

**THE EFFECT OF DIVIDEND POLICY ON SHARE PRICES OF
COMPANIES LISTED AT THE NAIROBI SECURITIES
EXCHANGE**

BY

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D61/79112/2012

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

NOVEMBER, 2014

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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ACKNOWLEDGEMENT

God thanks for helping me achieve this dream. It is through your mercy that I have seen the end of this course. Thanks for the good health, strength and grace freely granted, YOU continually gave me favours and guidance such that when I sometimes ran out of ideas, you freely gave me new ones.

I thank my supervisor Mr. Joseph Barasa for his valuable advice, guidance and commitment towards my success.

I acknowledge my family, for their moral and financial support and above all the encouragement and showing me the need for self empowerment throughout. Am so much indebted to you

I also acknowledge the support of Munyua, P.N who kept on reminding me that my future is determined by what I achieve before am 40 years of age. He made sure I paid fees in full and urged me to create time for classes. I shall never forget our late night group discussions and healthy contributions towards our class assignments which were always done through teamwork.

I acknowledge all staff of Sacred Training Institute especially Sam Omanga for total moral support and technical advice that I received from him. He availed most of his time and his input went a long way in making me what I am now. I thank Petty Lukale, Martin Wambugu, John Maina and Cheronon for all you helped, thanks for your love

DEDICATION

I dedicate this research to my Dad John Njonge, my mum Sally Njonge and siblings Edward and Felicia. It is a collective family achievement.

ABSTRACT

This study attempts to explain the effect of dividend policy on share prices of companies listed at the Nairobi Securities Exchange. A census of all the 61 listed companies from the Nairobi Securities Exchange was examined for a period of 10 years from 2004 to 2013. This study was limited to companies that were listed for the whole period of 10 years. This study was facilitated by the use of secondary data extracted from annual reports of companies obtained from the Nairobi Securities Exchange. The empirical estimation was based on regression analysis of the relationship between dividend policy and share prices for listed companies after controlling for earnings per share and debt equity ratio. The independent variables were dividend payout ratio, earnings per share and debt equity ratio. The study established a positive relationship between share prices and dividend policy. From the results we conclude that dividend policy has a significant effect on the share prices.

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LIST OF ABBREVIATIONS

CAPM - Capital Asset Pricing Model

DE – Debt – Equity Ratio

DP - Dividend Policy

DPOR - Dividend Payout Ratio

EPS - Earnings Per Share

IPO - Initial Public Offering

MM - Modigliani & Miller

MPS - Market Price per Share

NAVS - Net Assets Value per Share

NSE - Nairobi Securities Exchange

NYSE - New York Stock Exchange

REPS - Retained Earnings Per Share

US - United States

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The term 'dividend policy' refers to "the practice that management follows in making dividend payout decisions or, in other words, the size and pattern of cash distributions over time to shareholders" (Lease et al., 2000).

Dividend policy determines the division of earnings between payments to stockholders and reinvestment in the firm. Due to complex nature of the dividend decision, corporate dividend policy has been a subject of considerable study particularly since the emergence of MM's classical work (Miller and Modigliani, 1961). According to MM, given the investment decision of the company, shareholders in a perfect capital market are indifferent whether the company distributes dividend or retains earnings in the business.

Modigliani and Miller (1961) demonstrated the irrelevance of dividend policy under a set of assumptions, that is, dividend policy has no effect on stock prices. But when these assumptions are relaxed, the theory begins to collapse. This raises the question does dividend policy have any effect on the share prices of companies listed in the NSE

1.1.1 Dividend Policy

The dividend policy of companies has been a common subject of research for more than half of a century (Litner, 1959; Gordon, 1959; Modigliani, 1982; etc). The value-

relevance of dividend policy has been in the forefront of financial research since Miller and Modigliani's (1961) pioneering Work.

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.

There are four dividend policies in practice as outlined by Pandey (2010); residual dividend policy which dictates the payment of dividends in the absence of investment opportunities, constant amount per share, constant amount per share plus extra depending on profits and constant payout ratio.

1.1.2 Share 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). It is in a very broad sense that share price is considered to embody a firm's future cash flows. Share price is often thought of and evaluated in terms of cash flows, it is also known to be extremely important to managers and analysts because of the key information it conveys about future prospects (Ehrhardt, 2013).

The most common types of securities are stocks, bonds and options. Securities markets are the mechanisms that allow suppliers and demanders of funds to make transactions. They also allow transactions to be made quickly and at a fair price (Feldstein and Green, 1983).

1.1.3 Dividend Policy and Share Prices

Owning corporate stock is a popular investment activity (Gitman, 2006). All types of investors either large institutional or individual could see the new media for the report on the movements of the stock prices. Share prices are the most important indicators used by investors to invest or not to invest on a particular share. Their main objective of investing in the stock market is to maximize the expected return at low level of risk.

Dividend payment is a major component of stock return to shareholders. Dividend payment could provide a signal to the investors that the company is complying with good corporate governance practices Huka (1998). Good corporate governance practices are valuable for a company as it implying that the company is able to raise funds from capital market with attractive terms. By distributing dividend, it's able to attract investors and indirectly increase the company share price. This sort of company could easily raise funds through new share issuance for expansion which then would increase profits and increase share price.

