

**EFFECT OF DIVIDEND POLICY ON STOCK PRICES FOR FIRMS  
LISTED AT THE NAIROBI SECURITIES EXCHANGE**

**BY**

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REQUIREMENT FOR THE AWARD OF DEGREE OF MASTER OF BUSINESS  
ADMINISTRATION, UNIVERSITY OF NAIROBI.**

**DECLARATION**

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

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## **DEDICATION**

This research project is dedicated to my late dad Mr. Ng'ang'a Mutura for teaching me the value of education which I will surely pass on to my own children.

## **ABSTRACT**

The effect of dividends on share prices or valuation of firms is one of the most important topics in finance. It is in this light that the study examines the possible effects of dividends on the market price of common stocks for firms listed at the Nairobi Securities Exchange. The expected relationship is that a stable dividend policy will increase share prices and vice versa. The study uses a descriptive research design from a census survey of the 61 listed firms at the NSE in the ten years between 2004 and 2013. The study used secondary data available for all firms at the NSE. The regression model used in the study has the share price as a function of dividends, profitability and leverage. The study found a strong positive relationship between dividend per share and the share prices and that share prices are affected by the dividends per share paid out. The study concludes that there's a strong positive relationship between stock prices and dividends for firms listed at the NSE.

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## LIST OF ABBREVIATIONS

ANOVA – Analysis of Variance

BSE – Bombay Stock Exchange

CMA – Capital Market Authority

DE – Debt to Equity Ratio

DPS – Dividend Per Share

IFC – International Finance Corporation

MM - Modigliani & Miller

NSE - Nairobi Securities Exchange

NYSE - New York Stock Exchange

OLS – Ordinary Least Squares

PE – Price to Earnings Ratio

REPS - Retained Earnings Per Share

ROA – Return on Assets

SP – Share Price

S&P – Standard and Poor’s

SPSS - Statistical Package for Social Science

UK – United Kingdom

USA – United States of America



# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

Dividend policy still remains an academic debate amid the clouding picture of its importance among the financial economists till today. There are few aspects of corporate financial policy where the gap between the academics and the practitioners is larger than that of the dividend policy. From Miller & Modigliani (1961), Gordon & Linter to Fama & French (2001), the research on the topic exhibits conflicting trends in dividend payments & firm value. The academic consensus shows that dividends really don't matter very much for the market nor is it relevant, when firms pay dividend as a signal to the investors. Both corporate officials and investment analysts, still continue to insist that a firm's dividend policy matters a great deal for conveying the information to the stakeholders.

One side of the argument on the basis of economic theory is, it doesn't matter or is irrelevant. But the practitioners believe it as information content to the public, which reflects seriousness of the problem that is inherent in the reaction mechanisms of the market to the dividend policy announcements. I want to foreground an explanation before the practitioners, why, in the face of all this evidence of price increase in response to dividend announcements, otherwise sensible academics believe that a firm's dividend policy really doesn't make much difference. At the same time, I'll argue that the dividends do matter for a firm

#### **1.1.1 Dividends**

Pandy (1979) defines dividend as that portion of a company's net earnings which the directors recommend to be distributed to shareholders in proportion to their share holdings in the company. It is usually expressed as a percentage of nominal value of the company's ordinary share capital or as a fixed amount per share.

According to Van Home (1971) dividend policy entails the division of earnings between shareholders and reinvestment in the firm. Retained earnings are a significant source of funds for financing corporate growth, but dividend constitutes the cash flows that accrue to shareholders. There exist two divergent schools of thought with regards to these, the dividend policy and the retained earning policy.

### **1.1.2 Stock Prices**

A share price is the price of a single share of a number of sellable stocks of a company, derivative or other financial asset. The share price of a firm is directly observable from the stock exchange which is part of the securities segment of the capital market (Seitz, 1990). The most common types of securities are stocks, bonds and options. Securities markets are the mechanisms that allow sellers and buyers of funds to make transactions. They also allow transactions to be made quickly and at a fair price (Feldstein and Green, 1983).

### **1.1.3 Dividends and Share Prices**

Miller and Modigliani (MM, 1961)) suggest that, in a world without taxes, transaction costs, or other market imperfections, dividend policy is irrelevant to the value of the firm. Walter (1963) was of the opinion that dividend policies in most cases do affect the value of the firm. The effect of the optimum dividend policy on the relationship between the firm's internal rate of return ( $r$ ) and its cost of capital ( $k$ ) according to him, is a growth function of the firm where  $r > k$ , all earnings can be reinvested, hence, the firm is assumed to have ample profitable opportunities so as to maximize the value per share over and above the rate expected by shareholders.

When year 1980's numerous share market literatures saw the present value of dividends to be prevailing determinant of market return on stocks. According to LeRoy, Porter and Shiller (1981), they reasoned that under surmise of consistent discount component, stock costs were excessively volatile to be steady with the movement of future dividends. Wohar and Mark (2006) stated that the corrosion of stock price movement is quit sensitive to real dividend growth as well. Though, Cochrane (1992) and Timmerman

(1995) contended that stock price changes might be described by time-varying markdown rate and future abundance return. The foundation built by Cochrane (1992) on variability of abundance return is to be more essential than the variability of dividend growth.

Graham and Dodd (1951) and Gordon (1959), contended that an increase in dividend payout advances to higher stock price (company's value) and bring down the cost of equity. Though, some experimental indicated the inverse position. This different schools of thought raises the question whether dividend policies have any effect on share value in the Nairobi security exchange (NSE) hence necessitating this research.

#### **1.1.4 Nairobi Securities Exchange**

In 1980, The Kenyan Government understood the requirement of design and implement policy transformation to promote the sustainability of economic growth with an efficient and steady financial system. In 1984, A Central Bank of Kenya study, "Development of Money and Capital Markets in Kenya" was known as a blueprint for structural reforms in the financial markets which helped the creation of a regulatory body 'The Capital Markets Authority' (CMA) in 1989. Notably, in 1994 the NSE 20-Share Index recorded an all-record high of 5030 points on Feb. 18, 1994. The NSE was rated by the International Finance Corporation (IFC) as the best performing market in the world with a return of 179% in dollar terms In December 1995, the entire Exchange Control Act was revoked. With the privatization of Kenya Airways in 1996, the largest share issue in the history of NSE, and the Kenya Airways Privatization team is rewarded the World Bank Award for Excellence for 1996.

#### **1.2 Research Problem**

Corporate dividend policy has long been an issue of interest in the financial literature and, despite the vast research on the topic, it remains an open subject. Ever since the work of John Lintner (1956), followed by the work of Miller and Modigliani (1961), dividend policy remains a controversial issue. In fact, this has been true since Miller and Modigliani's (1961) irrelevance proposition, according to which dividend policies are all

equivalent and there is no particular policy that can increase shareholders' wealth in perfect capital markets.

