

**THE EFFECT OF OWNERSHIP STRUCTURE ON DIVIDEND PAYOUT OF FIRMS
LISTED IN THE NAIROBI SECURITIES EXCHANGE**

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DECLARATION

I Beatrice Musangi Kunga, do here by declare that this research project report is my original work and has not been submitted to the University of Nairobi, of any other university for academic credit.

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This research project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

To my mother: The late Monica Kanini Kunga

Thank you for giving me life

To my aunt: Margaret Mwikali John

Your encouragement and support has propelled me to my academic achievement

ABSTRACT

This study set to determine the effect of ownership structure on dividend payout of firms listed in the Nairobi Security Exchange. The objective of the study was to examine the relationship between determinants of dividend payout ratios from the context of a developing country. The study looked at the issue from a developing country perspective by focusing specifically on firms listed on the Nairobi Securities Exchange (NSE). The study used a descriptive research design approach and the target populations of the study were all the 62 companies listed at the Nairobi Securities Exchange, under the main segment. The study used secondary data sources available at the companies' financial statements at the NSE or Capital Market Authority offices. This study was conducted with the primary aim of establishing the effect of ownership structure on firms' dividend policy. To achieve the above objectives, a regression analysis was conducted whereby changes in firms' ROE were regressed against the three explanatory variables; ownership structure, Size and Leverage. Ownership for a period the period (2012-2013). Data on changes ROE (Y) for the study firms' was obtained from the NSE; corresponding data for Size and leverage respectively (X1, X2) was also obtained from the same source. The two sets of data were then subjected to a regression analysis. The study found ownership structure of firms' (X1, X2) influenced a dividend payout especially smaller firms that were owned by directors and their families. Two major conclusions were drawn from the findings of this study. The results indicated that the firms' ownership structure does not significantly influence dividend policy. It also concluded that other factors other than ownership structure were responsible for changes in dividend policy of NSE listed firms. The main limitation was that the amount of information collected was enormous. Therefore, the study recommends that further research be done to establish: the effect of other forms of ownership structures on firms' dividend policy; and why ownership structure exhibited high dividend payout for companies that are owned by board members and their relatives. The researcher had to discriminate among them through coding and deduction which greatly reduces the amount of data that can eventually be included in the final report. This study can be of importance to the to the management of the firms, the study will be important in assisting the management in their pursuit to increase profits of their companies through finding strategies of managing ownership structure.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Dividends policy is one of the most important issues widely addressed in modern financial literature. The decisiveness of theories on perceived importance of dividend policy in determining the corporation's value has made it one of the most debatable topics for researchers. This is because the vast majority of empirical work does not provide the optimal explanation of corporations' value with dividend policy. The debate was on the ground of the unrealistic assumptions of Miller and Modigliani (1961), who posits that under certain assumptions, dividend policy is irrelevant. They assume that the capital market is perfect with no market frictions such as no tax, no asymmetric information, no agency cost, and no bankruptcy regardless of the amount of debt used.

The dividend payout decisions have presented different issues to academicians and practitioners (Olowe, 2011). Dividends which represent the distribution of the company's after tax earnings to shareholders have important implications for financing and investment decision of the firm as well as the company's share price.

1.1.1 Ownership Structure

Ownership structure is one of the main dimensions of corporate governance and is widely seen to be determined by other country-level corporate governance characteristics such as the development of the stock market and the nature of state intervention and regulation (La Porta, López-de-Silanes, Shleifer and Vishny, 1998). In addition, cross-country studies of La Porta et al. (1999) point out that ownership of large companies in rich economies is typically concentrated; that control is often exercised through pyramidal groups with a holding company at the top controlling one or more subsidiaries; and that the controlling shareholders are often actively involved in company management and sit on the board of directors. Although some companies in the United States are controlled by large shareholders, e.g. Microsoft, Ford, and Wal-Mart, such firms are relatively few and have thus drawn less attention in the corporate governance debate (Anderson and Reeb, 2003). The differences in ownership structure have two

obvious consequences for corporate governance, as surveyed in Morck, Wolfenzon, and Yeung (2005). On the one hand, dominant shareholders have both the incentive and the power to discipline management. On the other hand, concentrated ownership can create conditions for a new problem, because the interests of controlling and minority shareholders are not aligned.

Several empirical studies show that the ownership structure will affect the value of the company. Research Tam et al. (2007) which focuses on the ownership structure affects the running of the company, which in turn affect the performance of the company in an effort to achieve corporate objectives, namely maximizing the value of the company. The company's shares can be owned by different parties, such parties are responsible for the operational management of the company. The management company should have better information about the company as a whole, because the management is directly responsible for the survival and development of enterprises. The management is also obliged to inform the company's accountability to stakeholders in the form of financial statements.