1.1.4 Nairobi Securities Exchange

In the 1920s when Kenya was a British colony, an informal way of dealing in shares and stocks was commenced in Kenya. In 1951, an estate agent Francis Drummond established

the earliest professional stock broking firm, and impressed upon the then finance minister of Kenya Sir Ernest Vasey the idea of creating a stock exchange in East Africa. Considering the proposal, which was given by the then finance minister of Kenya Sir Ernest Vasey and Francis Drummond, the London Stock Exchange officials approved to recognize the creation of the Nairobi Securities Exchange as an overseas stock exchange in July, 1953. In 1954, the Nairobi Securities Exchange was comprised as a voluntary organization of stockbrokers enrolled under the Societies Act. The business of shares trading was restricted only to the resident European community though Africans and Asians were not permitted to deal in securities until in 1963 when Kenya became independent. Simon, et. *al* (2012)

According to Olweny and Kimani (2011), the NSE experienced bouts of loss of confidence emanating from the crisis in the international markets and inflationary pressures in the country. As a consequence, the government implemented financial and economic reforms that spurred economic growth in the economy including; enhanced participation of the private sector and privatization of government enterprises. In the 1990's the Nairobi stock exchange underwent transformation through a regulatory framework that relaxed government restrictions on foreign ownership and introduction of incentives to encourage direct foreign investment. This led to the growth of the market leading to better ranking of the Nairobi Stock Exchange by the International Finance Corporation in 1994 as the best performing market in the world.

1.2 Problem Statement

Modigliani and Miller (1958, 1961), hereafter referred to as MM, put forward the irrelevance theorems, more commonly known as the MM theorems and these form the foundation of modern corporate finance theory. The two main conclusions that are drawn from the MM theorems are that firm value is dependent on its current and future free cash flow. Secondly, the level of dividends (or dividend policy) does not affect firm value given that firms maximise their value through investment. The difference between equity issued and payouts of the firm is equal to its free cash flow. Hence, dividend policy is irrelevant when it comes to affecting firm value. The studies carried out by Black and Scholes (1974) and Miller and Scholes (1982) are in line with the propositions of the MM theorem.

However, in 1980's numerous share market literatures saw the present value of dividends to be prevailing determinant of market return on stocks. As per Le Roy and Porter (1981), they reasoned that under surmise of consistent discount component, stock costs were excessively volatile hence not steady with the movement of future dividends. Cochrane (1992) contends that stock price changes might be described by time- varying markdown rate and future abundance return. The founding build by Cochrane (1992) on variability of abundance return is to be more essential than the variability of dividend growth. Nishat and Irfan (2003) investigated the dividend policy and stock price movement. Both the dividend policy measures, dividend yields any payout proportion, have noteworthy effect on the share price movement.

The dividend enigma has not only been an enduring issue in finance, it also remains unresolved. Almost three decades ago Black (1976) described it as a “puzzle”, and since

then an enormous amount of research has occurred trying to solve the dividend puzzle. Allen, Bernardo and Welch (2000) summarised the current consensus view when they concluded “Although a number of theories have been put forward in the literature to explain their pervasive presence, dividends remain one of the thorniest puzzles in corporate finance”. This necessitated the researcher to carry out the study to establish the effect of dividend policy on share prices of companies listed in the NSE hence bridge the research gap. Does dividend policy have a significant effect on share prices?

1.3 Objective of the Study

To establish the effects of firm’s dividend policy on the market price of its common stock.

1.4 Value of the Study

Managers will be able to know the information content of dividend policy hence use dividends to convey important information to shareholders. The research will help in satisfying the share holder’s expectations when they learn the relationship between dividend policy and share prices.

The research will help the government to adopt different strategy in the country and formulate policies that will help curb exploitation by various companies and protect the public. It will also help government in formulation of policies that would protect shareholders from exploitation by firm managers by knowing the information content of dividend policies and the importance of this information for companies.

The study would be of great importance to scholars who may wish to use its findings as a basis of further research on the subject matter. The research 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 paper will give them additional information on the effect of dividend policy on share prices.

The findings of the research will help to increase value to investment analysts' hence help their customers in making rational decisions and maximize the value of the shares held. This will in turn create a good profile for these investors in the face of investors and potential investors thereby increasing their clients and maximizing revenues.

This study will be of importance to investors who may need to know the effect of dividend policy on share prices of companies listed at the Nairobi Securities exchange such that they can be able to make informed investment decisions hence avoid investments behavior witnessed during the previous Kenyan IPOs. The study will also help economists to understand the functioning of the capital markets and the economy at large.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature related to the study of the variables. 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 Literature

According to Misati and Nyamongo (2010), the financial sectors of most African countries have been rapidly flourishing especially after the adoption of the financial sector reform policies in the early 1990's. Consequently, the capital markets have grown substantially resulting into an increase market value of majority of firms, and these developments have attracted the interest of economic researchers and analysts who aim to investigate mainly the various dividend policies and their effects on the market price of its common stock.

Bryman (2001) argues that the most common meaning of theory is an explanation of observed regularities. There are a number of contradicting theories that have explained the relationship between dividend policies and share prices at the stock market. Initial forays into explaining dividend policy are divided as to their prediction of dividend payment's effects on share prices. Three streams of thinking seem to be offered: One is explaining dividends as attractive and a positive influence on stock price, the second argues that stock prices are negatively correlated with dividend payout levels, and a third

avenue of empiricists maintain that the firm's dividend policy is irrelevant in stock price valuation. In this chapter a brief overview of various theoretical modeling and empirical investigations by financial economists is given. We begin with the third stream of thinking, which is Dividend Irrelevance proposition.

2.2.1 MM Irrelevance Theory

Modigliani and Miller (1961) in their ground breaking paper about dividend policy, growth and valuation of shares forwarded a proposition that dividend policy chosen by a firm is irrelevant in as far as valuation of the firm is concerned in an ideal economy characterized by perfect capital markets, rational behaviour and perfect certainty. They went further to state that firm value is rather determined by the quality of a firm's investment policy and the earning power of its assets.

MM assumed that capital markets are perfect whereby no buyers or sellers of securities is large enough to have a significant influence on ruling share prices; that investors are rational meaning that they always prefer stocks of higher returns and they are risk averse; and that there is perfect certainty hence there is complete assurance on the part of the investors as to future investment programs and profits of every corporation.