However, according to Graham, Dodd (1951) and Gordon (1959), they contended that an increase in dividend payout advances to higher stock price (company's value) and bring down the cost of equity. Though, some experimental indicated the inverse position. Peterson (1985) reported that with high-elevated dividend payout ratio, heightened returns are needed by firm's shareholder, and this is lead to lower share price. Baker, Powell and Veit (2002) have researched the link between dividend policy, firm value and share price movement. They found an optimal dividend policy strikes an offset in middle of present dividends and future growth that maximize stock price. They also found that stock price volatility is low if dividend approach is stable.

Azhagaiah & Priya (2008) in their empirical study on the impact of dividend policy on shareholders' wealth in Organic and Inorganic Chemical Companies in India for the period 1996 to 2006 established that there was a significant impact of dividend policy on shareholders' wealth for Organic Chemical Companies while shareholders' wealth was not determined by dividend policy in Inorganic Chemical Companies.

Enhardt (2013) also conducted another study whose findings showed that there was correlation between dividend policies and share prices. During the study, it was realised that dividend policies of companies impacted the market value of shares even in the perfect capital market (Enhardt, 2013). The study also suggested that shareholders may prefer present dividend instead of future capital gains. This is because future business situations are uncertain even in perfect capital markets (Enhardt, 2013). In addition, the research indicated that there was a direct correlation between dividend policies and market values of shares even in situations where the internal rates of returns and the anticipated rate of returns were the same. The findings of the research study contradicted other previous studies.

Mbaka (2010) did an empirical study on the applicability of dividend signaling theory at the NSE between 2003 to 2007 and established that dividend announcements by companies cause some reaction in market prices and returns depending on the information contained in the announcement. Dividend announcements had positive effects for companies with increasing dividends while it had negative reactions for companies with decreasing dividends. Companies with no change in dividends were found to have mixed reactions towards dividend announcements.

Ogolo (2012) conducted a study to investigate the effect of dividend policy on share price with a focus on 61 firms listed in Nairobi Stock Exchange. For this purpose, a sample 38 multinationals and local companies was selected and the influence of earnings per share and dividend payout ratio on market price per share were examined by applying multiple regression for a period of ten years from 2003 to 2012. This study showed significant positive relationship between Market price per share with two main measurements of dividend policy which are earnings per share and dividend payout ratio. She concluded that dividend policy has a significant effect on the share price, however, the effect is not significant for local firms.

Limungi (2011) in his study on the ex-dividend day stock price behaviour in the Nairobi Securities Exchange covering stock prices of twenty companies which constituted the NSE share index as at September 2010 observed that the ex-dividend day behavior of stocks that traded at the NSE during the period under study indicated unique behaviors which needed to be studied further.

Black (1976) epitomizes the lack of consensus by stating. "The harder we look at the dividend picture, the more it seems like a puzzle, with pieces that just don't fit together." These different schools of thought raise the question, "Does dividends have any effect on share value at the Nairobi securities exchange (NSE)?"

### **1.3 Objective of the Study**

To establish the effects of dividends on share prices of firms listed at the Nairobi Securities Exchange.

### **1.4 Value of the Study**

This will help managers in organizations be in a position to formulate policies on dividends. It will also help scholars in various institutions of higher learning willing to carry out research on this field. It will help them in reviewing literature thereby adding to the existing body of knowledge in the area of the relationship between dividend policy and share prices. This research will also help average and potential investors in making informed decisions on their investments. The research is also important to different policy makers including the government and capital markets authority while formulating better regulations.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

Literature is reviewed in three sections. Apart from the introduction which covers section one; the second section covers theoretical literature, largely on dividend theories. The third section covers empirical literature. The study focuses on effects that a firm's dividend policy might have on the market price of its common stock. It will contain literature on various dividend policies, factors affecting the share prices and relationship between dividend policies and the share prices.

#### **2.2 Theoretical Review**

##### **2.2.1. Miller and Modigliani Irrelevance Theory**

Dividend policy has been extensively studied within the financial literature. In 1961, two noble laureates, Merton Miller and Franco Modigliani (M&M) showed that under certain simplifying assumptions, a firm's dividend policy does not affect its value. M&M concluded that given a firm's optimal investment policy, the firm's choice of dividend policy has no impact on shareholders' wealth. In other words, all dividend policies are equivalent.

The analysis above implicitly assumes 100% equity financing. It can be extended to include debt financing. In this case, management can finance dividends by using both debt and equity issues. This added degree of freedom, does not affect the result. As with equity-financed dividends, no addition in value is created by debt financing, since capital markets are perfect and complete so the amount of debt does not affect total value of the firm. The most important insight of Miller and Modigliani's analysis is that it identifies the situations in which dividend policy can affect the firm value. It could matter, not because dividends are "safer" than capital gains, as was traditionally argued, but because one of the assumptions underlying the result is violated.

### **2.2.2. Bird-In-The-Hand Theory**

The bird in the hand theory, hypothesized independently by Gordon (1963) and by Linter (1962) states that dividends are relevant in determining the value of the firm. This theory suggests that investors need to realize wealth in order to consume, therefore have a preference for cash dividends over capital gains. Lintner (1962) concluded that purely competitive markets, maximizing behaviour, absence of issue costs and taxes, and identical interest rates to personal and corporate debtors are not sufficient to make investors indifferent to substitutions between retained earnings and debt in financing fixed budgets. Investors will always have preference for dividends as a result of time value of money.

### **2.2.3 Tax-Preference Theory**

Litzenberger & Ramaswamy (1979) put forward a theory which claims that investors prefer lower pay-out companies for avoidance of current taxation. Dividends are taxed at higher rates compared to capital gains hence the preference. Dividends are taxed in the year they are received while capital gains if any are taxed when stock is sold. Using the time value of money concept, dividends paid on present dividends has higher effective capital cost than capital gains taxed in future.

### **2.2.4 Clientele Effect Theory**

This line of thinking suggests that investors may have different reasons for favoring dividends as a result of institutional features such as regulatory requirements or tax differentials, or from behavioral preference. In particular, Shefrin and Thaler (1988) argue that investors' personal life-cycle considerations determine the predilection for dividends: older investors favour dividend paying stock because they substitute for a regular employment income

Allen et al. (2000) present a model in which dividends attract institutional investors because they are taxed less than retail investors, which in turn imposes a better governance structure. Brav and Heaton (1997) identify a preference to dividend payouts



using the prudent man rules that require certain types of institutional investors to hold mature and thus dividend-paying firms. Dhaliwal, Erickson, Trezevant (1999) and Seida (2001) find empirical evidence that supports the existence of tax-based clientele for dividends. Perez-González (2003) presents evidence that investors' tax status affects firm dividend policy. Hotchkiss and Lawrence (2002) find complementary evidence that firm returns are higher following dividends announcements for firms with institutional investors who favor dividends.

