

**THE RELATIONSHIP BETWEEN DIVIDEND PAYOUT RATIO
AND THE VALUE OF THE FIRM FOR COMPANIES LISTED AT
THE NAIROBI SECURITIES EXCHANGE.**

BY

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DECLARATION

This research project is my original work and has not been presented in any other institution or university.

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This research project has been submitted for examination with my approval as the university supervisor.

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DEDICATION

This project is dedicated to my loving mother Mrs Florah Muthoki Mulwa, brother Livingstone Musa and sister Christine Nduku for the support I received from them.

May the Almighty God bless them abundantly.

ABSTRACT

Decision making about dividend payout is one of the most important decision that companies encounter with. Dividend payout ratio is dependent on lots of elements such as investing opportunities, profitability, income tax, laws obligation and liquidity. The objective of the study was to determine the relationship between dividend payout ratio and the value of the firm for companies listed at the Nairobi Securities Exchange. The study period was a six year period i.e 2008-2013. This study involved the use of a descriptive research design. Using a sample of 29 listed firms which were randomly selected the study employed secondary data. The population of interest consisted of all the 61 listed firms in Kenya.

This study found that there was a significant relationship between dividend payout ratio and the value of the firm for companies listed at NSE. Except liquidity, the other variables (dividend payout ratio, growth opportunity, and profitability) had a significant impact on the value of the firm since their p-value was less than the accepted critical value. In addition analysis of variance showed that the combined effect of dividend payout ratio, current ratio, liquidity and growth opportunity was statistically significant in explaining changes in value of the firm of listed companies in Kenya. This further implied that the overall model was significant. According to this study, the eleven sectors of the NSE recorded a varying R square with the banking sector recording the highest while the telecommunication sector had the lowest R square. Correlation coefficient was also used to determine the relationship between the variables and concluded that dividend payout ratio had a positive correlation with the value of the firm. The other variables had also a positive correlation with the value of the firm but liquidity had a very weak relationship compared to other variables. The study recommends that since dividend policy has an effect on the value of the firms quoted at NSE, companies should pay dividends to maintain a high firm value. In carrying out the dividend payout decision, the management should also consider other factors such as liquidity, growth opportunities, current ratio etc since they have an impact on the value of the firm, despite paying dividends consistently and having a clear dividend policy.

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LIST OF ABBREVIATIONS

CMA	Capital Markets Authority
DPS	Dividend per Share
EBIT	Earnings Before Interest and Tax
EPS	Earnings per Share
KBS	Kenya Bureau of Statistics
MBA	Master of Business Administration
MPS	Market Price per Share
NSE	Nairobi Securities Exchange
NYSE	New York Stock Exchange
UON	University of Nairobi

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Dividend payout decision is an important decision for managers in all firms. Managers have to decide whether to pay dividend or not and if they decide to pay dividend for that year, they will face a further question of how much they should pay for that year. Dividend payout has been a subject of debate in financial literature. Academicians and researchers have developed many theoretical models describing the factors that managers should consider when making dividend policy decisions (Amarjit et al, 2010).

Miller and Modigliani (1961) argue that given perfect capital markets, the dividend decision does not affect the firm value and is, therefore, irrelevant. Most financial practitioners and many academics greeted to this conclusion with surprise because the conventional wisdom at the time suggested that a properly managed dividend policy had an impact on share prices and shareholders' wealth. The dividend policy decisions of firms are the primary element of corporate policy. Dividend, which is basically the benefit of shareholders in return for their risk and investment, is determined by different factors in an organization. Basically, these factors include financing limitations, investment chances and choices, firm size, pressure from shareholders and regulatory regimes. However, the dividend payout of firms is not only the source of cash flow to the shareholders but it also offers information relating to firm's current and future

performance. According to Linter (1956) firms dividend payouts policies are designed to reveal the earnings prospects to investors.

According to Kenya Gazette Legal Notice No.60 (2002), among the requirements that companies want to be listed in the Nairobi Securities Exchange must fulfill is that, they should have a clear future dividend policy .This makes dividend policy worthy of serious management attention. Dividend policy remains one of the most important financial policies not only from the viewpoint of the company, but also from that of the shareholders, the consumers, employees, regulatory bodies and the Government. For a company, it is a pivotal policy around which other financial policies rotate (Alii et al 1993).

Ajanthan (2013) argues that dividend decision is one of the four decision areas in finance. Dividend payout decisions are important because they determine what funds flow to investors and what funds are retained by the firm for investment. More so, they provide information to stakeholders concerning the company's performance. Dividend payout decision is therefore, considered to be one of the most important financial decisions that corporate managers encounter. Considering that one of the main objectives of a firm is shareholder's wealth maximization, the objective of this study was to find out the relationship between dividend payout ratio and the value of a firm.

1.1.1 Dividend Payout Ratio.

Fumey and Doku (2013) states that dividend payout refers to the proportion of total profit paid out to ordinary shareholders as dividends. Large dividend payout in a period would reduce funds available for investment in subsequent periods and that would lead to the

tendency of raising equity or debt in the next period to finance investment. On the other hand, large investment outlay would lead to a reduction in available funds to finance dividend payout and increase the need for external debt financing during the next period to finance dividend payment

Setting corporate dividend policy remains controversial and involves judgment by decision makers. In addition, there has been emerging consensus that there is no single explanation of dividend payments and there are many reasons as to why companies should pay or not to pay dividends. For example, the dividend payout is important for investors because dividends provide certainty about the company's financial well-being and are attractive for investors looking to secure current income. In addition, dividends help maintain market price of the share. Companies that have a long-standing history of stable dividend payouts would be negatively affected by lowering or omitting dividend distributions. These companies would be positively affected by increasing dividend payouts or making additional payouts of the same dividends. Furthermore, companies without a dividend history are generally viewed favorably when they declare new dividends (Amarjit et al, 2010).

1.1.2 Value of the Firm

Modigliani (1980) points out that, the value of a firm is the sum of its debt and equity and this depends only on the income stream generated by its assets. Therefore firm value is an economic measure reflecting the market value of a whole business. It is a sum of claims of all claimants i.e. creditors (secured and unsecured) and equity holders (preferred and common).

According to Ndeda (2013), equity finance is personal savings for small companies, but for the large companies equity finance is made of ordinary share capital and reserves. Equity finance is divided into ordinary share capital, retained earnings and preference share capital. Ordinary share capital is raised from the public from the sale of ordinary shares to the shareholders while retained earnings are further classified into revenue and capital reserves. Revenue reserves are undistributed earnings while capital reserves are raised by either selling shares at a premium, through revaluation of the company's assets and by creation of a sinking fund.

Preference share capital is also part equity finance and it combines features of equity and those of debt. It is preference because it is preferred to ordinary share capital. Unlike ordinary share capital, it has a fixed return but it carries no voting rights. It is an unsecured finance and it increases the company's gearing ratio. It is further classified into redeemable preference shares and irredeemable preference shares (Pandey, 2008)

Debt finance is a fixed return finance as the cost (interest) is fixed on the par value. It is ideal to use if there is a strong equity base. It is raised from external sources to qualifying companies and is available in limited quantities. It is limited to value of security and liquidity situation in a given country. It is ideal for companies where gearing allows them to raise more debt and thus gearing level. The advantage of using debt finance is that interest on debt is a tax allowable expense and as such it is reduced by the tax allowance (Pandey, 2008).