In this study the researcher is trying to establish whether MM's theory holds in the Nairobi Securities Exchange situation especially considering that it was conceptualized in the western world where the economic fundamentals may be substantially different from the third world situation. It is largely expected that the local investor will in most cases be targeting regular cash flows from his investment in the security exchange rather than the eventual capital gains over medium to long term.

2.2.2 Tax Preference Theory- Litzenberger & Ramaswamy (1979)

Litzenberger & Ramaswamy (1979) put forward a theory which claims that investors prefer lower pay-out companies for avoidance of current taxation. This argument is based on the assumption that 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. This theory reiterates that dividend policy is relevant and influences the value of shares since shareholder prefer earning retention of earnings to current dividends. In Kenya capital gains tax was abolished in 1989 and the study therefore expects tax advantages on capital gains over current payout in terms of dividends which is taxable at source.

This theory attacks MM's assumption that taxes are irrelevant since taxes are unavoidable in real world. These tax advantages of capital gains over dividends tend to predispose investors, who have favorable tax treatment on capital gains, to prefer companies that retain most of their earnings rather than pay them out as dividends, and are willing to pay a premium for low-payout companies

2.2.3 Signaling Theory of Dividends

Miller and Rock (1985) 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. However, for this hypothesis to hold, managers should firstly possess private information about a firm's prospects, and have incentives to convey this information to the market. Secondly, a signal should be true; that is, a firm with poor future prospects should not be able to mimic and send false signals to the market by increasing dividend payments.

Lintner (1956) argued that firms tend to increase dividends when managers believe that earnings have permanently increased. This suggests that dividend increases imply long-run sustainable earnings. Lipson, et. al (1998) also observed that, "managers do not initiate dividends until they believe those dividends can be sustained by future earnings". Dividends are considered a credible signaling device, that influence market value, because of the dissipative costs involved hence the theory is relevant in this study.

2.2.4 Bird in the Hand Theory- Lintner (1962) and Gordon (1963)

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.

Gordon (1963) similarly presented an argument that a corporation's share price or its cost of capital is not independent of dividend policy. He went on to cross examine MM's proposition and state its short comings. Gordon made two assumptions; that investors are

risk averse and that uncertainty increases with increase of time into the future upon which dividends would be received. Consequently, the single discount rate an investor uses to value a share's dividend expectations is an increasing function of the rate of growth in the dividend hence dividend policy influences the value of a share and this theory is therefore relevant in the current study. MM however criticized the bird in hand theory and called it a fallacy since most recipients of dividends would invest the funds in the same or different company.

2.2.5 Walter's Model- Walter

Walter (1963) in his seminal paper, Dividend policy: Its influence on share prices, use the analogy of dividend policy weighted differently from retained earnings to demonstrate the relevance of dividend policy. He approached the discussion from a net cash flows position and considered the effects of additions or subtractions from these flows. The market prices of stocks at any time is determined by two factors; the finite flow of dividends streams and terminal market values. He held the assumptions that investors are solely motivated by the monetary benefits only and that they do all the best they can but since they exist in a competitive environment, they are unable to stack results. Secondly, corporate management is keenly aware of the potential impact of its action upon stock prices but may however be confronted with mixed motivations like self-preservation and avoidance of anti-trust action.

He concluded that the choice of dividend policy will always affect the value of an enterprise as the general conditions for neutrality are not possible in the real world where markets are not perfect and recommended that growth firms should retain all earnings;

normal firms should distribute all earnings while declining firms should be indifferent to dividend policy.

2.3 Determinants of Share Prices

A number of studies have been undertaken to identify the factors influencing share prices in different stock markets. Wayne & Campbell (1998) provided a global asset pricing perspective on the debate over the relation between predetermined attributes of common stocks, such as ratios of price-to-book value, cash-flow, earnings, and other variables to the future returns. The study presents an empirical framework for attacking the problem at a global level, assuming integrated markets. The study presents new evidence on the relative importance of risk and mispricing effects, using monthly data for 21 national equity markets. The study found that the cross-sectional explanatory power of the lagged attributes is related to both risk and mispricing in the two-factor model, but the risk effects explain more of the variance than mispricing. The current study has borrowed the variable 'earnings' but modified it to be earnings per share in the model used.

Al-Tamimi (2007) defined a model to regress the variables. The multi-correlation test revealed very strong correlation between gross domestic product and crude oil price, gross domestic product, foreign exchange rate, lending interest rate, and inflation rate. All the variables had strong positive correlation with stock prices apart from the interest rate and foreign exchange rate, which had strong negative correlation with stock prices. Since interest rates determine the gearing ratio of firms, the current study has used leverage as one of the substitute variables to interest rates in the model.

George Tweneboah and Anokye M. Adam (2008) researched stock prices in Ghana on data from 1991 to 2006. They used T-bill rates as measures of interest rates, consumer price index as measure of inflation rate, inward foreign direct investment, and exchange rate as macroeconomic factor. After applying different available models of correlation, regression, and integration they concluded that the exchange rate, a macroeconomic factor, has long run relationship between the stock prices of Ghana. While the inflation rate, FDI and interest rates are the key determinants of stock prices in Ghana. The current study aspires to mirror Ghana which is also a third world country just like Kenya to determine whether the same conclusions could be reached at.

Jin Dehuan and Zhenhu Jin (2008) investigated correlation between firm performance (Return on Equity, earning per share, profit margin, return on asset, changes in sales, and total asset turnover) and stock price of the top performing stocks listed on Shanghai Stock Exchange study . Their study shows that all the variables are significantly correlated with stock price in the year before crisis. However, in the crisis period the firm performance have no explanatory power toward stock price movement. This study has borrowed one of the variables which is earnings per share from this study

Uddin (2009) analyzed the relationship of microeconomic factors with the stock price by using multiple regression analysis. This research found a significant linear relationship among market return and some microeconomic factors such as net asset value per share, dividend percentage, earning per share of bank leasing, and insurance companies. He also found that non-linear relationship among the variables is insignificant at 95 percent level of significance. This study has borrowed dividend pay out ratio and earning per share from the above research.