1.1.2 Dividend Payout

Firm's dividend policy is the financial decision, that how much dividends should be paid to the share holders, and normally when and in what forms they should be disbursed. It is the board of directors who decide all about the dividend policy; normally small share holders don't have adequate control to observe the board but the large share holders have sufficient rights to look in to the dividend policy and can monitor the board (Shleifer and Vishny, 1986).

Dividend is a part of net profits distributed to stockholders in proportion to their ownership of company shares. According to Hussainey et al., (2010), dividend policy is distribution of profits to shareholders as dividend and to the business as re-investment. There are several opinions about dividend payment. Al-Malkawi et al., (2010) summarized dividend payment as follows: a) increases in dividend payment improve company's value, b) high dividend payment has opposite effect on company's value, i.e it degrades company's value, and c) dividend payment is not relevant to company's value. Thomsen (2004) states that there are influences of dividend on company's value. Direct influence of payout ratio on company's value can be negative.

However, payout ratio is a signal that the company is very successful or that company managers are very committed to maximizing shareholder value, which can improve company's value then. Asquith and Mullins (1983) explain that negative influence may result in wealth from other costs related to dividend payment. Other than administrative costs for dividend, companies may also have to pay for transactional costs related to new equity issuance. With investment policy given and capital structure, increases in dividend must be funded by new equity. On the other hand, positive influence on wealth has also been suggested by researchers. Investors traditionally would prefer dividend in cash. Positive influence on wealth may also be resulted from dividend policy that communicates valuable information to investors. Bhattacharya (1979) states that investors would prefer high dividend because it has lower risks and uncertainties than retained earnings that will be re-invested in the business. In his research by interviewing managers from 28 companies, Lintner (1956) concludes that company's value depends on dividend policy and furthermore, companies prefer stable dividend policy.

1.1.3 Ownership Structure and Dividend Payout

The influence of ownership structure on dividend payout has been closely monitored by many researchers. Some of them have even tried to explore the agency cost theory in the perspective of ownership structure.

The company's long-term goal is to improve its company's value. Improving company's value means maximizing the wealth of shareholders. According to Fama and French (2001), optimum company's value can be reached through the implementation of financial management functions, making one financial decision will affect other financial decisions and therefore will influence company's value. Mai (2010) states that managing corporate finance involves settling investment decision, financing and dividend policy, and an optimum combination of these three decisions will maximize company's value. Wahyudi (2006) suggests that dividend policy directly influences company's value and investment decision Influences Company's value indirectly through dividend policy and financing decision.

Institutional investors play an effective role at monitoring management than the individual investors. Because of their investment size and the resources at their disposal, Institutional investors have better incentive and capabilities to collect and evaluate information pertaining to their investments. They also possess the clout to discipline management and even bring about the changes when management performs inadequately (Stouraitis and Wu, 2004). Researchers have taken keen interest in identifying impact of ownership structure on dividend policy of the firms' world over. There is no dearth of quality literature on the topic.

Black (1976) very rightly cited the phenomenon, "The harder we look at the dividend picture, more it seems like puzzle, with pieces that just don't fit together." This seems to be very apt while studying all literatures on the ownership structure and dividend policy. The reasons for the dividend puzzle can be attributed to a wide range of factors like, uncertainties, psychological / behavioral economic issues, tax-related matters and asymmetric information, (Ruben, 2002).

Shleifer and Vishny (1986) have conferred that intense institutional ownership can create the incentives to monitor management of the firm. Following the active participation of shareholders in decision making, managers will always be more inclined towards the extending better dividends.

Kinkki (2001), highlighted the traditional contradiction that dividend policy of firm is viewed by considering firm as a single unit while the maximizing overall value of the firm is the actual aim of any management. On the other hand, agency cost approach recognizes firm with conflict of interest where groups that manage firms and owns firms are different and both have self-seeking motives. This throws a question of promotion of individual interest while deciding on how much dividend to pay.

1.1.4 Nairobi Securities Exchange

The Nairobi Securities Exchange (NSE) is the only exchange in Kenya trading listed equities and is one of the largest in the Sub-Sahara Africa. It was a private operation until 1991 but in 1994 allowed investors to open and settle electronic accounts and trade regular hours. The financial

sector currently has twenty firms in the investment, banking and insurance sectors. The financial sector is important because of its ability to transform financial claims of savers into claims (advances) issued to businesses ,individuals and governments(Mishkin & Eakins,2007).The main services offered by the financial sector range from provision of advice to their clients, debt factoring, assisting exporters and importers, executorships and trusteeship services, insurance and brokerage services, share registration, unit trust business, stock exchange services, estate agency services, leasing among other important roles.