1.1.3 Dividend Pay Out Ratio and the Value of the Firm

The Bird in hand theory proposes that a relationship exists between firm value and dividend payout. It states that dividends are less risky than capital gains since they are more certain. Investors would therefore prefer dividends to capital gains (Amidu, 2007). Because dividends are supposedly less risky than capital gains, firms should set a high dividend payout ratio and offer a high dividend yield to maximize stock price. According to the agency theory, dividend policy is determined by agency costs arising from the divergence of ownership and control. Making dividend payouts which reduces the free cash flows available to the managers would thus ensure that managers maximize shareholders' wealth rather than using the funds for their private benefits (DeAngelo et al, 2006).

A study by Dhanani (2005) revealed that dividend policy is important in maximizing shareholder value and hence the value of the firm. A firm's dividend policy can influence one or more of imperfections in the real world such as information asymmetry between managers and shareholders; agency problems between managers and shareholders; taxes and transaction costs and in turn, enhance the firm's value to shareholders.

A firm's dividend policy can influence its capital structure or investment decisions and in turn, enhance the firm's value (Baker, 2001). The pecking order theory of capital structure proposes that companies will prefer internally generated cash flows to external funds and therefore pay low dividends. It therefore suggests that firms that pay high dividends experience low growth which contradicts studies by Arnott and Asness (2003).

The equity component of a firm increases when more earnings are retained. However, if a firm has a large payout, financing may need to come from debt. An increase in debt without a proportionate increase in equity may result in a deviation from a firm's optimal capital structure (Baker, 2001).

This study is expected to be in line with the previous studies and therefore, the researcher expects a positive relationship between the two variables. This is because apart from dividend policy there are various other factors that affect the value of a firm.

1.1.4 Nairobi Stock Exchange

The NSE was established in 1954 as an overseas stock exchange. Prior to that, the NSE traded as an informal market with no rules and guidelines to govern trading activity. At the time of establishment, the NSE had no physical trading floor and transactions were carried out in a coffee-house forum over telephone and prices were determined through negotiation. The NSE used a periodic auction trading system for transacting. Over the past decade, the securities exchange has witnessed numerous changes, automating its trading in September 2006 and in 2007 making it possible for stockbrokers to trade remotely from their offices, doing away with the need for dealers to be physically present on the trading floor (Ngugi, 2003).

NSE is mandated to list companies on the securities exchange and enable investors to trade in securities of companies thus it is charged with the health of securities exchange. The NSE is also helps mobilize domestic savings, thus reallocation of financial resources from dormant to active agents. It is regulated by Capital Markets Authority. In Kenya,

there are currently sixty one companies listed in the Nairobi Securities Exchange, which is the only stock exchange firm in the country. Listed companies fall into two main segments, that is, the main market segment and the alternative investment market segment. The Nairobi Securities Exchange has classified these companies into eleven sectors (NSE, 2014)

1.2 Research Problem

Empirical researches conducted to see the effect of dividend policy on the value of the firm first includes the historical work of Lintner (1956) who studied different determinants of corporate dividend policy and its effect on firm's market value by conducting the interviews of top managements of 28 firms. Result of his study showed that firm's market value depends on the dividend payout. An important contribution in the field of finance is by Miller & Modigliani (1961) who gave the concept of dividend irrelevance. Their results indicated that the only thing that can affect a firm's value is the investment policy or firm's earnings and not the dividend policy of firm.

Gordon (1963) gives arguments against the dividend irrelevance theory and provided evidence regarding the relevance of dividend policy. Results of his study showed that dividend policy has significant positive effect on stock prices. He further concluded that the firms that pay larger amounts of dividend to their shareholders face less risk in terms of stock price volatility.

Black and Scholes (1974) studied the effect of dividend policy on stock prices and explained that dividend policy does not affect the stock prices. It depends on the

investors' decision to keep either high or low yielding securities; return earned by them in both cases remains the same.

Allen and Rachim (1996) studied the relation between dividend policy and stock prices. Results of their study failed to find out any relation between the dividend yield and stock prices but it showed positive relation between stock prices and size, earnings and leverage. The results showed a negative relation stock prices and payout ratio.

Adefila (2004) studied the factors that can affect the dividend policy of Nigerian firms and its affect on stock prices and firm's value. Results of their study showed that Nigerian shareholders do not use their stocks for speculative purpose. They buy stocks for prestigious reasons and for obtaining loan from banks. Their results also concluded that there is no relation between dividend payments, net earnings and stock prices.

Hussainey et al (2011) studied the impact of dividend policy on stock prices. Results of their study showed a positive relation between dividend yield and stock price changes and negative relation between dividend payout ratio and stock price changes. Their results further indicated that the firms' earnings, growth rate, level of debt and size also cause the change in stock prices of UK.

Ozuomba et al (2013) sought to establish the relationship of shareholder's value and firm's dividend policy using survey design. The findings of this paper showed that earnings per share and market price per share (dividend policies) has an effect on

dividend per share (shareholders wealth) given the very high correlation result of 0.9 gotten from the stock market report analyses.

Locally, Bitok (2004) carried out a similar study on dividend policy and the value of the firm for companies listed on NSE and found that there was a significant relationship between dividend payout ratio and the value of the firm. Gitau (2011) studied the relationship between dividend payment and share price for companies listed at the NSE and found a weak positive relationship between dividend payout ratio and market share prices.

From the reviewed empirical studies it is clear that the relationship between dividend policy and firm value is still unresolved, it is infact a puzzle. Dividend policy is a widely researched topic in the field of finance but still it remains a mystery whether dividend policy affects the firm value. According to Pandey (2008), there has never been a universal agreement. The results of researches conducted in various stock markets are different. Motivated by this research gap the question is, what is the relationship between dividend payout ratio and the value of the firm?

1.3 Research Objective

To establish the relationship between dividend payout out ratio and the value of the firm for firms listed at the NSE.

1.4 Value of the Study

It was anticipated that the findings of the study would be important to managers. Managers have to decide whether to pay dividend or not and if they decide to pay dividend for that year, they will face a further question of how much they should pay for that year. This study will therefore help managers in dividend payout decision which has remained unresolved by the previous studies.

As the owners of the firm, shareholders would benefit from the study as it would help them to understand the dividend payout decisions adapted by their respective firms. This study will enable share holders understand the relationship between dividend payout decisions and their wealth (firm's value).

Researchers and academicians will also benefit from the study as the past studies have not been able to solve this dividend puzzle. The study would therefore contribute to the existing knowledge and act as a reference point for future research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter is divided into three sections. The first section covers an overview of dividends and dividend policy, the second section covers the theories and the third section covers the empirical studies.

2.2 Definition of Dividends and Dividend Policy

According to Ajanthan (2013) a dividend is basically the benefit of shareholders in return for their risk and investment and is determined by different factors in an organization. Basically, these factors include financing limitations, investment chances and choices, firm size, pressure from shareholders and regulatory regimes. Dividend policies are the regulations and guidelines that firms develop and implement as means of splitting their earnings between distributing to their shareholders and the retained earnings. Because dividend policy may affect such areas as the finance structure, the flow of liquid funds, corporate liquidity, stock prices and investor satisfaction, it is clearly an important aspect of financial management. Ideally there are four main dividend policies as follows: -

2.2.1 Constant Payout Ratio

This is where the firm will pay a fixed dividend rate e.g. 40% of earnings. The DPS would therefore fluctuate as the earnings per share changes. Dividends are directly

dependent on the firm's earnings ability and if no profits are made no dividend is paid. This policy creates uncertainty to ordinary shareholders especially who rely on dividend income and they might demand a higher required rate of return (Ndeda, 2013)

2.2.2 Constant Amount Per Share

According to Ndeda (2013) the DPS is fixed in amount irrespective of the earnings level. This creates certainty and is therefore preferred by shareholders who have a high reliance on dividend income. It protects the firm from periods of low earnings by fixing DPS at a low level. This policy treats all shareholders like preferred shareholders by giving a fixed return. The DPS could be increased to a higher level if earnings appear relatively permanent and sustainable.