Al- Shubiri (2010) investigated the relationship of microeconomic factors with the stock price by using Simple and Multiple regression analysis. 14 commercial banks of Amman Stock Exchange, for the period of 2005 -2008, were selected for the study. The study found highly positive significant relationship between market price of stock and net asset value per share; market price of stock dividend percentage, gross domestic product. It also found negative significant relationship on inflation and lending interest rate. This study uses leverage as a proxy for interest rates in the model.

Al- Shubiri (2011), Investigated the determinants of the dividend policies of the 60 industrial firms listed on ASE for the period of 2005-2009, and to explain their dividend payment behavior. In this study, the Tobit regression analysis and Logit regression analysis were used. The results show that, there is a significant effect of Leverage, Institutional Ownership, Profitability, Business Risk, Asset Structure, Growth Opportunities, and Firm Size on the dividend payout in listed firms of Amman stock exchange as the same determinations of dividends policy as suggested by the developed markets. This study is very relevant to the current research as two variables viz leverage and profitability have been borrowed to estimate the model.

Sanjeet Sharma (2011) examined the empirical relationship between equity share prices and explanatory variables such as: book value per share, dividend per share, earning per share, price earnings ratio, dividend yield, dividend payout, size in terms of sale, and net worth for the period 1993-94 to 2008-09. The results revealed that earning per share, dividend per share, and book value per share has significant impact on the market price of share. Furthermore, results of study indicated that dividend per share and earnings per share being the strongest determinants of market price, so the results of the study

supports liberal dividend policy and suggests companies to pay regular dividends. The current research has borrowed most of the exogenous variables from this model viz earning per share, price earnings ratio, dividend payout.

Irmala, Sanju and Ramachandran (2011) focused on identifying the determinants of share prices in the Indian market. The study used panel data pertaining to three sectors viz., auto, healthcare, and public sector undertakings over the period 2000-2009 and employed the fully modified ordinary least squares method. The results indicated that the variables dividend, price-earnings ratio and leverage are significant determinants of share prices for all the sectors under consideration. Moreover, profitability is found to influence share prices only in the case of auto sector. the current study seeks to find out if profitability would affect share prices at the NSE

Khan & Amanullah (2012) investigated the different determinants of share prices and the relationship of these determinants with the share prices of Karachi Stock Exchange (KSE) 100 index of Pakistan. 5 quantitative determinants, namely Book to Market (B/M) ratio, Price Earning (P/E) ratio, Dividend, Gross Domestic Product (GDP), and Interest Rate were selected to find out the direction and strength of relationship. A sample of 34 companies has been randomly selected from 34 sectors of KSE. Ten years' (2000-2009) data has been collected for the sample companies. The tools used for analysis are Linear Multiple Regression and Correlation Model. It has been concluded that all the factors selected have positive and significant relationship with share prices except Interest rate and B/M ratio. The rise in GDP, dividend and P/E ratio leads to rise in share prices. B/M ratio and interest rate are negatively related to share prices.

Uwuigbe, Olowe, Olusegun, and Godswill (2012) examined the determinants of share prices in the Nigerian stock exchange market. A total of 30 listed firms in the Nigerian stock exchange market were selected and analyzed for the study using the judgmental sampling technique. Also, the Nigerian stock exchange fact book and the corporate annual reports for the period 2006- 2010 were used for the study. The paper basically modeled the effects of financial performance, dividend payout, and financial leverage on the share price of listed firms operating in the Nigerian stock exchange market using the regression analysis method. The study found a significant positive relationship between firms' financial performance and the market value of share prices of the listed firms in Nigeria. Consequently, the paper concludes that firms' financial performance, dividend payouts, and financial leverage are strong determinants of the market value of share prices in Nigeria which is an African developing country like Kenya.

Malhotra & Tandon (2013) attempted to determine the factors that influence stock prices in the context of National Stock Exchange (NSE) of 100 companies. A sample of 95 companies was selected for the period 2007-12 and linear regression model was used. The results indicated that firms' book value, earning per share, and price-earnings ratio are having a significant positive association with firm's stock price while dividend yield is having a significant inverse association with the market price of the firm's stock. The current research has borrowed most of the exogenous variables from this model viz earning per share, price earnings ratio, dividend payout.

From the review of literature on share price determinants, it can be observed that most of the studies have used either time-series or cross-section data. There have also been attempts to identify the share price determinants using panel data. The extant literature

available strongly supports the movement of stock price as a consequence of firm specific factors such as dividend, book value, earnings etc.

2.4 Empirical Evidence

Researchers have reported that, in the past, dividend policies have just been concerned with the selections between payments of earnings to a company's shareholders as cash dividends or retention of the profits in firms (Bank & Cheffins, 2010). This implies that, in such a scenario, a dividend policy only determined the issues of dividend payments and the amount to be paid to shareholders in the form of the dividends (Bank & Cheffins, 2010). In contrast, other empirical evidence shows that in the contemporary corporate finance, dividend policies deal with more salient issues, which entail how a company may attract more investors in different tax brackets and how companies may increase the market value of companies and share repurchase in place of cash dividends among others (Bank & Cheffins, 2010).

Rozeff (1982) initiated the adoption of agency cost in dividend determinant. He develop a model of optimal dividend payout in which increased dividends lower agency costs but raise the transaction costs. The optimal dividend payout minimizes the sum of these two costs. Rozeff use two independent variables as proxies for agency cost which are percent of stock held by insiders and the natural logarithm of the number of shareholders. Based on 1000 sample of companies from 1974 until 1980, he shows that dividend payout is negatively related to the percentage of stock held by insiders. Besides that, he also found that outside shareholders demand a higher dividend payout if they own a higher fraction of the common equity and if their ownership is more disperse.