### **2.2.5 Signaling Theory**

Miller and Rock (1985); Bhattacharya (1979) in their model overlooked the standard finance model which assumes that in a perfect capital market, both outside investors and inside managers have access to the same information about the firm's current earnings and future opportunities. They replaced this assumption with the real world occurrence whereby managers know more about the firm's earnings and investment opportunities more than outside investors. In that case, the announcement of dividends convey certain information which is not available to the public thus the model suggest a positive relationship between asymmetry of information and dividend policy. Managers use dividends to convey useful information about a firm's future earnings to investors (Bhattacharya, 1979).

The signaling effect of dividends assumes that dividends convey information about future earnings. Changes of dividends give messages to investors about the firm's future cash flows. Modigliani–Miller (1959) and Miller–Modigliani (1961) hypothesized that dividend reductions convey information that future earnings prospects are poor.

The basic hypothesis includes that dividends and future earnings are in relation to each other. The studies then examine fundamentally how dividends affect future earnings. Such studies are, for instance, Lintner's (1956) and Watt's (1973) propositions. Under the title of signaling or information content of dividends, a number of studies have been made to examine the reaction of stock markets to dividend announcements. These studies have, in fact, examined stock markets' semi strong-form efficiency.

Empirical results have found the signaling effect of dividends especially on U.S. data. Fama–Fisher–Jensen–Roll (1969) proposed the basic hypothesis explaining price reactions to stock dividends and stock splits. These announcements signal higher expected future earnings, which can later result in higher cash dividends.

### **2.2.6 Agency Costs Theory**

Traditionally, corporate dividend policy has been examined under the assumptions that the firm is one homogenous unit and that the management’s objective is to maximize its value as a whole. The agency cost approach differs from the traditional approach mainly in the sense that it explicitly recognizes the firm as a collection of groups of individuals with conflicting interests and self-seeking motives. Under the agency theory, these behavioral implications cause individuals to maximize their own utility instead of maximizing the firm’s wealth.

According to Jensen–Meckling (1976), agency problems in corporations primarily arise from external debt and external equity. Agency theory underpins the relationship between the principal and the agent. Within the context of the firm, agency theory is primarily concerned with owner-manager relationship and with the need for shareholders to monitor management behaviour. This need arises due to the separation of ownership and control and the associated conflicts of interests that arise between shareholders (principals) and managers (agents). The agency-related rationale for paying dividends is based on the idea that monitoring of the firm and its management is helpful in reducing agency conflicts and in convincing the market that the managers are not in a position to abuse their position. Some shareholders may be monitoring managers, but the problem of collective action results in too little monitoring taking place.

Easterbrook (1984) suggests that one way of solving this problem is by increasing the payout ratio. When the firm increases its dividend payment, assuming it wishes to proceed with planned investment, it is forced to go to the capital market to raise

additional finance. This induces monitoring by potential investors of the firm and its management, thus reducing agency problems. Rozeff (1982) develops a model that underpins this theory, called the cost minimisation model. The model combines the transaction costs that may be controlled by limiting the payout ratio, with the agency costs that may be controlled by raising the payout ratio. The central idea on which the model rests is that the optimal payout ratio is at the level where the sum of these two types of costs is minimised.

### **2.3 Determinants of Share Prices**

A number of factors have been identified as share price determinants by the extant studies conducted on different markets. The pioneering work on determinants of share prices by Collins (1957) for USA banks identified dividend, net profit, operating earnings and book value as the factors influencing share prices. Following Collins (1957), there have been various attempts to identify the determinants of share prices for different markets.

Karathanassis & Philippas (1988) for banks listed on Athens stock exchange found dividends, retained earnings and size to exert a significant positive influence on share prices. Midani (1991) studied the factors that influence share prices in the Kuwait stock market. The study pointed out earnings and financial leverage as the major determinants of share prices. Later, Irfan & Nishat (2002) investigated the effect of fundamental factors on share prices of the firms listed on Karachi Stock Exchange and identified dividend yield, leverage, payout ratio and size as factors influencing share prices.

For a sample of Nepalese firms, Pradhan (2003) report that dividend significantly influence share prices. Al-Tamimi (2007) attempted to identify the factors that influence the stock prices in the United Arab Emirates financial market. The study found earnings of firms to have a significant and positive influence on share prices. The variables earnings and book value per share are reported as significant share price determinants by AL-Omar & AL-Mutairi (2008) for Kuwaiti commercial banks. Khan (2009) studied

share price determinants for the firms listed on Dhaka Stock Exchange and found dividend as a factor influencing share prices.

By examining the stocks of firms listed on the Nigerian Stock Exchange, Somoye et al. (2009) identified earnings, gross domestic product, lending interest rate and foreign exchange rate to be the major factors influencing share prices. Sunde & Sanderson (2009) for Zimbabwe market undertook a review to identify the factors that influence share prices. The study reports corporate earnings, management, lawsuits, mergers and takeovers, market liquidity and stability, availability of substitutes, Government policy, macroeconomic fundamentals, investor sentiments, technical influences and analyst reports as factors influencing share prices. Uddin (2009) analysed the effect of certain microeconomic factors on the share prices of bank, leasing and insurance companies listed on Dhaka Stock Exchange. The study found dividend, earnings and net asset value per share to bear a significant relation with share prices.

In the Indian market, the pioneering study is by Srivastava (1968) that studied the effect of retained earnings on share prices. The study report that retained earnings has no significant influence on share prices. In a later study, Bhole (1980) found earnings to be a significant factor influencing share prices. Zahir & Khanna (1982) show that share prices of private sector firms are significantly influenced by dividend and yield. Krishan (1984) examined the share prices of general engineering industry and cotton textiles industry. The study found that, in both the industries, book value per share and dividend are significant factors that determine share prices. In the case of cotton textiles industry, yield was also observed to be significantly influencing share prices.

For the chemical industry, Chawla & Srinivasan (1987) examined the relation between share prices, dividend and retained earnings. Both dividend and retained earnings were found to be significant determinants of share price. Zahir (1992) report dividend, earnings and yield as factors influencing prices of both more volatile and less volatile shares. Further, the study point out that security price index is a significant price determinant of more volatile shares.