2.2.3 Constant DPS plus Extra/Surplus

Under this policy a constant DPS is paid every year. However extra dividends are paid in years of super normal earnings. It gives the firm flexibility to increase dividends when earnings are high and the shareholders are given a chance to participate in super normal earnings. The extra dividend is given in such a way that it is not perceived as a commitment by the firm to continue the extra dividend in the future. It is applied by the firms whose earnings are highly volatile e.g. agricultural sector (Ndeda, 2013).

2.2.4 Residual Dividend Policy

Under this policy dividend is paid out of earnings left over after investment decisions have been financed. Dividend will only be paid if there are no profitable investment

opportunities available. The policy is consistent with shareholders wealth maximization objective (Ndeda, 2013).

2.3 Determinants of Dividend Payout Ratios

Among factors that may be instrumental in affecting the dividend payout decision include the followings:

2.3.1 Access to Capital Markets

Large, well established firms have access to capital markets hence can get funds easily. They pay high dividends thus, unlike small firms which pay low dividends (high retention) due to limited borrowing capacity (Waswa, 2013).

2.3.2 Liquidity

The firm's liquidity refers to its ability to meet its current obligations as and when they fall due. The more current assets a firm has, the more liquid it is. Liquidity position is an important determinant of dividend payouts. Firms with more liquidity are likely to pay dividends as compared to the firms that have liquidity problems. Payments of dividend depend more on cash flows which reflect the company's ability to pay dividends. A poor liquidity position means less dividends due to shortage of cash (Waswa, 2013).

2.3.3 Growth Opportunities

The higher the growth opportunities, the more the need for funds to finance expansion, and the more likely the firm is to retain earnings than pay them as dividends. Firms tend to use internal funding sources to finance investment projects if it had large growth

opportunities and large investment projects. Such a firm chooses to cut, or pay fewer dividends, to reduce its dependence on costly external financing. Firms with slow growth and fewer investment opportunities pay higher dividends to prevent managers from over-investing company cash. As such, a dividend here would play an incentive role, by removing resources from the firm and decreasing the agency costs of free cash flows (Waswa, 2013).

2.3.4 Profitability

Firms with more stable earnings will payout a higher proportion of its earnings as dividends than a firm with variable earnings. A company's capacity to pay dividend will be determined primarily by its ability to generate adequate and stable profits. Low profits will result to a low payout ratio or none (Waswa, 2013).

2.3.5 Leverage

A highly levered firm is expected to return more to strengthen its equity base. Highly levered firms have more debt and interest obligations to meet thus they have a high probability of paying a low dividend payout ratio. According to Waswa (2013), highly leveraged firms pay a low payout ratio because they are monitored by debt holders who reduce management capability of paying dividends. He also suggested that levered firms can substitute the dividend payout ratio in reducing the agency costs.

2.4 Theoretical Literature Review.

The theories in this study are; dividend irrelevance theory, signaling theory and the bird in hand theory.

2.4.1 Dividend Irrelevance Theory.

This was founded by Miller and Modigliani (1961) when they published a theoretical paper showing the irrelevance of dividend policy in a world without taxes, transaction costs or market imperfections. The payout decision is irrelevant because it neither creates nor destroys value for shareholders. If the investment decision is held constant, higher dividends result in lower capital gains, leaving the total wealth of shareholders unchanged. They stated that because investors do not need dividends to convert their shares into cash they will not pay higher prices for firms with high dividend payout. In other words payout policy will have no impact on the value of the firm.

They believe that firm's value is dependent on the income produced from its assets rather than from the income distribution between dividends and retained earnings. They showed that investors can affect the return on their shares regardless of the share's dividend. For example, if an investor expects low dividend payout, he/ she could buy more shares from the dividends received above his/ her expectation. Conversely, if the investor expects the company to have a high dividend payout, the investor could sell some of the company's shares to compensate for the shortage in cash he/ she expects to receive. Consequently, dividend is irrelevant to investors, since they can formulate their own.

However in real world situations there are market imperfections such as taxation effects, transaction costs, asymmetric information and agency cost. Therefore, in Miller and Modigliani's world, dividends are irrelevant. They argued that regardless of how the firm distributes its income, its value is determined by its basic earning power and its

investment decisions. Lintner,(1956) has shown that a firm's dividend policy might impact on the value of the firm.

2.4.2 Signalling Theory.

According to the signalling theory, corporate management may use dividends payout to signal information to the markets to value their firms. Lintner (1956) indicated that dividends provide a signalling device and the market uses dividend announcements to value firm's share. In fact, investors might not pay attention to dividends in particular, they, however, might look at changes in a company's dividend policy. Investors consider changes in dividends payout as signals of company's prospects. In case management increased dividend payout, it is viewed as good news and the stock market reacts positively. Whereas, reduction in dividend payout signals bad news, the stock market might react negatively. Hence, changes in dividend payout signal information about the company's prospects.

Respondents to a survey conducted by Lintner (1956) strongly agreed that dividends provide a signalling device and the market uses dividend announcements to value firm shares. Miller and Rock (1985) suggest that corporate dividend policy is designed to signal earnings prospects to investors. Myers and Bacon (2004) referred to the importance of dividend cash flow as a signaling device to shareholders. It was also evident in their sample that even with high growth the firm is willing to increase debt to fund increasing dividends. The firms covered in Myers and Bacon (2004) sample desire to "put their money where their mouth is" by sending a strong positive signal to institutional owners to enhance reputation and maintain access to capital. In Baker et al

(2007) survey, he reported signalling as one of the important factors that affect dividend policy employed by Canadian managers.

2.4.3 Bird-in-Hand Theory

The main thrust of the bird in hand theory is that investors care about dividends and tend to invest in dividend shares. The fact that a company is paying dividends means that the company is making money. Whereas reporting profits means that the company is telling the investors that it is making money, investors prefer dividends received as cash in their hands over the hope of future profits. Future earnings are less predictable and uncertain. Shares with dividends are less risky than shares without dividends. This will motivate the investors to invest more; hence, boosting share prices. In this respect, Lintner (1956) and Gordon (1959) revealed that stockholders prefer current dividends and this causes a positive relationship between dividends and market value. After all, who guarantees that future earnings are attainable?

Lintner, (1956) and Gordon, (1959) demonstrated that due to uncertainty, investors prefer to receive dividends today rather than receiving dividends in the future. Preference for current dividends results in a positive relationship between dividend payout and firm's market value. In all cases, Baker, (2007) showed that the Canadian managers in their study exert little support to the bird- in- hand- theory.

2.5 Empirical Evidence.

This chapter presents some of the international and local empirical studies that have been carried out.