Llyod, Jahera and Page (1985) try to confirm and expand the work of Rozeff in introducing agency theory as an explanatory factor in dividend payout ratios. The researchers had replicate Rozeff's study using more recent data. An OLSQ cross sectional regression is applied to 1984 data on 957 US firms, and the conclusions reached support and strengthen the results of Rozeff. They provide a strong support for their hypothesis of dividends as a partial solution to agency problems.

Alli et.al (1993) re-examine the dividend policy issues by conducting a simultaneous test of the alternative explanations of corporate payout policy using a two-step procedure that involves factor analysis and multiple regression. The sample of 150 firms came from 34 industries, with the largest share from the chemical and allied products industry (13.9 percent). The average firm size and capitalization of the final sample was representative of New York Stock Exchange (NYSE) listed firms. The results reveal that six significant factors can be used to explain corporate payout policies which include agency cost factor. Although the results shows that ownership dispersion does not affect dividend but the significant positive coefficient of institutional and insider ownership indicates that dividends are used to mitigate agency problem which is consistent with the findings of Rozeff (1982).

Hansen et.al (1994) tests the relevance of monitoring theory for explaining the dividend policies of regulated electric utilities. They focus on this industry partly because relative to industrial firms, utilities are arguably somewhat more insulated from the discipline of other monitoring mechanism for controlling agency costs. Their tests are conducted in each of two recent five year periods, the first five year period ending in 1985, which is characterized by high but declining industry wide investment growth and financing and

the more recent five year period ending in 1990, which is characterized by secular asset growth yet low industry-wide growth. Their findings show that utilities faced with higher regulatory and managerial conflict, lower flotation costs and lower asset growth pay proportionally greater dividends. Their findings are consistent with the monitoring hypothesis that these utilities firms use dividend induced equity financing to control equity agency costs that arise out of the stockholder-regulator and stockholder-manger conflicts.

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.

Han, Lee and Suk (1999) also empirically examine the effect of institutional on corporate dividend policy. They utilize a sample of 303 firms during the 1988 to 1992 period. They

had control seven factors believed to influence dividend policy namely insider ownership, revenue growth, capital expenditures on plant and equipment, ratio of debt to assets, standard deviation of return on assets, operating income to assets and target dividend yield. Nevertheless, using the Tobit analysis, they found a contradict results with agency cost hypothesis but supporting tax based hypothesis. According to tax based hypotheses, dividend payout is positively related to institutional ownership because institutions prefer dividends prefer dividends over capital gains under the differential tax treatment.

Ang, Cole and Lin (2000) measure absolute agency costs by observing a zero agency-cost base case as a reference point of comparison for all other cases of ownership and management structures. Based on the Jensen and Meckling agency theory, the zero agency cost base is the firm owned solely by a single owner-manager. When management owns less than 100 percent of the firm's equity, shareholders incur agency costs resulting from management's shirking and perquisite consumption. They employ a sample of 1708 small corporations and provide a direct confirmation of the predictions made by Jensen and Meckling (1976). Agency costs are indeed higher among firms that are not 100 percent owned by their managers, and these costs increase as the equity share of the owner-manager declines. Hence, agency costs increase with a reduction in managerial ownership, as predicted by Jensen and Meckling.

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.

The study by Khan (2006) investigates how the ownership structure of firms affects their dividends policies. His sample period covers the period of 1985-1997 and the sample size reaches a maximum of 281 firms in 1989 and a minimum of 126 firms in 1985. A key contribution of this article is that it exploits extremely rich ownership data on all beneficial owners (individuals, insurance companies, pension funds and other financial institutions) holding more than 0.25% of any given firm's equity. A significantly negative relation between dividends and ownership concentration result appear to corroborate Rozeff's model, dividends fall when the degree of ownership of ownership concentration increase, which is generally associated with better incentives to monitor. However, the positive relationship between dividends and insurance companies would suggest that they are relatively poor at monitoring compared to individual investors. These results imply particularly acute agency problems when insurance company shareholdings is high and provide some support for the views expressed in the various governance reports.

Cook and Jeon (2006) investigate the determinants of foreign and domestic ownership and a firm's payout policy. Their empirical study based on a sample of 507 firms out of the 683 firms listed on Korea Exchange (KRX) for the period 1999 to 2004. The results support the agency model, higher foreign ownership is associated with a greater dividend payout. Domestic intuitional investors, however, do not play a prominent role in a firm's payout policy. Thus, they conclude that foreign investors are more active monitors of corporate by reducing agency problems and leading firms to increase the level of payouts.

The study by Mollah, Rafiq and Sharp (2007) investigates the influence of agency cost variables on dividend policy during the pre and post of the 1998 financial crisis. Using cross-sectional and pooled regression, the paper measures the effect of the percentage of insider ownership, dispersion of stockholders, free cash flow and degree of collateralizable assets on the dividend payout ratio. The pre-crisis sample includes 153 companies for ten years from 1988 through 1997 while the post-crisis sample includes 153 companies for five years from 1999 through 2003. The crisis year of 1998 is omitted. The study finds agency cost variables to have only a modest explanatory power during the pre-crisis period and none in the post-crisis period on the Dhaka Stock Exchange.

Omneya et. al (2008), examine the effect of ownership structure on corporate dividend policies of a sample of top Egyptian listed companies. Ownership structure is measured by four variables namely managerial ownership ratio, blockholder ownership ratio, institutional ownership ratio and free float ratio. The results show that only institutional ownership has a significant relationship with dividend policy. One explanation could be that the institutional blockholders voted for higher payout ratios to enhance managerial monitoring by external capital markets.