The financial sector play a pivotal role in an economy and any problem in this sector will definitely affect the economy. This was evidenced in the 1930's global depression and in Kenya in the early 1990s when the indigenous banks collapsed. However, the collapse of the Rural Urban Credit Finance and many others like the Continental and Union Bank groups at the time, led to the strengthening of the banking legislation.(Kenya Assembly Official Record – Hansard,2003),the financial sector foster capital formation and induce people to make deposits which consistitute a social asset (Vaish 1997)

The Central Bank is the regulator of all the commercial banks in Kenya. The Capital Markets Authority (CMA) regulates stock market operations. Other regulators are Insurance Regulatory Authority (ISA) and The Retirements Benefits Authority (RBA).

The Nairobi Securities Exchange (NSE) is the principal securities exchange in Kenya. It was set up in 1954 as an overseas stock exchange while it was still a British Colony with the permission of the London Stock Exchange .In the recent past, the stock exchange has tremendously increased. A lot of interest in the stock exchange was generated in the 1980s when the government embarked on privatization program targeting state corporations. In 2006, Nairobi Securities Exchange implemented live trading on the Automated Trading Systems (ATS) which was customized to uphold the spirit of the open outcry trading rules in an automated environment. In the same breadth, trading hours increased from two (10:00 am -12:00pm) to three hours (10:00 am -1:00pm).

In July 2007, The Nairobi Securities Exchange reviewed the index and announced the companies that would constitute the NSE Share Index. A Wide Area Network (WAN) platform was also implemented in 2007 and this eradicated the need for brokers to send their staff (dealers) to the trading floor to conduct business. In 2008, the NSE All Index (NASI) was introduced as an alternative index. Its measures are an overall indicator of the market performance. The index incorporates all the traded shares of the day. In July 2011, the Nairobi Stock Exchange Limited changed its name to the Nairobi Securities Exchange .The change of the name reflected the strategic plan of the Nairobi Securities Exchange which supports trading, clearing and settlement of equities, debts, derivatives and other associated instruments (www.nse.co.ke).

1.2 Research Problem

Ownership structure and corporate governance have a significant effect on investment decisions. Ownership structure and corporate governance negatively affect payout decisions, while a positive effect on investment decisions and financing decisions. Ownership structure and corporate governance has a positive effect on dividend policy, while making investment and financing decisions negatively affect dividend policy. Ownership structure, corporate governance, investment decisions, financing decisions and dividend policy and a significant positive effect on firm value, positive relationship between ownership structure and corporate governance on firm value shows the improvement in agency problems. With improved conditions, will further increase the confidence of the shareholders on the return that will be earned on the investments that they do

One of the widely discussed topics in the domain of the dividend policy is the market reaction to dividend change announcements. Miller and Modigliani (1961) argue that, in a perfect capital market, firm value is independent of the dividend policy. Many individuals first think that announcements of dividend initiations or increases might actually tend to be bad news — firms have fewer investment opportunities and thus either begin to pay out or pay out more cash. However, while dividend increases and initiations are associated with mature or maturing firms, actual evidence overwhelmingly shows that higher dividends (especially higher than expected) are good news in the stock market

Dividend payout decision is the primary element of corporate policy and has been viewed as an issue of concentration in the financial literature. Dividends, the reward to shareholders in return of their investment and risk exposure, depends on various factors. Primarily, these factors are profit level, financing limitation, investment chances, firm size, shareholders' pressure and regulatory regimes. When company makes a decision regarding dividend payouts, one important subject of interest is the understanding its relationship with the share price of the company. However, the justification of commonly observed findings has been controversial and come up with two different questions; Is higher stock price a result of higher dividend payouts and vice versa? What is the influence of dividend announcements on the stock market?

Investors are constantly faced with the arrival of new information, such as macroeconomic releases, earnings and dividends announcements, political news etc. Such news leads investors to update their expectations about the fundamentals of the economy. The effect of news on stock returns is central to financial decision making. Investors need to know how return dynamics are affected by news for portfolio allocation, risk management and pricing options. The response of returns to news such as monetary policy decisions conveys important information for policy makers.

Furthermore, the effect of news on the stock market return has important implications for factor models used in security valuation. More importantly, the concept of market efficiency is closely related to the reaction of stock returns to news. Analyzing effects of public announcements on returns might shed some light on market efficiency. It is clear that the change in investors' expectations affect the stock market.