2.5.1 International Empirical Studies

Black and Scholes (1974) classified all common stocks on the NYSE into 25 portfolios (for every year between 1931 and 1966) on the basis of both dividend yield and risk by breaking down the stocks by dividend yield into five different groups ranging from highest to lowest, and further dividing each of these groups into five risk classifications. The result was 25 different portfolios of securities with widely different risks and yields. The procedure was repeated for each of the 35 years tested in order to capture changes in risk and yield. This enabled Black and Scholes to hold the risk of securities constant while permitting only dividend yield to vary. At the same time while holding risk constant within individual portfolios, it also allowed them to test whether the dividend yield had a different effect on stocks at different levels of risk. Applying regression model (which attempts to quantify the relationships(s) between two or more variables being dividend yields, betas and stock returns) Black and Scholes found that the effect of dividend yield was not reliably different from zero, whether over the entire period 1936-1966, or in any of the shorter sub – periods tested. The five diversified portfolios each having the same risk and different dividend yields did not reveal any significant connection between dividends and stock returns suggesting that there is no clean cut relationships between dividends and stock prices.

Bernhardt, Douglas and Robertson (2005) carried out a research aimed at distinguishing the hypothesis that dividends are used as a signaling device from the hypothesis that dividends contain information. The study was between 1962 and 1996. The sample size was all the firms that were listed on the NYSE that make regular quarterly cash dividends

and have a complete set of price, distribution and return information at the declaration date of each dividend. Data was obtained from the Center for Research in Security Analysis. They used non parametric tests. Their findings indicate that the information content in dividend is not positively related to the marginal cost of dividends in the manner implied by the dividends signaling theory. The excess return as predicted by signaling models is more strongly related to the tax regime. This empirical evidence does not support the signaling theory.

Amidu and Abor (2006) investigated the relationship between a number of company selected factors and the dividend payout ratio in Ghana. The sample consists of companies that have been listed on Ghana stock exchange during 1998-2003 and even though the sample just consists of 20 companies, they represent 76 percent of all listed firms in Ghana during the time period. The factors included in the research are profit (EBIT/total assets), risk (variability in profit), cash flow, tax (corporate profit/net profit), institutional holding, growth (in sales) and market to book value. Amidu and Abor (2006) found a positive correlation between the companies' dividend payout ratios and profitability and cash flow. A positive correlation was also established between dividends and taxes. The authors state that the result came as a surprise and it contradicts existing literature. A negative correlation between dividends and growth (in sales) and market to book value was revealed. There also existed a negative but insignificant relationship between the dividend payout ratio and risk and institutional holdings.

Mvita et al (2013) carried out a study on the impact of dividend payments on shareholders' wealth while considering the short- and long-run effects. This study was based on a sample of 46 companies listed on the Johannesburg Securities Exchange (JSE) for the period 1995 to 2010. The Vector Error Correction Model (VECM) was used to describe the short-run and long-run dynamics or the adjustment of the co-integrated variables toward their equilibrium values. Results indicate that in the long run, dividend yield is positively related to market price per share, while earnings per share do not have a significant impact on the market price per share.

Ozuomba et al (2013) sought to establish shareholder's value and firm's dividend policy using survey design. The study population of the study was all 216 public quoted companies in Nigeria with a selection of 10 companies using the quota random sampling technique. These companies were studied over a 12 years period; 2000-2011. Factors used as explanatory variables for the dividend payout by firms and dividend yield are; dependent variable DPS, independent variables EPS and MPS. Multiple regression analyses were used to carry out this research work. The findings of this paper showed that earnings per share and market price per share (dividend policies) has an effect on dividend per share (shareholders wealth) given the very high correlation result of 0.9 gotten from the stock market report analyses.

2.5.2 Local Empirical Studies

Bitok, (2004) carried out to establish the effect of the dividend policy on the value of the firm quoted at the NSE. The population of interest consisted of all firms quoted at NSE. The sample consisted of all the firms quoted at NSE for a period of six years from 1998 –

2003. The study used secondary data in achieving its objective. The technique used in analyzing the data was regression and trend analysis. The results of the study showed that on average there was a significant relationship between the dividend payout ratio to the value of the firm

Aduda and Chemarun (2010) examined the effect of stock splits at the NSE by studying nine companies that had undergone stock splits between year 2002 and 2008. They used trade activity ratio to determine whether stock splits elicited any reaction in the Kenyan market. 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. Abnormal returns were calculated by use of the market model and t-tests were conducted to test the significance. The study found out that the Kenyan market reacted positively to stock splits as shown by a general increase in volume of shares traded around the stock split. There was also increase in trading activity after the stock split as compared to before the stock split.

Gitau (2011) examined the relationship between dividend payments and share prices of companies quoted at the NSE. The study used causal research design. A sample of 17 companies from a population of 56 companies was selected of all the firms quoted consistently at the NSE for a period of 5 years from 2006-2010. Using a simple linear regression and correlation analysis, it was established that there was a positive weak relationship between dividend payout ratio and share prices.

Kiemo (2011) sought to establish the relationship between dividend policy and value of the firms quoted at NSE. The population and sample of the study consisted of all the 46 quoted firms at NSE at that time. The study adopted a cross sectional research design and a census survey was done thereby eliminating the need for sampling. The study period was 5 years (2005-2009) and used secondary data from CMA and NSE. The technique used in analyzing the data was regression analysis and the results indicated that there was a positive relationship between the dividend policy and the value of the firm.

Bunyasi (2012) sought to establish the effect of dividend policy on the market value of shares of public companies quoted at the Nairobi Stock Exchange. This involved finding out whether payment or nonpayment of dividends affects the value of a firm as measured by the market share prices. The population of study consisted of the 48 companies quoted at the N.S.E. The study also looked at the factors that determine dividend payment.

The study period was the years 1997 - 2005. In order to study the impact of dividend announcement on market value of shares, two measures were used, (i) daily market-adjusted abnormal return (MAAR) and (ii) daily cumulative abnormal return (CAR). MAAR indicates the relative daily percentage price change in the dividend paying stocks compared to the change in average market price. On the other hand, CAR was used to measure the investors' total return over a period starting from 30 days well before the announcement of dividend to 30 days well after the dividend announcement day. The NSE 20-share price index was used as the proxy of average market price. The findings reported that the average market adjusted abnormal return (MAAR) on the day of

dividend announcement (day $t=0$) had significantly improved as compared to the values obtained 30 days before the day of announcement.

Mokaya et al (2013) sought to determine the effects of dividend policy on the market share value in the banking industry in Kenya, using National Bank Kenya (NBK) as case for the study. The study applied an explanatory research design covering a proportionate sample of 100 shareholders drawn from a target population of 47,000 shareholders of National Bank of Kenya. Data was collected using a structured questionnaire. Both descriptive and inferential statistics were used to analyze data. The hypotheses were tested by use of Pearson's Moment Correlation. The study established a strong and positive correlation (0.850) between dividend payout and market share value, with a P-value of 0.000. There was a positive correlation (0.299) between dividend growth rate and market value of shares with a p-value of 0.013; hence establishing a significant relationship between variables. There was a positive correlation (0.502) between regularity of dividend declaration and market share value with a P value of 0.000. The conclusion was that dividend policy had a significant effect on the market share value.