The study by Kouki and Guizani (2009) analyze the influence of shareholder ownership identity on dividend policy for a panel of Tunisian firms from 1995 to 2001. This study uses dividend per share as a dependent variable and ownership classes as an independent variables. The results indicate that there is a significantly negative correlation between institutional ownership with the level of dividend distributed to shareholders. This is due to most of cases, institutional investors are banks, and they are either shareholders or debt holders. They prefer paying interests to themselves than distribute dividend to all

shareholders. Further, the results also show that the higher ownership of the five largest shareholders leads to the higher of dividend payment. They conclude that dividend rates are higher in Europe when there are multiple large shareholders suggesting that these large shareholders dampen expropriation in Europe. This evidence in Tunisian context strengthens the argument of the positive role of multiple large shareholders in corporate control.

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.

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.

2.5 Summary of Literature Review

Miller and Modigliani (M&M) claim that under assumption of perfect capital market, dividends are irrelevant and they have no influence on the share price. Nevertheless, when capital markets are imperfect and when the assumptions made by M&M are relaxed, some researchers have argued that dividends do matter; hence firms should pursue an appropriate dividend policy.

The dividend enigma has not only been an enduring issue in finance, it also remains unresolved. Almost three decades ago Black (1976) described it as a “puzzle”, and since then an enormous amount of research has occurred trying to solve the dividend puzzle. Allen, Bernardo and Welch (2000) summarised the current consensus view when they concluded “Although a number of theories have been put forward in the literature to explain their pervasive presence, dividends remain one of the thorniest puzzles in corporate finance”.

The studies have only added to the already existing confusion as to the nature of the relationship between dividend policies and share prices. The studies failed to investigate the relationship between the two variables with specific reference to local listed companies since they operate in different macro and micro environments. The studies also assumed that majority of the capital markets are perfect which is not always so. 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. Most of this study also failed to determine the relationship between the variables. Lastly other factors were proved to be determinants of share prices e.g Dividend Payout Ratio, Earnings per Share,

Net Assets values per share, leverage, profitability. This research study sought to bridge these gaps

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents a systematic description of the research methodology that was used to answer questions given in chapter one. Research methodology, according to Kothari (2004), refers to the logical sequence of the research, the research methods and instruments used. As explained by Kinoti, (1998), the research methodology informs the choice of the research design, the study site, the research population, the sample size and sampling design to be used, the choice of data collection methods and the research tools to be used and finally the data analysis procedures and methods used.

3.2 Research Design

The research design is a master plan specifying the methods and procedures for collecting and analyzing the needed information. It specifies the framework or blueprint for the research. The research design also specifies the research method chosen to determine the information needed as well as defining sampling methods, sample size, measurement and data analysis processes.

To undertake this assessment, the descriptive research design was adopted as a method of investigation under this study. This design enables better explanation of the study (Mugenda & Mugenda, 2003). The choice of the descriptive research design was based on the fact that in the study, the research was interested on the state of affairs already existing in the field and no variable was to be manipulated. The study sought to establish the effect of dividend policy on share prices of companies listed at the NSE.

3.3 Target Population

Target population is defined as a complete set of individuals, cases/objects with some common observable characteristics of a particular nature distinct from other population. The population of interest in this study consisted of all the firms quoted at the Nairobi Securities Exchange (N.S.E) as at 30th June 2013 as shown in the Appendix 1 which indicates that there are 61 listed companies.

3.4 Data collection methods

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 was facilitated by use of secondary data which was extracted from published reports of quoted companies which are publicly available from the companies' and NSE websites.

3.4.1 Validity and Reliability

Research reliability and validity highly depends on correctness and trustworthiness of research instruments i.e. to what extent research instruments measure what they are meant to measure (Bryman, 2003). Research instruments are reliable to the extent they provide same results when repeatedly used. Research instrument validity and reliability is enhanced through ensuring proper wording, sequencing and formatting of questions (Crotty, 1998).

Cook and Campbell (1979) define validity as the "best available approximation to the truth or falsity of a given inference, proposition or conclusion." In short, validity determines whether the instrument truly measures that which it was intended to measure or how truthful the results are. The study used the Cronbach statistics to test for reliability

3.5 Data Analysis

Data obtained in the field in its raw form is difficult to interpret. Such data must be cleaned, coded, and key-punched in a computer and analyzed, and it is from this data analysis that a researcher is able to make sense of the data (Mugenda & Mugenda, 2003). Data analysis consists of data sorting, editing, cleaning and conducting final check on the data for accuracy, erroneous data completeness and consistencies to avoid going back to the original questionnaires and interviews (Katebire, 2007).

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 tabulated the data and input it into relevant statistical package for analysis.

Data was analyzed using the Statistical Package for Social Sciences (SPSS) Version 17 for windows to obtain simple descriptive statistics and correlation coefficients. Descriptive methods were employed and data was presented in the form of frequency distribution tables that facilitated description and explanation of the study findings. Data was presented in form of diagrammatical presentation and tables. The significance of the

relationship between dividends policy and share prices was tested at a confidence level of 95% using ANOVA and F- tests.

The model specified in the equation below was used to identify the determinants of share prices where Dividend Payout Ratio (dividend policy), Earnings per Share (profitability) and debt- equity ratio (leverage) were the independent variables while share price was the dependent variable.

$$Y = A + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + E_e$$

Where Y is the year end Market Price per Share, A is an autonomous variable or constant. X_1 represents DPOR, X_2 EPS, X_3 DE and E_e is the error term. b_1 , b_2 and b_3 are the coefficients of the independent variables.