In an attempt to identify the share price determinants for the cement industry, Malakar & Gupta (1999, 2002) found dividend to be a significant determinant of share price. In a subsequent study by Sen & Ray (2003), dividend pay out ratio and earnings emerged as significant determinants of share prices of BSE Sensex firms. By examining share prices of the firms listed on the Bombay Stock Exchange, Mehta & Turan (2005) identified market capitalisation, market price to book value ratio and price-earning ratio as major factors influencing share prices.

Sharma & Singh (2006) studied the effect of fundamental factors on the equity prices of manufacturing firms listed on Bombay Stock Exchange. The study found book value, earnings and price-earning ratio as significant share price determinants in engineering industry; book value and size in cotton textile industry; price-earning ratio and return on capital employed in chemical industry; dividend, earnings and price-earning ratio in electrical industry; and book value per share, payout and price-earning ratio in miscellaneous industry.

Singhania (2006) for manufacturing firms reported book value, dividend, dividend cover, dividend yield, earnings and price-earning ratio as significant share price determinants. Azhagaiah & Priya (2008) investigated the effect of dividend on share prices of organic and inorganic chemical companies. The study reported that dividend has significant influence on share prices in organic chemical companies and no influence in inorganic chemical companies. For the chemical industry, Singhania (2008) identified book value, dividend, dividend cover, dividend yield, earnings and price-earning ratio as major factors influencing share prices. Bapat & Raithatha (2009), for manufacturing firms, found profit, size of firm and volatility as significant determinants of share prices.

From the above studies, the researcher proposes to use dividends, profitability, price-earning ratio and leverage as the selected variables to be used in the research model. This is necessitated by the need to simplify the model and clearly bring out the relationship

under focus, time and resources constraints and availability of data given the local environment.

## **2.4 Empirical Review**

Experimental researches led to see the impact of dividend policy on stock price first incorporate the work of Linter. Linter (1956) reviewed the different determinants of corporate dividend policy and its impact on firm's market value by managing the interview of top management of 28 firms. Effect of his investigation indicates that Firm Market Value relies on the Dividend Payout. His outcome further demonstrates that firms wish to follow the stable dividend payout policies and for this reason they need to alter their profit.

Jahnke (1975) in his study to establish what is behind stock prices done using S&P 425 industrial averages' for 10 years from 1947 advanced that the determinants of stock prices aren't mysterious, stock prices reflect earning expectations and expected rates of returns. He observed that changes in stock prices and dividend income are the realized compensations for owning stocks and used the dividend discount model to demonstrate the relationship between dividend policy and stock values. He concluded that dividend payout ratio is one of the single most determinants of stock prices.

Karanja (1987) studied dividend practices of publicly quoted companies in Kenya and established that one of the reasons why firms payout dividends is as a result of lack of investments opportunities which promise adequate returns or more returns than the shareholders would have otherwise received had they been paid dividends for them to make investments independently.

Huka (1998) in his study to establish the impact of dividend policy on shareholder's wealth for companies quoted at the NSE from 1997 to 2000 found out that shareholders preference for dividends varied from one company to the other. They also established that there is a negative relationship between dividend payment and share prices.

Baker & Powell (1999) surveyed 603 chief financial officers of U.S firms listed at the NYSE to establish how corporate managers view dividends. Based on 198 usable responses, the empirical results showed that most survey respondents believed that dividend policy affects firm value. Signaling effect had the highest level of agreements by respondents to explain dividend relevance.

Bitok (2004) in a study on the effect of dividend policy on the value of firms quoted at the NSE done for a six year period from 1998 to 2003 established that dividend policy is relevant. They observed that an optimal dividend policy exists. They however put a caveat that the relationship between dividend policy and values of quoted companies at the NSE was weak implying that other factors other than dividend policy like investment and financing decisions affect the value of the firm. Dividend policy in this study was established to be negatively correlated with firm values in line with the tax differential theory advanced by Litzenberger and Ramaswamy in 1979.

Adefila, Oladipo & Adeoti (2004) thought about the reasons that can influence the dividend policy of Nigerian firms and its influence on stock price and companies' value. Outcome of their investigation demonstrated that Nigerian shareholder do not utilize their stock for hypothetical purpose. They purchase stock for prestigious explanation and forget credit from banks. Their outcome in addition inferred that there is no connection between dividend payment, net earning and stock price. Nigerian firm pay dividends to their stakeholders paying little respect to their level of benefit for satisfaction of their shareholders.

Balke & Mohar (2006) sought to establish the drivers of stock prices by identifying the determinants of stock price movements. They argued that there is a fundamental problem in identifying the source of stock price movements because stock prices are very persistent but real dividend growth and excess returns are not. They presented that the decomposition of stock price movements is very sensitive to what assumptions are made about the presence of permanent changes in either real dividend growth or excess stock

returns. When they allowed real dividend growth to have a permanent component but excess stock returns a temporary one, then real dividend growth was found to have a significant bearing on stock price movements than did excess returns. However this occurrence was reversed when excess returns were allowed to have a permanent component.

Sharma & Singh (2006) studied the effect of fundamental factors on the equity price of manufacturing firms listed on Bombay Stock Exchange. The study found book value, earnings ratio as significant share price determinants in engineering industry; book value and size in cotton textile industry; price-earnings ratio and return on capital employed in chemical industry; dividend, earnings and price-earning ratio in electrical industry; and book value per share, payout and price - earning ratio in miscellaneous industry.

Azhagaiah & Priya (2008) in their empirical study on the impact of dividend policy on shareholders' wealth in Organic and Inorganic Chemical Companies in India for the period 1996 to 2006 established that there was a significant impact of dividend policy on shareholders' wealth for Organic Chemical Companies while shareholders' wealth was not determined by dividend policy in Inorganic Chemical Companies. They established that higher dividends increased the market value of shares while lower dividends reduced the market value of shares since shareholders preferred current dividends to future income. Secondly, they also observed that since dividend has information content, its payment indicates that the company has a good earning capacity.

Chen, Huang & Cheng (2009) studied the impact of cash dividend on share price for the period of 2000-2004 in china. They discovered that cash dividend has quite positive impact on stock prices. When cash dividend expands stock price also increase and when the cash dividend decrease, share price decreases.

Ali & Chowdhury (2010) investigated the price movement of private commercial banks catalogued at Dhaka Stock Exchange towards the dividend announcement. They took a sample of 25 banks and their outcome indicated that stock price for 11 bank diminished,



6 bank stock price increases, whereas 8 banks stock price remained unchanged when dividend were declared. In all sum outcome of their study indicated that there is insignificant connection among stock prices and dividends.