Prior studies have shown that dividend initiation announcements have information effects on the announcing firms. Also, there is evidence to suggest that firms in the same industry face similar operating conditions and production and cost structures. Hence if the initiation of cash dividend payment results from factors that affect the economic conditions of the industry as a whole, then the announcement could convey information on other firms in the industry. Also, extant

literature has shown that corporate events such as dividend announcements can alter the risk of affected firms.

cost of equity in a multi-security Capital Asset Pricing Model (CAPM) setting and concludes that information risk increases market participants' estimation of the variance of a firm's cash flow (i.e., idiosyncratic risk) and covariance with other firms' cash flows (i.e., systematic risk). Empirical support for this line of theoretical work also exists in the literature (Guay, 1999; Sorescu & Spanjol, 2008; Ashbaugh-Skaife et al., 2009; Bartram, Brown and Conrad, 2009; Godfrey, Merrill and Hansen, 2009). Specifically, Ashbaugh-Skaife et al. (2009) reveal that firms that disclose internal control deficiencies have significantly higher idiosyncratic risk, systematic risk and cost of equity.

Although dividend cut announcements trigger substantial negative returns (Michael et al. (1995)). This study seeks to provide evidence that there is a positive relationship between the earnings and risk implications of dividend cuts. In particular, essentially all of the market response to dividend cut announcements is due to new information about current and next year's earnings, and that risk information is conveyed by these announcements. Other studies similar to this study include studies by Boyd, Hu, and Jagannathan (2005) who find that the stock market reacts negatively to positive news about the state of the economy. This study seeks to provide a theoretical explanation for recent empirical findings about the effect of news on the stock market. In Kenya research carried out by Karanja (1984) and Ndung'u (2009) document that determinants of dividend policy has constantly grown from liquidity position of the firm to expected future profits, cash flow position and profitable investments. These determinants are both internal and external. The questions that continue to be addressed are: Should the firm pay out money to its shareholders? Should the firm take that money (dividends) and invest it for its shareholders? If a firm decides to pay a dividend, of what percentage of its earnings should it give, Will this affect the share price of the firm? Would the company lose shareholders if it adopts particular dividend policy?

For these reasons, the present study builds on the study by Amidu and Abor (2006) titled ‘Determinants of Dividend Policy of Banks in Ghana’; the earlier studies by Mutswenje (2006); Asuke (2009); and Odhiambo (2006) to find out the determinants of dividend payment policies by the twenty financial –sector listed companies at the NSE. This study therefore seeks to answers the following research question?

How does ownership structure affect the decision by a financial sector company in paying out dividends?

1.3 Objectives of the Study

To determine the effect of ownership structure on dividend payout of firms listed in the Nairobi Security Exchange.

1.4 Value of the Study

The study offers a mathematical formulation that adjusts dividends according to the ownership structure. This formulation will therefore benefit shareholders and other stakeholders of listed companies by giving an insight into the dividend declaration procedure and the main factors that other peers consider in the determining the same.

Potential investors will also find the study useful. Individual investors (both small scale and large scale) who have different investment needs will be able to make more informed investment decisions. Institutional investors whose needs are different from individual investors will also find the study useful.

This study can be of importance to the to the management of the firms, the study will be important in assisting the management in their pursuit to increase profits of their companies through finding strategies of managing ownership structure.

Scholars wishing to carry out a further study in the sector can find the resource useful since little has been done on the relationship between ownership structure and dividend payout. The study will contribute to the existing body of knowledge and form the basis for further studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter spells out the theoretical foundations of the study; it compares ownership structure and dividend policy and evaluates the ownership structure and Stock>Returns relationship. The chapter also reviews empirical literature both local and globally.

2.2 Theoretical Review

2.2.1 Agency Theory

Agency theory explains how agency problems depend on the ownership structure: on the one hand, firms with dispersed ownership face agency problems between management and dispersed shareholders, as described by Berle and Means (1932). Shareholders with a little stake in the firm has weak incentives to engage in monitoring of managers since all the costs of monitoring are incurred while only a small fraction of the benefits are gained (the typical free rider problem). To resolve the alignment problem in firms with dispersed ownership, the board primary focuses on monitoring. On the other hand, firms with large controlling owners largely solve the management-shareholders agency problem. The composition and role of the board of directors can be influenced by large shareholders in the general shareholders meeting. Rather than using the board to add an additional layer of monitoring, a role as providing resource to management maybe much more useful to improve firm performance.

Hillman and Dalziel (2003) argue that both ability and incentives of stakeholders are likely to affect behavior within organizations, suggesting that examining one without the other is insufficient.