In this study, data analysis involved frequency tabulation, cross tabulations, and statistical tests. Correlations were used to establish relationships between two or more variables, significance, direction and magnitude of the relationship between dividend policy and share prices. Values of the correlation coefficient are always between -1 and +1. A correlation coefficient of +1 indicates that two variables are perfectly related in a positive linear sense; a correlation of -1 indicates that two variables are perfectly related in a negative linear sense and a correlation of 0 indicates that there is no linear relationship between the two variables (Achen, 1991).

CHAPTER FOUR

DATA ANALYSIS

4.1 Introduction

This chapter presents data analysis of the data that was collected to establish the effects of firm's dividend policy on the market price of its common stock. This chapter is arranged in four sections; reliability test, descriptive statistics, correlation analysis and regression analysis.

4.2 Reliability Test

The study used Cronbach statistics to test for reliability. In Cronbach, any alpha of more than 0.7 shows that data was reliable. The findings are presented in the table 4.1 below.

Table 4.1: Reliability Test

Cronbach's Alpha	N of Items
0.809	4

The findings shows Cronbach alpha of 0.809 which is more than 0.7 indicating that data was reliable.

4.3 Descriptive Statistics

This section sought to provide a description of the variables used in describing the effects of firm's dividend policy on the market price of its common stock. Results are presented in table 4.2.

Table 4.2: Descriptive Statistics

	Mean	Std. Deviation	N
Market Share Price	103.8866	14.90571	10
Dividend Payout Ratio	22.7986	12.84716	10
Earnings Per Share	12.9017	11.20649	10
Debt Equity	0.8536	0.0218	10

In the findings above, there were 10 observations which were used for this study for all the variables. Mean scores for Share Price, Dividend Payout Ratio, Earnings per Share and Debt Equity were 103.89, 3.3481, 12.9017 and 0.8536 respectively. The standard deviations for Share Price, Dividend Payout Ratio, Earnings per Share and Debt Equity were 14.90571, 0.86071, 11.20649 and 0.0218 respectively.

4.4 Correlation Analysis

Pearson correlation was used to examine if there was any correlation between the proposed model dimensions. The Pearson product-moment correlation coefficient (or Pearson correlation coefficient for short) is a measure of the strength of a linear association between two variables and is denoted by r . basically, a Pearson product-moment correlation attempts to draw a line of best fit through the data of two variables.

The Pearson correlation coefficient, r , can take a range of values from +1 to -1. A value of 0 indicates that there is no association between the two variables. The results show that the correlation coefficients are positive; it means that there is a positive correlation between model dimensions. Table 4.3 presents the results.

Table 4.3: Correlation Analysis

		Share Price	Dividend Payout Ratio	Earnings Per Share	Debt Equity
Pearson Correlation	Share Price	1	0.506	0.852	0.477
	Dividend Payout Ratio	0.506	1	0.164	-0.018
	Earnings Per Share	0.852	0.164	1	0.741
	Debt Equity	0.477	-0.018	0.741	1

From the table above all the predictor variables were shown to have a positive association between them; with the strongest (0.852) being indicated between earnings per share and share price, while the weakest (-0.018) between debt equity and dividend payout ratio.

As cited in Wong & Hiew (2005) the correlation coefficient value (r) range from 0.10 to 0.29 is considered weak, from 0.30 to 0.49 is considered medium and from 0.50 to 1.0 is considered strong.

4.5 Regression Analysis

In order to establish the relationship between variables as well as the effect of firm's dividend policy on the market price of its common stock, the study conducted a multivariate regression analysis. Table 4.4 presents the strength of the model.

Table 4.4: Strength of the model

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate
1	.942a	0.888	0.832	6.11560

a Predictors: (Constant), Debt Equity, Earnings Per Share , Dividend Payout Ratio

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 0.888 that is, Debt Equity, Earnings Per Share and Dividend Payout Ratio explains 88.8% change in the market price leaving only 11.2 percent unexplained. The P-Value of 0.003 (Less than 0.05) implies that the model of firm's dividend policy on the market price of its common stock 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	1775.219	3	591.74	15.822	.003b
	Residual	224.404	6	37.401		
	Total	1999.622	9			

a Dependent Variable: Share Price

b Predictors: (Constant), Debt Equity, Earnings Per Share , Dividend Payout Ratio

ANOVA findings (P- value of 0.003) in table 4.5 show that there is correlation between the predictor's variables (Debt Equity, Earnings per Share and Dividend Payout Ratio) 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. The P value is 0.003 which is less than 0.005 significance level.

Table 4.6: Coefficients of Regression Equation

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	216.052	119.747		1.804	0.121
	Dividend Payout Ratio	0.398	0.165	0.343	2.416	0.052
	Earnings Per Share	1.292	0.281	0.971	4.598	0.004
	Debt Equity	-161.542	142.467	-0.236	-1.134	0.3

a Dependent Variable: Share Price

These are the values for the regression equation for predicting the dependent variable from the independent variable. The regression model was as follows:

$$Y = A + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + E_e$$

Where: Y = the year end Market Price per Share.

A = an autonomous variable or constant.

X₁ = DPOR

X₂ = EPS

$X_3 = DE$

$E_e =$ the error term.

b_1, b_2 and b_3 are the coefficients of the independent variables.

The regression model becomes:

$$Y = 216.052 + 0.398X_1 + 1.292X_2 - 161.542X_3$$

Where:

Constant = 216.052, shows that if Debt Equity, Earnings Per Share and Dividend Payout Ratio all rated as zero, Market Price per Share would be 216.052

$X_1 = 0.398$, shows that one unit Dividend Payout Ratio results in 0.398 units increase in Market Price per Share

$X_2 = 1.292$, shows that one unit Earnings per Share results in 1.292 units increase in Market Price per Share

$X_3 = -161.542$, shows that one unit debt equity results in 161.542 units decrease in Market Price per Share.