AL-Shubiri (2010) did an empirical study on the determinants of market stock price movements of Jordanian commercial banks based on a sample of 14 commercial banks listed at the Amman Stock Exchange for the period 2005-2008. He found out that there is a highly positive significant relationship between market price of stock and net asset value per share; stock dividend percentage; gross domestic product and a negative significant relationship on inflation and lending rates. However the relationship was not always significant on some years of Amman Stock Exchange.

Mbaka (2010) did an empirical study on the applicability of dividend signaling theory at the NSE between 2003 to 2007 and established that dividend announcements by companies cause some reaction in market prices and returns depending on the information contained in the announcement. Dividend announcements had positive effects for companies with increasing dividends while it had negative reactions for companies with decreasing dividends. Companies with no change in dividends were found to have mixed reactions towards dividend announcements.

Mohammed (2010) in her study titled the relationship between dividend per share and firm value between done between 2005 and 2009 found out that for firms quoted at the NSE, the effect of dividend per share (DPS) on firm value is strong than that of retained earnings per share (REPS) when DPS and REPS are the only two explanatory variables. She also concluded that the announcement of expected dividends don't play an important role in the determination of firm value in all industries.

Hussainey, et al, (2011) examined the effect of dividend policy on stock prices in UK. Consequences of their investigation demonstrated a positive connection between Dividend Yield and stock price change and negative connection between Dividend

Payout ratio and stock price changes. Their outcome further showed that the firm's earning, Growth rate, level of debt and size also causes the change in stock prices of UK.

More recently Limungi (2011) in his study on the ex-dividend day stock price behaviour in the Nairobi Securities Exchange covering stock prices of twenty companies which constituted the NSE share index as at September 2010 observed that the ex-dividend day behavior of stocks that traded at the NSE during the period under study indicated unique behaviors which needed to be studied further. However, generally most stocks prices on the ex-dividend date dropped.

Murekefu & Ouma (2012) in their study on the relationship between dividend payout and firm performance for firms listed at the NSE done for a nine year period from 2002 to 2010 established that there exists a strong relationship between dividend policy and firm performance. They therefore concluded that dividend policy is relevance and therefore affects firm performance. They also found out that revenue and total assets are also among the factors that affect firm performance and that cash dividends was the most commonly used form of dividends among listed companies in Kenya.

Enhardt (2013) also conducted another study whose findings showed that there was correlation between dividend policies and share prices. During the study, it was realised that dividend policies of companies impacted the market value of shares even in the perfect capital market (Enhardt, 2013). The study also suggested that shareholders may prefer present dividend instead of future capital gains. This is because future business situations are uncertain even in perfect capital markets (Enhardt, 2013). In addition, the research indicated that there was a direct correlation between dividend policies and market values of shares even in situations where the internal rates of returns and the anticipated rate of returns were the same. The findings of the research study contradicted other previous studies.

Naveed (2013) conducted a survey on the views about the determinants of change in share prices in banking sector of Karachi Stock Exchange in which he sampled 15 banks

covering the period 2008-2011. He found out from the study that the forces of demand and supply have a direct effect on share prices. However it is not only the forces of demand and supply that influence share prices, other firm, industry and country specific factors also influence share prices. He also established that the volume of stocks traded also had a significant effect on the prices.

Ogolo (2012) conducted a study to investigate the effect of dividend policy on share price with a focus on 61 firms listed in Nairobi Stock Exchange. For this purpose, a sample 38 multinationals and local companies was selected and the influence of earnings per share and dividend payout ratio on market price per share were examined by applying multiple regression for a period of ten years from 2003 to 2012. This study showed significant positive relationship between Market price per share with two main measurements of dividend policy which are earnings per share and dividend payout ratio. She concluded that dividend policy has a significant effect on the share price, however, the effect is not significant for local firms.

## **2.5 Summary of Literature Review**

The literature on dividend policy has produced a large body of theoretical and empirical research, especially following the publication of the dividend irrelevance hypothesis of M&M (1961). No general consensus has yet emerged after several decades of investigation, and scholars can often disagree even about the same empirical evidence. In perfect capital markets, M&M asserted that the value of a firm is independent of its dividend policy. However, various market imperfections exist (taxes, transaction costs, information asymmetry, agency problems, etc) and these market imperfections have provided the basis for the development of various theories of dividend policy including tax-preference, clientele effects, signaling, and agency costs.

Black (1976) coined the term “the dividend puzzle” to illustrate the misunderstanding of dividend payment policy. Black (1976) illustrated the lack of consensus concerning the role of dividends by his statement “The harder we look at the dividend picture, the more it seems like a puzzle with pieces that just don’t fit together”. In all the foregoing studies,

there can be identified research gaps. First, the studies failed to establish strongly whether or not there is a correlation between dividend policies and share prices. Other factors such as earnings, book value, dividend yield, leverage, payout ratio, size, government regulations, foreign exchange rate, forces of demand and supply were identified as having more significant effect on share prices other than dividends.

The studies have only added to the already existing confusion as to the nature of the relationship between dividend policies and share prices. Majority of the theories assumed that capital markets are perfect which rarely the case is. It can also be observed that most of the studies were done in the developed markets and more studies needed to have been done in the emerging markets. This research study sought to bridge these gaps.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Kothari (2004) notes that research methodology refers to the various steps that are generally adopted by a researcher in studying research problem informed by some logic. This section provides the steps that will be followed in studying effects of dividends on share prices at NSE. It covers research design, population and sampling procedure, data source and data collection methods, the unit of analysis and data analysis techniques.

#### **3.2 Research Design**

This research problem employed a descriptive research design. According to Cooper and Schindler (2003) a descriptive study is concerned with finding out the what, where and how of a phenomenon. Descriptive survey designs will be used in preliminary and exploratory studies to allow the researcher gather information, summarize, present and interpret for the purpose of clarification. The choice of the descriptive survey research design is based on the fact that in the study, the research is interested on the state of affairs already existing in the field and no variable would be manipulated. This study therefore will be able to generalize the findings to a larger population. The main focus of this study will be quantitative. The study will seek to establish the effect of dividends on stock prices for companies listed at the NSE. In order to capture the required information to answer to the research questions, a survey of all firms listed at the NSE will be conducted for a period of 10 years preceding 2013.

#### **3.3 Target Population**

Target population is defined as a complete set of individuals, cases or objects with some common observable characteristics of a particular nature distinct from other population. The population of interest of this study will be the 61 listed firms at the NSE.

### 3.4 Data Collection

Research methods are the general approaches used in collecting information while research tools are the different instruments a researcher employs while collecting data (Bryman, 1993). The choice of research instrument as discussed by Crotty (1998) is dependent on type of data to be collected and data collection method adopted. This study will be facilitated by use of secondary data which will be extracted from published reports of quoted companies which are publicly available from the companies and NSE websites.