2.6 Summary and Conclusion

The theories covered either view dividend policy as either irrelevant or relevant to the value of the firm. Modigliani and Miller (1961) in their dividend irrelevance theory contend that dividends policy has no effect on corporate value. They believe that firm's value is dependent on the income produced from its assets rather than from the income distribution between dividends and retained earnings. On the other hand the signaling

theory and the bird in hand theory view dividend policy as relevant to the value of the firm.

The studies carried out by Black and Scholes (1974) are in line with the propositions of Modigliani and Miller (1961) but Mvita et al (2013), Ozoumba et al (2013), Mokaya et al (2013), Gitau (2011) and Bitok (2004) are in agreement that dividend policy affects the value of the firm. In addition, the degree to which dividend policy affects firm value differs among the studies reviewed. Both Bitok (2004) and Gitau (2011) reported a weak positive relationship between dividend payout ratio and the value of the firm. On the other hand Ozoumba et al (2013) found a very strong positive relationship between dividend policy and the value of the firm.

From the reviewed literature it is clear that there has never been a universal agreement about the relationship between dividend policy and the value of the firm. The above studies carried in different stock markets contradict each other. It is therefore the difference in findings of the previous studies that necessitated the need for this study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter gives a description of the research methodology that was employed in achieving the objective of this study. The chapter presents the research design, population and sample, data collection, data analysis and the model specification.

3.2 Research Design.

The researcher used descriptive research design. According to Kothari (2004) descriptive research studies are concerned with specific predictions, with narration of facts and characteristics concerning situation which fits well with this study. Data was obtained from financial statements of companies listed in the Nairobi Securities Exchange. The study period of interest was a six year period that is, from 2008 to 2013.

3.3 Population

The population of interest for this study was all the firms listed on the Nairobi Securities Exchange. In Kenya, there are currently sixty one companies listed in the Nairobi Securities Exchange, which is the only stock exchange firm in the country. The NSE has classified these companies into eleven sectors. These are; agricultural, commercial and services, telecommunication and technology, automobiles and accessories, banking, insurance, investment, manufacturing and allied, construction and allied, energy and petroleum, growth enterprise market segment,(NSE,2014). Listed companies were

preferred over non listed companies because financial statements of listed companies are readily available at NSE unlike the non listed companies.

3.4 Sample and Sampling Technique

The study employed the random sampling technique where three firms were randomly chosen from each sector of NSE .Therefore, the sample of the study was 29 firms listed at NSE.

3.5 Data Collection.

The study used secondary data on firms listed on the Nairobi Securities Exchange. The secondary data was collected from published reports of firms listed on the Nairobi Securities Exchange. This information was readily available at the Nairobi Securities Exchange. It is from this data where information was extracted to compute the relevant ratios required in the study.

3.6 Data Analysis

Data was analyzed using quantitative approaches notably descriptive statistics and regression analysis. Descriptive statistics was used to compare variables numerically. Correlation analysis was also performed to determine the relationship of payout ratio and the value of firms listed on the Nairobi Securities Exchange.

3.6.1 Model Specification

The aim of the study was to establish the relationship between dividend of payout ratio and the value of the firms listed at the Nairobi Securities Exchange. The following regression model was used

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e$$

Where:

Y -value of the firm which is the dependent variable

a refers to the intercept of the regression equation which represents the value of the firm when no dividends are paid

X1 refers to dividend payout ratio

X2 refers to profitability

X3 refers to liquidity

X4 refers to growth opportunity.

e is the error term which captures the unexplained variations in the model.

b1...b4 are regression coefficients of the respective independent variables

The regression coefficients b1...b4 were used to measure the sensitivity of the dependent variable (Y) to unit change in the predictor variables.

Value of the firm(Y) was measured by Tobin's q ratio calculated by dividing the sum of market value of owner equity and the book value of total liabilities to the book value of total assets.

Dividend payout ratio was obtained from the division of dividend per share to earnings per share

Profitability of the firm was measured by return on equity obtained from the division of net profit to total equity.

Liquidity of the firm was measured by the current ratio obtained from the division of current assets to current liabilities

Growth opportunity of the firm was measured by price earnings ratio which is obtained from the division of market price per share to earnings per share.

3.6.2. Test of Significance

Regression analysis was expected to yield correlation coefficient of determination and analysis of variance. Correlation coefficient(r) was used to measure the degree of relationship between dividend payout ratio and the value of firms quoted at the NSE. The coefficient of determination (r^2) measured the percentage of variations in firm value that is explained by the regression of firm value on dividend payout ratio. Analysis of variance was conducted at a 95% confidence level.

CHAPTER FOUR

DATA ANALYSIS

4.1 Introduction

This chapter presents the data analysis, results, interpretation, and discussion of the research findings. To achieve the objective of the study, Microsoft excel statistical software was used to analyze the data. The study aimed to determine the relationship between dividend payout ratio and the value of the firm for companies listed at the Nairobi Securities Exchange within the study period of year 2008-2013.

4.1.1 A Trend Analysis of Value of the Firms

Figure 4.1: Value of the Firms.

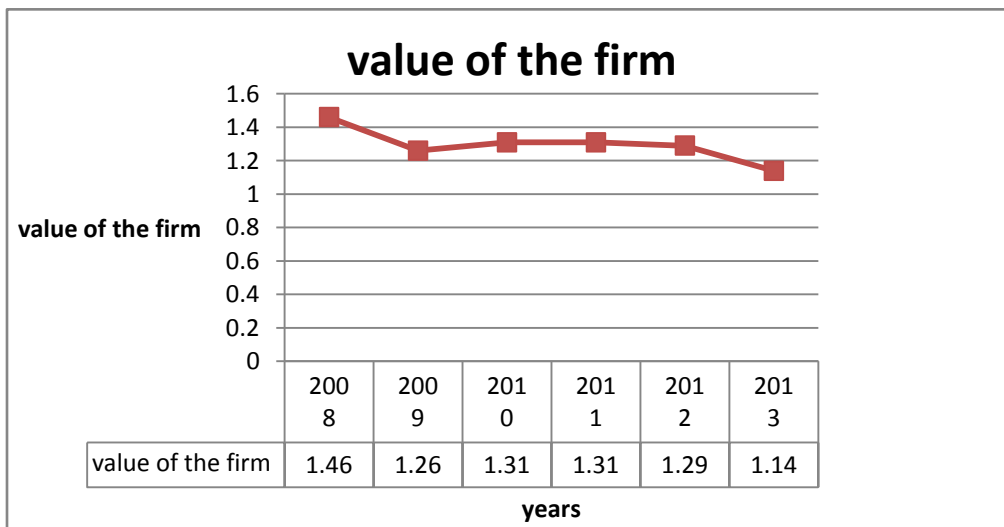


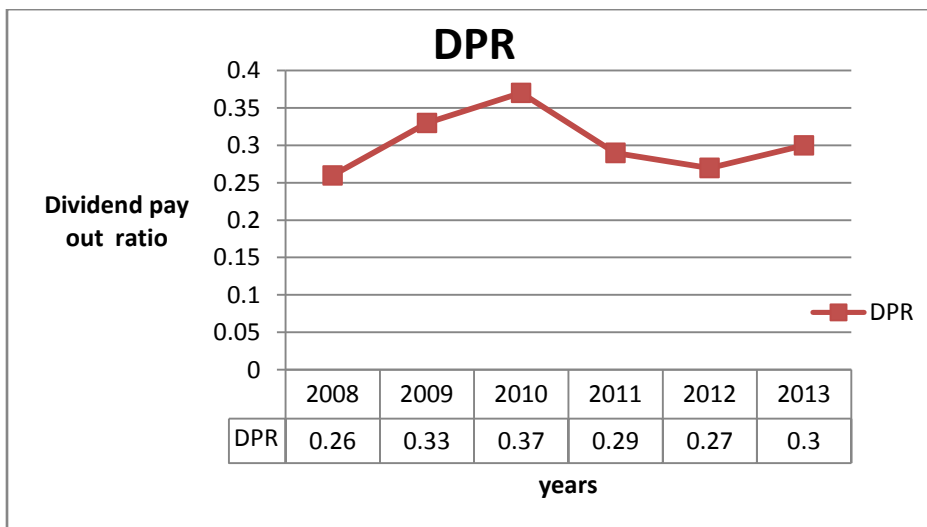
Figure 4.1 above show that the value of the firms decreased from 1.46 in year 2008 to 1.26 in year 2009. An increase in firm's value was established between 2010 and 2011. However the value of the firms decreases drastically from 1.31 in 2011 to 1.29 in 2012