Jensen and Meckling (1976) defined an agency relationship as “a contract under which one or more persons (the principal(s) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent” (p.308). The theory models the relationship between the principal and the agent. In the context of the firm, the

agent (manager) acts on behalf of the principal (shareholder) (Eisenhardt, 1989; Fox, 1984; Jensen and Meckling, 1976; Ross, 1973).

A major issue with respect to the firm is the information asymmetry between managers and shareholders. In agency relationship, insiders (managers) have an information advantage. Owners therefore face moral dilemmas because they cannot accurately evaluate and determine the value of decisions made. Thus, the agent takes advantage of the lack of observability of his actions to engage in activities to enhance his personal goals. To mitigate these agent-shareholder conflicts, formal contracts are thus negotiated (Ross, 1973).

In its initial development, the agency theory was seen as directly applicable to managers and equity holders with no explicit recognition of other parties interested in the well-being of a firm. This is what is regarded as the shareholder theory and is seen by many as a narrow definition in an attempt to address the interests of the various constituents of a corporate entity. Other studies, thus, widened the scope and included not only equity holders but all other stakeholders including employees, creditors, governments and others. This approach, which seeks to align the interests of managers with that of all interested parties, is known as the stakeholder theory. John and Senbet (1998) undertook a comprehensive review of corporate governance with particular emphasis on the stakeholder theory. In Senbet's study, there was the recognition of the fact that a firm has several constituencies who often have competing interests. For instance, while equity holders would welcome and support investment in high yielding but risky projects, such investment would be seen as detrimental to the interest of debt holders.

The principal-agent problem is also an essential element of the 'incomplete contracts' view of the firm developed by Jensen and Meckling (1976), Fama and Jensen (1983) and Hart (1995). This is because the principal-agent problem would not arise if it were possible to write a 'complete contract'. In this case, the investor and the manager would just sign a contract that specifies ex-ante what the manager does with the funds and how the returns are shared. In addressing this problem there have been propositions within both market and non-market mechanisms. Demsetz and Lehn (1985) provide an elaboration on the drawbacks of the market-induced mechanisms for

securing the interests of stakeholders. Thus, corporate governance is identified as a non-market mechanism to deal with and reduce agency problems in a firm. There is a considerable amount of empirical work on using corporate governance mechanisms to reduce agency cost and to examine its linkage with firm performance.

2.2.2. Dividend Signaling Theory

Under traditional dividend signaling theory, outside investors and inside managers have asymmetric information about the firm's future performance, and thus management can use dividend policy to signal insider's information on future cash flows. Theoretical analyses (including Linter (1956), Bhattacharya (1979), Miller and Rock (1985), Johns and Williams (1985), Ofer and Thakor (1987), and etc.) all imply the managers' motivation to use dividend policy to disclose inside information to the market and align the asymmetric information problem. Indeed, as shown in the survey to corporate managers by Baker and Powell (1999), most of the respondents express high level of agreement with the statement about signaling.

Several studies have provided us some example of firm's characteristics (public available information before dividend announcement) which may affect information content in dividend policy and market reaction. For example, Asquith and Mullins (1983) find that market reaction depends on magnitude of dividend changes while Ghosh and Woolridge (1988) find percentage changes matters. Healy et al. (1997) provides evidence that growth earnings before dividend announcement, leverage ratio, P/E ratio, and magnitude of dividend changes all affect market reaction. Moreover, some studies, such as Haw and Kim (1991), Mitra and Owers (1995), and Eddy and Seifert (1998), demonstrate that firm's size may influence market reaction to dividend announcement. These studies may implicit the effect of information risk on dividend signaling role because firm size is often argued as a vague proxy to information risk.

2.2.3 Irrelevance of Dividend Policy

(Miller & Modigliani, 1961) proposed irrelevance theory suggesting that the wealth of the shareholders is not affected by dividend policy. It is argued in their theory that the value of the firm is subjected to the firm's earning, which comes from company's investment policy. The

literature proposed that dividend does not affect the shareholders' value in the world without taxes and market imperfections. They argued that dividend and capital gain is two main ways that can contribute profits of firm to shareholders. When a firm chooses to distribute its profits as dividends to its shareholders, then the stock price will be reduced automatically by the amount of a dividend per share on the ex-dividend date. So, they proposed that in a perfect market, dividend policy does not affect the shareholder's return.

(Brennan, 1971) supported the irrelevancy theory of Miller and Modigliani and concluded that any rejection of this theory must be based on the denying of the principle of symmetric market rationality and the assumption of independence of irrelevant information. He suggested that for rejection of latter assumption, one of these following conditions must exist: firstly, Investors do not behave rationally. Secondly, Stock price must be subordinate of past events and expected future prospect.