### 3.5 Data Analysis

Data processing involves looking through collected data and editing it for errors (Kinoti, 1998). Errors in data occur due to failing to record, wrong entry, ineligibility of words or numbers in recordings, jammed recording instruments, outliers and miscalculations (Gay, 1992). Once the data is edited for completeness, the researcher will tabulate the data and input it into relevant statistical package for analysis. Data collected will be analyzed using quantitative techniques where Ordinary Least Square (OLS) analysis through correlation and regression models of analysis will be used. The significance of the relationship between dividends policy and share prices will be tested at a confidence level of 95% using ANOVA and F- tests.

To identify the determinants of share prices, the model specified in the equation below is estimated, wherein share price is modeled as a function of dividend, profitability, and leverage:

$$SP_{i,t} = \alpha_i + \beta_{1i}DPS_{i,t} + \beta_{2i}ROA_{i,t} + \beta_{4i}DE_{i,t} + k_{i,t}$$

Where SP is share price; DPS is dividend per share, a measure of dividend; ROA is return on assets, a proxy for profitability; DE is debt-equity ratio, a measure of leverage;  $\alpha_i$  is the member specific intercept;  $\beta$ 's are the slope coefficients;  $k_{it}$  is the error term;  $i =$

1, ..., n; n is the number of cross-sectional units;  $t = 1, \dots, t$ ; t is the number of observations over time.

Correlation analysis will be used to describe the degree to which one variable is related to the other. In this study coefficient of correlation (R) and coefficient of determination ( $R^2$ ) will be estimated to determine the nature and magnitude of the relationship. Correlation coefficient will be used to measure the degree or magnitude of relationship between dividends and share prices.

## CHAPTER FOUR DATA ANALYSIS

### 4.1 Introduction

This chapter presents an analysis of data that was collected, interpretation and discussion of findings. Ordinary Least Square (OLS) analysis through correlation and regression models of analysis was used. The section is divided into four sections; reliability statistics, descriptive statistics, correlation analysis and regression analysis. The study relied on secondary data only.

### 4.2 Reliability Test

In order to determine the reliability of the study instrument, the study conducted Cronbach reliability test. In Cronbach, the Alpha has to be more than 0.7 for the instrument to be reliable. Table 4.1 presents the findings.

**Table 4.1: Reliability Statistics**

| <b>Cronbach's Alpha</b> | <b>N of Items</b> |
|-------------------------|-------------------|
| 0.713                   | 4                 |

The findings show that Cronbach's Alpha is 0.713. This value is more than 0.7 hence the instrument was reliable.

### 4.3 Descriptive Statistics

This section sought to provide a description of the variables using the averages obtained in describing the relationship between variables. Results are presented in table 4.2 below.

**Table 4.2: Descriptive Statistics**

|                    | <b>Mean</b> | <b>Std. Deviation</b> | <b>N</b> |
|--------------------|-------------|-----------------------|----------|
| Share Price        | 103.8866    | 14.90571              | 10       |
| Dividend per share | 3.3481      | 0.86071               | 10       |
| Return on Assets   | 0.3814      | 0.28967               | 10       |
| Debt Equity ratio  | 0.8536      | 0.0218                | 10       |



Ten observations were used in the study for all the variables. The study found that share price had a mean score of 103.89 and a standard deviation of 14.91. Dividend per share had a mean of 3.348 and standard deviation of 0.861, return on assets had a mean score of 0.381 and a standard deviation of 0.29 while debt equity had mean scores of 0.38 and standard deviation of 0.02.

The mean scores show that over the period under study, share price was averaging Ksh. 103.88. The mean for ROA shows that over the period under study, ROA was averaging at 38.14%. The descriptive statistics for average dividend per share explains that dividends were averaging Ksh. 3.3 per share while the Debt Equity ratio was at 0.85.

#### 4.4 Correlation Analysis

Pearson correlation was used to examine if there was any correlation or degree of association between share prices and return on assets, dividend per share and debt equity ratio. Table 4.3 presents these results.

**Table 4.3: Correlation Statistics**

|                        |                       | <b>Share<br/>Price</b> | <b>Dividend<br/>Per Share</b> | <b>Return on<br/>Assets</b> | <b>Debt<br/>Equity<br/>ratio</b> |
|------------------------|-----------------------|------------------------|-------------------------------|-----------------------------|----------------------------------|
| Pearson<br>Correlation | Share Price           | 1                      |                               |                             |                                  |
|                        | Dividend<br>per Share | 0.779                  | 1                             |                             |                                  |
|                        | Return on<br>Assets   | 0.051                  | -0.186                        | 1                           |                                  |
|                        | Debt Equity<br>ratio  | 0.477                  | 0.807                         | -0.204                      | 1                                |

The findings show a strong positive correlation between Dividend Per Share and Debt Equity ratio with a correlation coefficient of 0.807. The findings also show a strong positive relationship between Dividend Per Share and Share Price with a correlation coefficient of 0.779. The relationship between Debt Equity and Share Price is also positive at 0.477 while Return on Assets shows a positive relationship with Share Price having a correlation coefficient of 0.051.

However, there exists a negative relationship between Debt Equity ratio and Return on Assets having a correlation coefficient of -0.204. The findings also show a negative relationship between Return on Assets and Dividend Per Share with a correlation coefficient of -0.186.

#### 4.5 Regression Analysis

A multivariate regression model was used to establish the effects of dividends on share prices of firms listed at the Nairobi Securities Exchange. This involved the use Ordinary Least Squares (OLS). The resultant regression model was as follows;

$$SP_{i,t} = \alpha_i + \beta_{1i}DPS_{i,t} + \beta_{2i}ROA_{i,t} + \beta_{4i}DE_{i,t} + k_{i,t}$$

|        |            |   |   |
|--------|------------|---|---|
| Where: | SP         | = | Share Price   |
|        | DPS        | = | Dividend Per Share, a measure of dividend           |
|        | ROA        | = | Return on Assets, a proxy for profitability         |
|        | DE         | = | Debt-Equity ratio, a measure of leverage            |
|        | $\alpha_i$ | = | Member specific intercept                           |
|        | $\beta$ 's | = | The slope coefficients                              |
|        | $k_{it}$   | = | The error term                                      |
|        | i          | = | 1 ... n   |
|        | n          | = | the number of cross-sectional units                 |
|        | t          | = | 1 ... t; t is the number of observations over time. |

In order to conduct a regression analysis using ordinary least squares, the researcher estimated the model in which all the variables under study were included. Table 4.4 presents the model summary.