and further to 1.14 in year 2013. This could be due to political underpinnings witnessed in 2013 which drove investors away.

4.1.2 A Trend Analysis for Dividend Payout Ratio

Figure 4.2 shows an increase in dividend payment from 2008 to 2010. This may be as a result of increase in profitability of the firms. From 2011 to 2012, there was a decrease in dividend payment. However, there a slight increase was reported in year 2013.

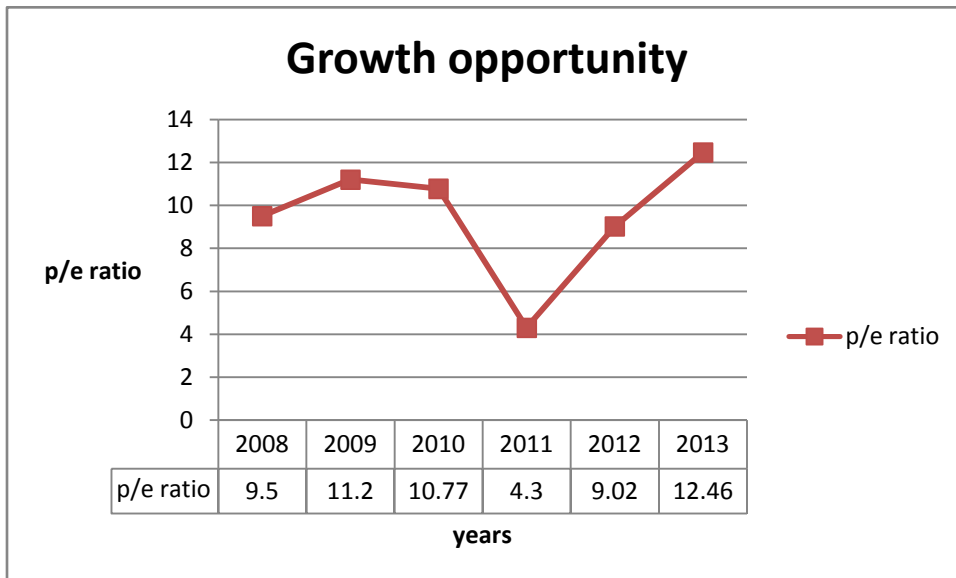
Figure 4.2: Dividend Payout ratio



4.1.3 A Trend Analysis for Growth Opportunity

Results in Figure 4.3 indicate that growth opportunity of the firms increased in year 2009 to 11.2 from 9.5 in year 2008. This was followed by a decline in years 2010 and 2011. In years 2012 and 2013 there was an increase in P/E ratio. The rise in growth opportunity of the firm implies that listed firms may have been investing heavily in years 2012 and 2013.

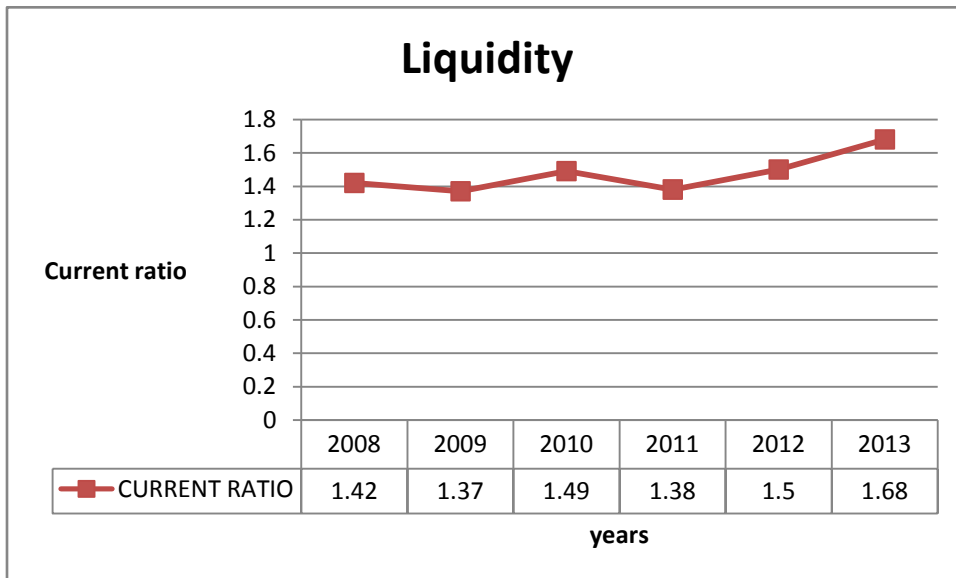
Figure 4.3: Growth Opportunity



4.1.4 A Trend Analysis for Liquidity

Figure 4.4 indicated that the trend analysis for liquidity in the listed companies in Kenya shows that liquidity decreased slightly in year 2009 but increased again in 2010. This was followed by a slight decrease in year 2011 but the firms registered an increase in profitability in years 2012 and 2013. The rise in the liquidity may have been brought about by an increase in cash flows. The results showed that the companies in years 2012 to 2013 did not fall into financial difficulties as they had enough liquidity to manage their short term and long term obligations.

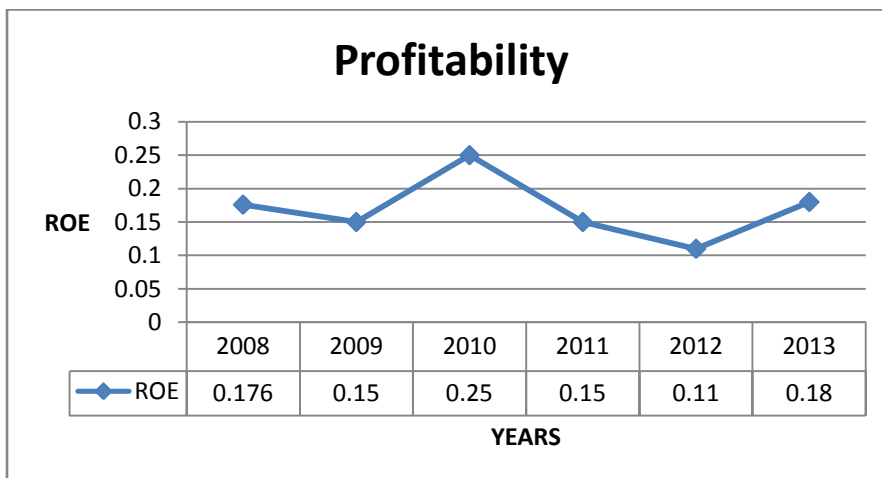
Figure 4.4: Liquidity



4.1.4 A Trend Analysis for Profitability

Figure 4.4 below shows profitability trend from 2008 to 2013. There was a gradual increase in profitability from 2008 to 2013. This indicates that the firms under study registered positive return on equity thought the period of the study.