(Hakansson, 1982) supported the irrelevance theory of Miller and Modigliani and claimed that dividends, whether informative or not, is irrelevant to firm's value when investors have homogeneous belief and time additive utility and market is fully efficient.

2.3 Determinants of Dividend Payout

The dividend policy determinants have been well documented and researched in developed countries (US, Canada, UK, Germany, France and Japan) USA and European markets (Lintner 1956, Modigliani and Miller (1961). Kania & Bacon (2005) studied the impact of profitability, growth, risk, liquidity and expansion on the dividend decision/policy of a corporation by analyzing the financial data of over 10,000 publicly traded firms using Ordinary Least Squares (OLS). The study concluded that the dividend payout ratio is significantly affected by the profitability (return on equity), growth (sales growth), risk (beta), liquidity (current ratio), control (insider ownership) and expansion (growth in capital spending).

Fama and French (2001) empirically analyzed the importance of firm size, profitability and growth opportunities in the firm's decision to pay dividends. Booth and Cleary [2001] indicated

that a firm's dividend policy is affected by profitability, size, debt, risk, tangibility and growth. Ho (2003) conducted a comparative study of dividend policies in Australia and Japan. The results supported the agency, signaling and transactions cost theories of dividend policy. The study concluded that out of all the regressed variables of profitability, size, liquidity, leverage, risk, asset mix and growth, the dividend policies are affected positively by size in Australia and liquidity in Japan and negatively by risk in Japan only. An industry effect was also found to be significant in both Australia and Japan which indicates the importance of the industry in which a firm competes.

Kumar (2003) studied the possible association between ownership structure, corporate governance and firm's dividend payout policy and found that a positive association exists between dividends and earnings trend. Debt-to-equity is found to be negative and associated, whereas past investment opportunities are positively associated with dividend payout policy in India.

Ahmed and Javid (2009) find out the determinants of dividend payout policy of non-financial firms listed in the Karachi Stock Exchange during the period of 2001 to 2006. The study supported Linter's policy. They clearly demonstrated that the firms rely on both current earnings per share and past dividend per share to set their dividend payments. The profitability, market liquidity and ownership have positive impacts on the dividend payout whereas market capitalization and size of the firms have negative impact on dividend payout policy which clearly shows that the firms prefer to invest in their assets rather than pay dividends to shareholders. Al-Twajjry(2007) studied the emerging market of Malaysia. The study confirmed that current dividends are affected by the past and future. Also, dividends were associated with net earnings but less strongly. Neither the age of the paying dividend company nor its home sector (industry and non-industry) had an impact on the amount paid on each share (DPS). However, size was found to have a significant effect on the DPS as compared to either the current, past or future net earnings.

2.3.1 Growth of the Firm

Arnott & Asness (2003) suggested that the positive relationship between current dividend payout and future earnings growth is based on the free cash flow theory. Low dividend resulting in low growth may be as a result of suboptimal investment and less than ideal projects by managers with excess free cash flows at their disposal. This is prominent for firms with limited growth opportunities or a tendency towards over-investment. Paying substantial dividends which in turn would require managers to raise funds from issuance of shares, may subject management to more scrutiny, reduce conflicts of interest and thus curtail suboptimal investment (Arnott & Asness, 2003)

This is based on the assumption that suboptimal investments lays the foundation for poor earnings growth in the future whereas discipline and a minimization of conflicts will enhance growth of future earnings through carefully chosen projects. Therefore, paying dividends to reduce the free cash flows enhances the performance of a company since managers will have less cashflows thus avoiding suboptimal investments. This is also consistent with the agency cost theory.

Another explanation by Arnott & Asness (2003) for the positive relationship between dividend payout and growth in future earnings is that managers are reluctant to cut dividends. A high payout ratio indicates management's confidence in the stability and growth of future earnings and a low payout ratio suggests that management is not confident of the stability of earnings or Sustainability of earnings growth (Arnott & Asness, 2003). Managers therefore pay low dividends to avoid dividend cuts when earnings drop.

The positive relationship is also driven by sticky dividends combined with mean reversion in more volatile earnings (Arnott & Asness, 2003). The temporary increases and decreases in earnings subsequently reversed cause the payout ratio to be positively correlated with future earnings growth. Their robustness check for the mean reversion of earnings suggested that earnings seem to revert to the mean but may revert most strongly in terms of their ratio to dividends

2.3.2 Profitability of the Firm

Firm performance can be measured by the earnings generated by the company in terms of profitability. Therefore there is a substantial relationship between dividend payout and profitability, dividends are important to shareholders and potential investors in showing the earnings /profit a company is generating. Healthy dividends payouts thus indicate that companies are generating real earnings rather than cooking books (Barron 2002).