**Table 4.4: Model Summary**

| Model | R                 | R Square | Adjusted Square | R Std. Error of the Estimate |
|-------|-------------------|----------|-----------------|------------------------------|
| 1     | .838 <sup>a</sup> | 0.703    | 0.554           | 9.9546                       |

<sup>a</sup> Predictors: (Constant), Debt Equity ratio, Return on Assets, Dividend per Share

Analysis in table 4.4 shows that the coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables)  $R^2$  equals 0.838 that is, Debt Equity ratio, Return on Assets and Dividend per Share explain 83.8% of the effects of dividends on share prices of firms listed at the Nairobi Securities Exchange leaving 16.2 percent unexplained. The P- value of 0.041 (Less than 0.05) implies that the model is significant at the 5 percent significance as shown in table 4.5

**Table 4.5: ANOVA**

| Model |            | Sum of Squares | df | Mean Square | F     | Sig.  |
|-------|------------|----------------|----|-------------|-------|-------|
| 1     | Regression | 1405.058       | 3  | 468.353     | 4.726 | .041b |
|       | Residual   | 594.565        | 6  | 99.094      |       |       |
|       | Total      | 1999.622       | 9  |             |       |       |

<sup>a</sup> Dependent Variable: Share Price

<sup>b</sup> Predictors: (Constant), Debt Equity, Return on Assets, Dividend per share

ANOVA findings (P-value of 0.041) in table 4.5 show that there is correlation between the predictor's variables (Debt Equity ratio, Return on Assets and Dividend per Share) and response variable (Share Price). An F ratio is calculated which represents the variance between the groups, divided by the variance within the groups. A large F ratio indicates that there is more variability between the groups (caused by the independent

variable) than there is within each group, referred to as the error term. A significant F test indicates that we can reject the null hypothesis which states that the population means are equal.

**Table 4.6: Distribution of Coefficients**

| Model |                    | Unstandardized |            | Standardized | t      | Sig.  |
|-------|--------------------|----------------|------------|--------------|--------|-------|
|       |                    | Coefficients   |            | Coefficients |        |       |
|       |                    | B              | Std. Error | Beta         |        |       |
| 1     | (Constant)         | 269.911        | 204.173    |              | 1.322  | 0.234 |
|       | Dividend per share | 19.706         | 6.526      | 1.138        | 3.02   | 0.023 |
|       | Return on Assets   | 9.285          | 11.708     | 0.18         | 0.793  | 0.458 |
|       | Debt Equity ratio  | -275.942       | 258.518    | -0.404       | -1.067 | 0.327 |

a Dependent Variable: Share Price

These are the values for the regression equation for predicting the dependent variable from the independent variable. From the regression model:

$$SP_{i,t} = \alpha_i + \beta_{1i}DPS_{i,t} + \beta_{2i}ROA_{i,t} + \beta_{4i}DE_{i,t} + k_{i,t}$$

The regression equation is:

$$SP = 269.911 + 19.706DPS + 9.285ROA - 275.942DE$$

Where:

Constant = 269.911, shows that if Debt Equity, Return on Assets, Dividend per Share all rated as zero, Share price would be 269.911.

The regression coefficient for dividend per share is 19.706. This means that the relationship between the dividend per share and share price is positive.

The regression coefficient for return on assets is 9.285. This means that the relationship between the return on assets and share price is also positive.

The regression coefficient for debt equity is -275.942. This means that the relationship between the debt equity and share price however is negative.

#### **4.6 Discussions of Findings**

From the findings, there exists a strong positive relationship between dividend per share and share price with a correlation coefficient of 0.779. It is evident from the results that the variable dividend per share is a significant determinant of share price for the NSE listed firms. The positive relationship means that share price would rise with an increase in dividend per share. This finding indicates that investors attach more value to those firms that pay dividends. Current income in the form of dividend is being preferred by investors and they are willing to buy such stocks that pay dividends. The findings concur with Linter (1956) who reviewed the different determinants of corporate dividend policy and its impact on firm's market value by conducting the interview of top management of 28 firms. Effect of his investigation indicates that Firm Market Value relies on the Dividend Payout.

The findings also reflect those of Jahnke (1975) who concluded that dividend payout ratio is one of the single most determinants of stock prices. His study observed that stock prices and dividend income are the realized compensations for owning stocks and used the dividend discount model to demonstrate the relationship between dividend policy and stock values. The study also found that return on assets affects share prices in the market. This is in line with AL-Shubiri (2010) who found that out that there is a highly positive significant relationship between market price of stocks and net asset value per share; stock dividend percentage; gross domestic product and a negative significant relationship on inflation and lending rates.

Return on assets is found to positively influence share prices but not significantly so. This finding implies that investors do not attach much importance to the profitability of a firm. Instead, what matters to them more, is the portion of earnings that is paid out to them in the form of dividend. The study also found dividend per share negatively correlated with return on assets. This was also reported by Bitok (2004) who found that Dividend policy in his study to be negatively correlated with firm values in line with the tax differential theory advanced by Litzenberger and Ramaswamy in 1979.

Further, the results indicate that debt-equity ratio is a significant factor in influencing share price and it exerts a negative relation with share price. This finding implies that as the debt content in the capital structure of a firm decreases, its share price increases and vice versa. This indicates that investors prefer firms with less debt content in their capital structure since increased use of debt lowers the available earnings for equity shareholders because of interest payment and they become apprehensive about their returns.

In summary, the results reveal that the variables dividend and leverage are significant determinants of share prices at the NSE. As expected, the variables dividend and return on assets bear a positive relation with share price, and leverage bears a negative relation. Further, despite profitability having a positive relation with share price, investors do not attach much importance to it as they are more concerned with the portion of earnings that they eventually get as dividend.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents the summary of the findings presented in chapter four according to the study objective. The objective of the study was to establish the effects of dividends on share prices of firms listed at the Nairobi Securities Exchange. It presents the conclusions and the recommendations to the study.

#### **5.2 Summary of Findings**

The study sought to establish the effects of dividends on share prices of firms listed at the Nairobi Securities Exchange. A total of 61 firms listed in Nairobi Stock Exchange were sampled and the period of study was 10 years between 2004 and 2013. All the data required was obtained from the firm's audited financial statements.

Shareholders make investment in equity capital with the expectation of making earning in the form of dividend or capital gains. High payout satisfies the dividend need whereas increase in market price of stock increases capital gain. Therefore, firm should make a proper balance between dividends and retained earnings.

Dividend distribution is the very important factor to any organization for effective goal achievement to satisfy the shareholders. Dividends are decided upon and declared by board of directors. A firm's profits after-tax can either be used for dividends payment or retained in the firm to increase shareholders' fund. This may involve comparing the cost of paying dividend with the cost of retaining earnings.