4.6 Discussion of Findings

The study found that all the predictor variables were shown to have a positive association between them; with the strongest (0.888) being indicated between earnings per share and Dividend Payout Ratio, while the weakest (0.477) between share debt equity and share price. The study found that earnings per share, debt equity explain corporate payout

policies. The findings from Alli et.al (1993) revealed that earnings can be used to explain corporate payout policies. According to Rozeff (1982), ownership dispersion does not affect dividend but the significant positive coefficient of institutional and insider ownership indicates that dividends are used to mitigate agency problem which is consistent with the findings of this study.

The findings reported a positive relationship between the three predictor variables (Debt Equity, Earnings Per Share, Dividend Payout Ratio) and the dependent variable (market share price). Limungi (2011) found that 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 established that there exists a strong relationship between dividend policy and firm performance. They concluded that dividend policy is relevance and therefore affects firm performance. They also found out that earnings per share 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.

From the findings of Han, Lee and Suk (1999), a contradict results with agency cost hypothesis but supporting tax based hypothesis. According to tax based hypotheses, dividend payout is positively related to institutional ownership because institutions prefer dividends prefer dividends over capital gains under the differential tax treatment. Mbaka

(2010) also found that 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) found that found out that for firms quoted at the NSE, the effect of Dividend Payout Ratio (DPOR) 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.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings presented in chapter four in accordance to the study objective. The main objective of the study was to establish the effects of firm's dividend policy on the market price of its common stock. It presents the conclusions and the recommendations to the study.

5.2 Summary of the Findings

Owning corporate stock is a popular investment activity, All types of investors either large institutional or individual could see the new media for the report on the movements of the stock prices. Share prices are the most important indicators used by investors to invest or not to invest on a particular share. Their main objective of investing in the stock market is to maximize the expected return at low level of risk. Dividend payment is a major component of stock return to shareholders. Dividend payment could provide a signal to the investors that the company is complying with good corporate governance practices.

From the findings, the study found that all the predictor variables were shown to have a positive association between them; with the strongest (0.852) being indicated between earnings per share and share price, while the weakest (-0.018) between debt equity and dividend payout ratio. It found that the coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent

variables) R^2 equals 0.888 that is, Debt Equity, Earnings Per Share and Dividend Payout Ratio explains 88.8% change in the market price leaving only 11.2 percent unexplained.

It found that one unit Dividend Payout Ratio results in 0.398 units increase in Market Price per Share, one unit Earnings per Share results in 1.292 units increase in Market Price per Share and one unit debt equity results in 161.542 units decrease in Market Price per Share.

5.3 Conclusions of the Study

In conclusion, it is obvious from the literature about the share price reaction to dividend announcements in the firms market that there is a diversity of opinions among researchers. Empirical review has shown that academics have favored MM's irrelevance theory while other researchers are proponents of the signaling view. These various results may be due to the tiny sample used in the analysis of the effects of firm's dividend policy on the market price of its common stock. The current study overcame these limitations and build upon previous findings in this area.

The study concludes that all the predictor variables were shown to have a positive association between them; with the strongest (0.852) being indicated between earnings per share and share price, while the weakest (-0.018) between debt equity and dividend payout ratio. It concludes that the coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables) R^2 equals 0.888 that is, Debt Equity, Earnings Per Share and Dividend Payout Ratio explains 88.8% change in the market price leaving only 11.2 percent unexplained. It concludes that one unit Dividend Payout Ratio results in 0.398 units increase in Market

Price per Share, one unit Earnings per Share results in 1.292 units increase in Market Price per Share and one unit debt equity results in 161.542 units decrease in Market Price per Share.

5.4 Recommendations

The study recommends that having seen the history of dividend paying companies, it is seen that the net profit after tax is the main base for distributing the dividend. Thus, it is suggested that investor who want to purchase the equity share and immediate return should invest on the share of high profit earning companies.

As per the study findings, it has been seen that there is no significant difference between the average market price before and after the cash dividend payment, therefore it recommends that investors should not invest in the AGM period only because of dividend but choose the right company and invest any period of the year.

5.5 Limitations of the study

The study mainly concentrated in secondary data obtained from the Nairobi Securities Exchange records which may not always be reliable. This is because secondary data is prone to errors, might be out of date or may be biased.

Information on all the listed companies at the Nairobi securities exchange was not available. Some companies records could not give the all the required information and this necessitated the researcher to use a sample of 30 companies unlike as earlier expected to use all the 61 companies. Some firms were also delisted within this period as others listed hence they could not be used for the analysis

The available data was only for the firms listed at the Nairobi Securities Exchange. It therefore exempted those companies that are not listed which maybe would have provided further information regarding the relationship

5.6 Suggestion for Further Study

From the findings of the study, Debt Equity, Earnings Per Share and Dividend Payout Ratio explains percent change in the market price leaving only 11.2 percent unexplained. The study therefore suggests that other studies on the same area be done to determine variables that explain the 11.2 percent.

Since this study was done on firms listed in NSE only, it is difficult to generalize the findings to other firms in Kenya. Studies should be done about the effects of firm's dividend policy on the market price of its common stock in other firms outside NSE so as to be able to generalize the findings.

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APPENDIX 1: COMPANIES LISTED AT THE NSE

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

APPENDIX 2: SUMMARY

	Share Price	Dividend Payout Ratio	Debt Equity	Earnings Per Share
Period	SP	DPOR	DE	EPS
2013	124.24	45.352	0.872	26.436
2012	119.43	27.492	0.86	24.981
2011	120.21	12.694	0.876	25.064
2010	115.36	17.062	0.865	24.736
2009	89.456	16.148	0.88	13.882
2008	91.15	15.574	0.864	2.878
2007	108.15	46.368	0.834	2.758
2006	89.23	16.652	0.837	3.234
2005	90.21	18.341	0.819	2.421
2004	91.43	12.303	0.829	2.627