The financial literature documents that a firm's profitability is a significant and explanatory variable of dividend policy (Jensen et al., 1992; Han et al., 1999; Fama and French, 2000). However, there is a significant difference between dividend policies in developed and developing countries. This difference has been reported by Glen et al. (1995), showing that dividend payout rates in developing countries are approximately two thirds of those in developed countries. Moreover, emerging market corporations do not follow a stable dividend policy; dividend payment for a given year is based on firm profitability for the same year. Profitability (PROF) is the ratio of net profits to the amount of money that shareholders have put into the company. ROE has been used in several studies as a proxy for firm profitability (Aivazian et al., 2003, ap Gwilym et al., 2004.) and is calculated as follows: $PROF = (\text{Net profit}/\text{shareholder's equity}) * 100$ This creates the assumption that the dividend ratio per year is based on firm earnings for the same year. Amidu and Abor (2006) find dividend payout policy decision of listed firms in Ghana Stock Exchange is influenced by profitability, cash flow position, and growth scenario and investment opportunities of the firms. Profits have long been regarded as the primary indicator of a firm's capacity to pay dividends. Pruitt and Gitman (1991), in their study report that, current and past years' profits are important factors in influencing dividend payments. Al Kuwari (2009) too found a significantly positive relationship between the two.

2.3.3 Liquidity of the Firm

During periods of high inflation when the costs of replacing fixed and current assets are increasing it may well be that a firm's previously determined payout ratio cannot be maintained without jeopardizing its liquidity and even its solvency. This problem is of course largely, if not

wholly, attributable to the defects of the conventional historical cost accounting model. This use of replacement cost or current cost accounting model could probably solve this problem.

2.3.4 Size of the Firm

Eriotis (2005) reports that the Greek firms distribute dividend each year according to their target payout ratio, which is determined by distributed earnings and size of these firms. Research by Lloyd, Jahera, and Page (1985), and Vogt (1994) indicates that firm size plays a role in explaining the dividend payout ratio of firms. They find that larger firms tend to be more mature and thus have easier access to the capital markets, which reduces their dependence on internally generated funding and allows for higher dividend payout ratios. The hypothesized relationship between firm size and dividend payout ratios is positive.

Firm size (SIZE) is measured as a natural logarithm of total assets. This is due to the fact that large firms will pay large dividends to reduce agency costs (Ghosh and Woolridge, 1988; Eddy and Seifert, 1988; Redding, 1997). Eddy and Seifert (1988), Jensen et al. (1992), Redding (1997), and Fama and French (2000) indicated that large firms distribute a higher amount of their net profits as cash dividends, than do small firms. Several studies have tested the impact of firm size on the dividend agency relationship. Lloyd et al. (1985) were among the first to modify Rozeff's model by adding "firm size" as an additional variable. They considered it an important explanatory variable, as large companies are more likely to increase their dividend payouts to decrease agency costs. Their findings support Jensen and Meckling's (1976) argument, that agency costs are associated with firm size. Holder et al. (1998) revealed that larger firms have better access to capital markets and find it easier to raise funds at lower costs, allowing them to pay higher dividends to shareholders. This demonstrates a positive association between dividend payouts and firm size. The positive relationship between dividend payout policy and firm size is also supported by a growing number of other studies (, Eddy and Seifert, 1988; Jensen et al., 1992; Redding, 1997; Holder et al., 1998; Fama and French, 2000; Manos, 2002; Mollah 2002; Travlos et al., 2002; Al Malkawi, 2007). Al Kuwari (2009) too found a significantly positive relationship between the two.

2.3.5 Leverage of the Firm

A growing number of studies have found that the level of financial leverage negatively affects dividend policy (Jensen et al., 1992; Agrawal and Jayaraman, 1994; Crutchley and Hansen, 1989; Faccio et al., 2001; Gugler and Yurtoglu, 2003; Al Malkawi, 2005). Their studies inferred that highly levered firms look forward to maintaining their internal cash flow to fulfil duties, instead of distributing available cash to shareholders and protect their creditors.

However, Mollah et al. (2001) examined an emerging market and found a direct relationship between financial leverage and debt burden level that increases transaction costs. Thus, firms with high leverage ratios have high transaction costs, and are in a weak position to pay higher dividends to avoid the cost of external financing. To analyze the extent to which debt can affect dividend payouts, this study employed the financial leverage ratio, or ratio of liabilities (total short term and long term debt) to total shareholders' equity. Al Kuwari (2009) too found a significantly negative relationship between the two. The proxy used for financial leverage is Debt to Equity ratio.