Paying dividend to shareholders is an effective way to attract new investors to the stock market. Due to sharing of earnings of a company between dividend payout and retention of earnings, its dividend policy effects on market value of shares is a crucial question. So, a balanced policy should be maintained between shareholders and corporate interests. The funds sometimes could not be used in case of lack of investment opportunities. In

such a situation, distribution of dividend to shareholders is taken as the best because shareholders may have investment opportunities elsewhere.

In the NSE, the study found that there exists a strong positive correlation between dividend per share and debt equity ratio. This may be due to the fact that firms which utilize a lot of debt in their capital structure also try to lock in the existing shareholders with high dividend payout and share prices, thus keeping their valuation high. The findings also show a strong positive relationship between dividend per share and share price with a correlation coefficient of 0.779. The relationship between debt equity and share price was also positive while return on assets showed a positive relationship with share price. The study found that Debt Equity, Return on Assets and Dividend per share explains 83.8% of the effects of dividends on of firms listed at the Nairobi Securities Exchange leaving 16.2 percent unexplained. This implies that there are other factors that affect share prices this study did not consider. The study found the model for the study to be significant at 5% significance level.

The study found that if Debt Equity, Return on Assets, Dividend per share all rated as zero, Share price would be 269.911. It found that all the variables had a positive relationship with share price apart from debt equity which had an inverse coefficient of -275.942 with share price.

### **5.3 Conclusions**

The study concludes that different types of dividends are paid by the companies operating in Kenya. They may be in different forms and basis. The main reason for dividend payout is to provide the benefit to shareholders of the company and to make them feel they are the part of the firm. Among the firms listed in NSE, there is a practice of providing either stock dividend or cash dividend by the companies to their shareholders.

From the findings, the study concludes that there existed a strong positive correlation between dividend per share, debt equity, return on assets and share price. It concludes that Debt Equity, Return on Assets and Dividend per share explains 83.8% of the effects



of dividends on of firms listed at the Nairobi Securities Exchange leaving 16.2 percent unexplained. The study concludes that all the variables had a positive relationship with share price apart from debt equity which had an inverse coefficient of -275.942 with share price.

#### **5.4 Recommendations**

The study found that Debt Equity, Return on Assets and Dividend per share explain 83.8% of the effects of dividends on share prices of firms listed at the Nairobi Securities Exchange leaving 16.2 percent unexplained. This implies that there are other factors that affect share prices this study did not consider. The study therefore recommends that other studies be done to identify other factors which may explain the remaining 16.2%.

The study also recommends further studies in the Kenyan economy outside of the NSE, that is, for private firms to establish whether the same conclusions will be arrived at. This will further affirm the theories underlying the study or even come up with new theories that will fill the knowledge gaps. The study also recommends that each and every firm listed in NSE should provide the information regarding its activities and performance, so that investors can analyze the situation and invest their money in the best firms.

#### **5.5 Limitations of the Study**

The study was limited to firms listed in NSE and excluded those firms which are not listed but operate within the country. A sample of 61 companies is also too small to generalize the results given that there are many more firms operating in the country. The study was limited to 10 years which is a short period to observe changes in variables over time.

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## APPENDICES

### Appendix 1: Companies Listed at the NSE

Source: <http://www.nse.co.ke>, 30th June 2014

|    |   |
|----|---|
| 1  | Nation Media Group                                |
| 2  | TPS Eastern Africa (Serena) Ltd                   |
| 3  | Scangroup Ltd                                     |
| 4  | Uchumi Supermarket Ltd                            |
| 5  | Sameer Africa Ltd                                 |
| 6  | Barclays Bank Ltd                                 |
| 7  | CFC Stanbic Holdings Ltd                          |
| 8  | Kenya Commercial Bank Ltd                         |
| 9  | Standard Chartered Bank Ltd                       |
| 10 | Equity Bank Ltd                                   |
| 11 | Jubilee Holdings Ltd                              |
| 12 | Kenya Re-Insurance Corporation Ltd                |
| 13 | British-American Investments Company ( Kenya) Ltd |
| 14 | Olympia Capital Holdings ltd                      |
| 15 | Centum Investment Co Ltd                          |
| 16 | Trans-Century Ltd                                 |
| 17 | British American Tobacco Kenya Ltd                |
| 18 | East African Breweries Ltd                        |
| 19 | Bamburi Cement Ltd                                |
| 20 | Crown Berger Ltd                                  |
| 21 | E.A.Cables Ltd                                    |
| 22 | E.A.Portland Cement Ltd                           |
| 23 | KenolKobil Ltd                                    |
| 24 | Total Kenya Ltd                                   |
| 25 | Kakuzi  |

|    |                                    |
|----|------------------------------------|
| 26 | Diamond Trust Bank Kenya Ltd       |
| 27 | Eaagads Ltd                        |
| 28 | Kapchorua Tea Co. Ltd              |
| 29 | Limuru Tea Co. Ltd                 |
| 30 | Rea Vipingo Plantations Ltd        |
| 31 | Sasini Ltd                         |
| 32 | Williamson Tea Kenya Ltd           |
| 33 | Express Ltd                        |
| 34 | Kenya Airways Ltd                  |
| 35 | Standard Group Ltd                 |
| 36 | Hutchings Biemer Ltd               |
| 37 | Longhorn Kenya Ltd                 |
| 38 | AccessKenya Group Ltd              |
| 39 | Safaricom Ltd                      |
| 40 | Car and General (K) Ltd            |
| 41 | Home Afrika ltd                    |
| 42 | Marshalls (E.A.) Ltd               |
| 43 | Housing Finance Co Ltd             |
| 44 | National Bank of Kenya Ltd         |
| 45 | NIC Bank Ltd                       |
| 46 | The Co-operative Bank of Kenya Ltd |
| 47 | I & M Holdings                     |
| 48 | Pan Africa Insurance Holdings Ltd  |
| 49 | CFC Insurance Holdings             |
| 50 | CIC Insurance Group Ltd            |
| 51 | City Trust Ltd                     |
| 52 | B.O.C Kenya Ltd                    |
| 53 | Carbacid Investments Ltd           |
| 54 | Mumias Sugar Co. Ltd               |
| 55 | Unga Group Ltd                     |
| 56 | Eveready East Africa Ltd           |

|    |                               |
|----|-------------------------------|
| 57 | Kenya Orchards Ltd            |
| 58 | A.Baumann Co. Ltd             |
| 59 | Athi River Mining             |
| 60 | KenGen Ltd                    |
| 61 | Kenya Power & Lighting Co Ltd |