOUT RATIO ON COMPANIES QUOTED ON THE NSE

I am a student at the School of Business in the University of Nairobi pursuing a Master Degree in Business Administration. I am required to conduct a study on “*Effect of dividend payout ratio on share prices of non-financial firms quoted on the NSE*” as part fulfillment of the degree.

I have chosen NSE as I can obtain information on the financial performance considering listed companies are required to file annual financial reports with your office. It is my plan to obtain annual dividend payments and share price movements of companies listed for the five year period from 2009 – 2013.

Any assistance and information granted to me in course of this study shall be handled with the requisite confidentiality and will be used purely for purpose of this research. A copy of the final document shall be provided to you upon request. Your cooperation will be highly valued and much appreciated.

Yours faithfully,

Walter Thurania Mutwiri
D61/68001/2011

Appendix II: Companies Listed On the NSE

NAIROBI SECURITIES EXCHANGE AS AT 31 DECEMBER 2013

A. Agricultural

1. Eaagads
2. Kakuzi
3. Kapchorua Tea Co.
4. The Limuru Tea Co.
5. Rea Vipingo Plantations
6. Sasini Ltd
7. Williamson Tea Kenya

B. Automobiles & Accessories

1. Car & General (K)
2. CMC Holdings
3. Marshalls E.A
4. Sameer Africa

C. Banking

1. Barclays Bank
2. CFC Stanbic of Kenya Holdings
3. Diamond Trust Bank
4. Equity Bank
5. Housing Finance Co
6. I&M Holdings Ltd
7. KCB
8. NBK
9. NIC Bank
10. Standard Chartered
11. Coop Bank of Kenya

D. Commercial & Services

1. Express
2. Hutchings Biemer
3. Kenya Airways
4. Longhorn Kenya
5. Nation Media Group
6. Scan Group
7. Standard Group
8. TPS EA (Serena)
9. Uchumi Supermarket

E. Construction & Allied

1. ARM Cement
2. Bamburi Cement
3. Crown Paints Kenya
4. E.A Cables
5. E.A Portland Cement

F. Energy & Petroleum

1. KenGen
2. Kenol Kobil
3. KPLC
4. Total Kenya
5. Umeme Ltd

G. Insurance

1. British American Investments Co
2. CIC Insurance Group
3. Jubilee Holdings

4. Kenya Re Corporation
5. Liberty Kenya Holdings
6. Pan Africa Insurance

H. Investment

1. Centum Investment Company
2. Olympia Capital Holdings
3. Trans-Century Ltd

I. Manufacturing & Allied

1. A. Baumann & Co
2. B.O.C Kenya
3. British American Tobacco Kenya
4. Carbacid Investments
5. East African Breweries
6. Eveready E.A
7. Kenya Orchards
8. Mumias Sugar
9. Unga Group

J. Telecommunications & Technology

1. Safaricom Ltd

K. Growth & enterprise market segment (GEMS)

1. Home Afrika Ltd

Source: www.nse.co.ke

Appendix III: Firms Involved in the Study

Sn.	Firm
1	Access Kenya
2	ARM Cement
3	B.O.C Kenya
4	Bamburi Cement
5	British American Investments Co
6	British American Tobacco Kenya
7	Car & General (K)
8	Carbacid Investments
9	Centum Investment Company
10	CIC Insurance Group
11	CMC Holdings
12	Crown Paints Kenya
13	E.A Cables
14	E.A Portland Cement
15	Eaagads
16	East African Breweries
17	Eveready E.A
18	Express Kenya
19	Jubilee Holdings
20	Kakuzi Ltd

21	Kapchorua Tea Co.
22	KenGen
23	Kenol Kobil
24	Kenya Airways
25	Kenya Re Corporation
26	Kenya Power (KPLC)
27	Liberty Kenya Holdings
28	Longhorn Kenya
29	Limuru Tea
30	Marshalls E.A
31	Mumias Sugar
32	Nation Media Group
33	Olympia Capital Holdings
34	Pan Africa Insurance
35	Rea Vipingo Plantations
36	Safaricom Ltd
37	Sameer Africa
38	Sasini Ltd
39	Scan Group
40	Standard Group
41	Total Kenya
42	TPS EA (Serena)

43	Trans-Century Ltd
44	Uchumi Supermarket
45	Umeme Ltd
46	Unga Group
47	Williamson Tea Kenya

Source: NSE