Figure 4.4: Profitability



4.2 Descriptive Statistics

Table 4.1 gives a descriptive statistics of the eleven sectors of the Nairobi Securities Exchange. The summary statistics considered are mean, standard deviation, minimum and maximum. The mean Tobin Q for the eleven firms is 1.4 with a standard deviation 0.4. This implies that market value for the firms is higher than total asset value an indication that the firms may be overvalued. Dividend payout ratio for the eleven sectors of the firms recorded a mean of 0.39 with standard deviation of 0.063. Net profit to equity had a mean of 0.26 with standard deviation of 0.24 which implies that on the average, the eleven sectors registered profitability. Liquidity recorded a mean of 1.66 with standard deviation of 1.51. This implies that current assets were higher than the current liability. The P/E ratio for the eleven sectors registered a mean of 11.99 with standard deviation of 0.89.

Table 4.1: Descriptive Statistics

SECTOR	TBQ	DPR	CURRENT RATIO	ROE	P/E
Agriculture	0.76	0.15	2.76	0.34	9.8
Automobiles	0.92	0.16	1.15	0.12	11.13
Banking	0.98	0.18	1.2	0.16	10.66
Commercial	1.88	0.31	1.28	0.2	15.67
Construction	1.69	0.4	1.5	0.58	13.4
Energy	2	0.27	1.3	0.082	15.7
Investment	0.99	0.19	1.38	0.1	12.41

SECTOR	TBQ	DPR	Current Ratio	ROE	P/E
Manufacturing	0.96	0.25	1.38	0.29	9.36
Telecommunication	2.76	0.26	1.28	0.27	11.49
Insurance	1.05	1.88	2.65	0.28	10.07
Growth Enterprise	1.49	0.238	1.7	0.49	11.8
Mean	1.4	0.39	1.66	0.26	11.99
Min	0.76	0.15	1.15	0.1	9.36
Max	2.76	1.88	2.76	0.58	15.67
Std Deviation	0.4	0.063	1.51	0.24	0.89

4.3 Sectorial Analysis

Table 4.2 below gives a summary of the coefficient of determinants for the eleven sectors. The result indicates that 78.1% of the variation in the value of the agriculture sector is attributed to the changes in the independent variables. Automobile and accessories had R square of 45.8% indicating that 45.8% of the changes in the value of automobile and accessories is as a result of the changes in the explanatory variables. Banking sector registered an R square of 83.5% implying that 83.5% of the changes in banking sector are as a result of the changes in the explanatory variables. A combined mean of R square was recorded as 0.726 implying that 72.6% of the variation in the value for the eleven sectors is attributed to the changes in the explanatory variables.

Table 4.2: Model Summary by Sector

Sector	R-Square	Adjusted R Square	Std. Error
Agricultural sector	0.781	0.697	0.378
Automobile and accessories	0.458	0.427	0.211
Banking sector	0.835	0.803	0.508
Commercial and services	0.736	0.723	0.4348
Construction and allied	0.568	0.537	0.348
Energy and Petroleum	0.647	0.615	0.524
Investments	0.533	0.449	0.248
Manufacturing	0.727	0.683	0.307
Telecommunication	0.251	0.249	0.118
Insurance	0.598	0.536	0.209
Growth enterprise segment	0.753	0.702	0.545
	R square	Adjusted R square	Std error
Mean	0.726	0.6737	

Table 4.3: Correlation Matrix

	TBQ	DPR	LQD	ROE	P/E
TBQ	1				
DPR	0.631812	1			
LQD	0.0152	0.05106	1		
ROE	0.512645	0.277747	0.04129	1	
P/E	0.674755	0.419347	0.29511	0.237693	1

Correlation coefficient was also used to determine the relationship between the variables. Each variable is perfectly correlated with itself as indicated by the coefficient of 1. Dividend payout ratio has a positive correlation with the value of the firm ($R=0.631$). Return on equity has a positive correlation with value of the firm ($R=0.5126$), liquidity is positively correlated with the value of the firm ($R=0.0152$) and growth opportunity is positively related with the firms value ($R=0.67476$). With a correlation coefficient of 0.0152 between value of the firm and liquidity it means there is very little relationship between the two variables. Growth opportunity and dividend payout ratio are closely related to the value of the firm compared to profitability

Analysis of variance (ANOVA) on Table 4.4 shows that the combined effect of dividend payout ratio, current ratio, liquidity and growth opportunity was statistically significant in explaining changes in value of the firm of listed company in Kenya. This is demonstrated by a p-value of 0.002 which is less than the acceptance critical value of 0.05. This further implies that the overall model was significant.

Table 4.4: Analysis of Variance (ANOVA)

ANOVA

	Df	SS	MS	F	Significance F
Regression	4	0.401221	0.100	8.70246	0.002
Residual	24	0.311731	0.165992		
Total	28	0.712952			

In order to establish the statistical significance of the independent variables on the dependent variable (value of the firm) regression analysis was employed. The study established R^2 of 0.7129. R^2 of 0.7129 indicates that 71.29% of the variation in value of the firm is attributed to changes in the explanatory variables for firms listed in Kenya.

<i>Regression Statistics</i>	
Multiple R	0.844365108
R Square	0.712952436
Adjusted R Square	0.665111176
Standard Error	0.40742076
Observations	29

Multiple regression analysis was used to determine the significance of the relationship between the dependent variable and all the independent variables pooled together. The results are given in the model summary below.

Table 4.5: Regression coefficients

Variables	<i>Standard</i>			
	<i>Coefficients</i>	<i>Error</i>	<i>t Stat</i>	<i>P-value</i>
Constant	0.16556285	0.296624	0.558157	0.0081907
Average DPR	1.933297087	0.642299	3.009962	0.006061
Average current ratio	0.021789493	0.016468	1.41385	0.240120
Average ROE	1.072015829	0.399686	2.682148	0.013029
Average P/E	0.054091584	0.017406	3.107667	0.004798

From the regression result, the estimated model is given below:

$$TBQ = 0.166 + 1.933DPR + 0.022LQD + 1.072ROE + 0.054P/E$$

The results reveal that dividend payout ratio, profitability and growth opportunity are statistically significant in explaining value of the firm for listed companies in Kenya. Liquidity of the firm was insignificant in explaining the value of the firm with a p-value of 0.24. A unit increase in dividend payment ratio will lead to 1.933 units increase in firm's value. Profitability (ROE) is statistically significant in explaining the variation in the firm's value. A unit increase in profitability will lead to 1.072 units increase in firm's

value while a unit increase in liquidity will lead to 0.022 units increase in firm's value and a unit increase in growth opportunity will lead to 0.054 units increase in firm's value for firms listed in Kenya.

CHAPTER FIVE

SUMMARY, CONCLUSION, RECOMMENDATION, LIMITATIONS AND SUGGESTIONS FOR FURTHER RESEARCH.

5.0 Introduction

This chapter presents a summary and conclusion of the results of the previous chapter, limitations encountered during the study. This chapter also elucidates the policy recommendations that policy makers can implement to achieve a high firm value. Lastly the chapter presents suggestions for further research which can be useful to future researchers.

5.1 Summary of the Findings and Conclusions

The objective of the study was to establish the relationship between dividend payout ratio and the value of the firm for firms listed at NSE Previous researches on this study found a positive relationship between dividend policy and the value of the firm. They include Bitok(2004), Gitau(2011),Kiemo(2011) who found a weak positive relationship between dividend payout ratio and firms value. These studies were all done at the NSE where they reported a R square of 0.33, 0.401 and 0.451 respectively.

This study is in line with the previous studies having established that dividend payout has a positive influence on the value of the firm for companies listed at NSE. R^2 of 0.7129 was obtained which indicates that 71.92% of the variation in value of the firm is attributed to changes in the explanatory variables which are dividend payout ratio, current ratio, return on equity and price earnings ratio. Except liquidity which had a p-value of

0.24, the other variables (dividend payout ratio, growth opportunity, and profitability) had a significant impact on the value of the firm since their P value was less than 0.05.

It was also established that dividend payout ratio has a positive correlation with the value of the firm ($R=0.631$). Return on equity has a positive correlation with value of the firm ($R=0.5126$), liquidity is positively correlated with the value of the firm ($R=0.0152$) and growth opportunity is positively related with the firm's value ($R=0.67476$). With a correlation coefficient of 0.0152 between value of the firm and liquidity it means there is very little relationship between the two variables. Growth opportunity and dividend payout ratio were found to be more closely related to the value of the firm than to profitability.

According to the research findings it was established that the eleven sectors in the NSE recorded a varying R square. Firms in the agricultural sector indicated that 78.1% of the variation in the value of the agriculture sector is attributed to the changes in the independent variables. Automobile and accessories had R square of 45.8% indicating that 45.8% of the changes in the value of automobile and accessories is as a result of the changes in the explanatory variables. Banking sector registered an R square of 83.5% implying that 83.5% of the changes in banking sector are as a result of the changes in the explanatory variables. A combined mean of R square was recorded as 0.726 implying that 72.6% of the variation in the value for the eleven sectors is attributed to the changes in the explanatory variables.

This study therefore contradicts the Modigliani and Miller (1961) dividend irrelevance theory. Therefore it matters how net earnings are divided between dividend payments to

shareholders and retention. Gordon and Linter in their bird in hand theory of 1962 argue that dividend policy is not passive residue determined by the firm's need for investment funds. Therefore dividend policy adopted by a certain firm has an effect on its value. This means that an optimal dividend policy exists.

5.2 Recommendations.

Dividend policy has an effect on the value of the firms quoted at NSE thus companies should pay dividends to maintain a high value. This is consistent with the dividend theories of the bird in hand theory and signaling theory. According to these theories dividend policy is relevant to the value of the firm contrary to the dividend irrelevance theory which argue that dividend policy has no impact on the value of the firm. Miller and Modigliani (1961) believe that firm's value is dependent on the income produced from its assets rather than from the income distribution between dividends and retained earnings.

Despite paying dividends consistently and having a clear dividend policy, the management should also consider other factors such as liquidity, growth opportunities, current ratio etc since they have an impact on the value of the firm.

5.3 Limitations of the Study

The study only covered the listed firms at NSE, therefore unquoted firms were not considered in this study despite the generalization of the findings to all the industries.

The study only used a sample of 29 companies randomly selected from the eleven sectors of the NSE which was small to make generalization across all the firms in Kenya.

Time and finance were also other limiting factors. It was highly time consuming to get the financial statements of the sampled firms and the time allocated for the research project was limited.

The other limitation is that the data was obtained from financial statements published by the companies and the NSE. This data may suffer from window dressing or creative accounting to please share holders of the respective firms.

5.4 Suggestions for Further Research

First, this study focused on 29 listed companies in the Nairobi Securities Exchange. It is therefore, recommended that a narrow based study covering a specific segment or company be done to find out the relationship between dividend payout ratio and the value of the firm.

A further research should be done on the entire 61 companies quoted at the NSE to find if similar results will be obtained.

Due to the shortcomings of regression models, other models such as the Vector Error Correction Model (VECM) can be used to explain the various relationships between the variables.

The unquoted firms should also be incorporated in future researches to determine whether similar results will yield

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APPENDICES.

APPENDIX 1: LETTER OF INTRODUCTION.

Dear sir/madam,

RE: RESEARCH INFORMATION.

I am a MBA (finance) student at the department of finance and accounting ,University of Nairobi. As part of the course, am undertaking a research project that seeks to establish the relationship between dividend payout ratio and the value of the firm for firms listed on NSE.

I therefore request for access to all the relevant information concerning this research. The information is solely for academic purposes.

Yours faithfully,

Sylvester Ndeto

APPENDIX 2: LIST OF COMPANIES ON THE NAIROBI SECURITIES EXCHANGE.

Agricultural Sector

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

Commercial and Services

8. Express Ltd
9. Kenya Airways Ltd
10. Nation Media Group
11. Standard Group Ltd
12. TPS Eastern Africa (Serena) Ltd .
13. Scangroup Ltd .
14. Uchumi Supermarket Ltd .
15. Hutchings Biemer Ltd .
16. Longhorn Kenya Ltd

Telecommunication and Technology

17. Safaricom Ltd

Automobile and Accessories

18. Car and General (K) Ltd .

19. CMC Holdings Ltd

20. Sameer Africa Ltd

21. Marshalls (E.A.) Ltd

Banking

22. Barclays Bank Ltd

23. CFC Stanbic Holdings Ltd

24. I&M Holdings Ltd .

25. Diamond Trust Bank Kenya Ltd .

26. Housing Finance Co Ltd .

27. Kenya Commercial Bank Ltd.

28. National Bank of Kenya Ltd .

29. NIC Bank Ltd .

30. Standard Chartered Bank Ltd

31. Equity Bank Ltd .

32. The Co-operative Bank of Kenya Ltd.

Insurance

33. Jubilee Holdings Ltd

34. Pan Africa Insurance Holdings Ltd
35. Kenya Re-Insurance Corporation Ltd.
36. Liberty Kenya Holdings Ltd
37. British-American Investments Company (Kenya) Ltd
38. Cic Insurance Group Ltd.

Investment

39. Olympia Capital Holdings ltd
40. Centum Investment Co Ltd.
41. Trans-Century Ltd

Manufacturing and Allied

42. B.O.C Kenya Ltd.
43. British American Tobacco Kenya Ltd.
44. Carbacid Investments Ltd.
45. East African Breweries Ltd.
46. Mumias Sugar Co. Ltd.
47. Unga Group Ltd.
48. Eveready East Africa Ltd.
49. Kenya Orchards Ltd.
50. A.Baumann Co Ltd.

Construction and Allied

- 51. Athi River Mining
- 52. Bamburi Cement Ltd
- 53. Crown Berger Ltd.
- 54. E.A.Cables Ltd.
- 55. E.A.Portland Cement Ltd

Energy and Petroleum

- 56. KenolKobil Ltd.
- 57. Total Kenya Ltd.
- 58. KenGen Ltd.
- 59. Kenya Power & Lighting Co Ltd
- 60. Umeme Ltd.

Growth Enterprise Market Segment

- 61. Home Afrika Ltd.

Source: <http://www.nse.co.ke>.