2.4 Empirical Review

2.4.1 International Evidence

Dividend is considered as an unresolved issue in the field of corporate finance. Many explanations have been presented in this regard. By using a sample of 1000 US firms, Rozeff (1982) argued that in the presence of inside equity holders, the need to pay high dividend is decreased. He considered average payout ratio for a period of seven years (1974-1980) as a dependent variable. The results showed a negative relationship between inside shareholders and dividend payout, while a positive relationship between dispersed shareholding and dividend payout. Jensen et al., (1992) examined interdependence between the determinants of the three policy choices, level of inside ownership, leverage and dividend levels, by applying three stage least squares (3SLS). A cross-sectional firm data was analyzed at two points in time, 565 firms for 1982 and 632 firms for 1987. The results proved insider ownership as an important determinant of a firm's dividend policy and debt. Investment and growth were related negatively to dividend, while profitability was found positively associated with dividend.

Bathala and Rao (1995) used OLS to examine the interrelation between board composition and debt, managerial ownership, and dividend payout for a sample of 261 firms. The findings showed a negative relationship between outside board directors and inside ownership, dividend and debt leverage. The results described that outside directors on the board provided important monitoring function to control agency conflicts.

Yermack (1996) empirically examined the performance effect of board size on a sample of 792 companies for the period of 1984 – 1991. The study found a significant inverse relationship between firm's market valuation and the sizes of board of directors. The model was then tested again using different measures of firm size. The findings described that for the board size, between 4 and 10 members, the market valuation of companies declined but beyond 10 no relationship was found. The findings explained clearly that reducing board sizes may improve corporate governance.

Khan (2006) studied the relationship between dividend policy and ownership structure for a panel of 330 large listed UK firms over the period of 1985–1997. Generalized Method of Moments (GMM) was applied. The results revealed that ownership concentration and individual ownership were negatively related with dividend. A positive relationship was observed for shareholding by insurance companies and dividend. Kumar (2006) analyzed a panel of Indian firms over the period of 1994-2000 to test the relationship between corporate governance, ownership structure and dividend payout. The results revealed that ownership by corporations and directors was positively related with dividend but the squared corporate ownership was negatively related. Earning trends and investment opportunities were positively associated with dividend. The relationship between debt to equity ratio and dividend was negative.

Li and Huang (2007) examined the relationship between institutional ownership and cash dividend for 364 manufacturing listed companies of China over the period of 2001-2003. The results showed a significant positive impact of institutional ownership on the payout of cash dividend, earning per share and debt ratio also was positively associated with cash dividend. By using pooled cross-sectional observations from the top 50 listed Egyptian firms between 2003

and 2005, Abdelsalam et al., (2008) examined the affect of board composition and ownership structure on dividend policies in an emerging capital market of Egypt. A positive relationship was found in institutional non- governmental ownership and dividend policy. The results confirmed that firms with a higher return on equity and a higher institutional ownership distributed higher levels of dividend. No significant association was found between board composition and dividend decisions or payout ratio.

Kouki and Guizani (2009) tested the impact of shareholder ownership on the level of dividend paid by using a panel data of a sample of 29 Tunisian firms over the period of 1995- 2001. A significant negative correlation is found between institutional ownership and dividend policy. Moreover, it was found that large size and high leverage firms pay low dividend, whereas firms with better investment opportunities pay high dividend. Sharif et al., (2010) tested the impact of shareholder ownership on payout ratio for a panel of 41 listed companies on Tehran stock exchange (TSE) for 2002-2008. The results found a significant positive relationship between ownership concentration, institutional shareholding and payout ratio. A negative association was found between the individual shareholders and payout ratio.

AL-Shubiri et al (2010) present a study “The Relationship between Ownership Structure and Dividend Policy: An Empirical Investigation”. The study is conduct in Jordan. The studies examine the relationship capital structure and dividend policy of the Jordanian industrial firms for the year of 2005-2009. The results suggest that ownership structure approach is highly relevant to an understanding of corporate dividends policy in Jordan. The results indicate that there is a significantly negative correlation between the institutional ownership and dividend per share, and a significantly negative relationship between the state ownership and the level of dividend distributed to shareholders. The results also indicate that the higher the ownership of the five largest shareholders, the higher the dividend payment

(AL-Shubiri et al, 2010) Ramli (2010) conduct a study of “Ownership Structure and Dividend Policy: Evidence from Malaysian Companies”. The main focus of their study is to investigate the effect of the largest shareholder on the corporate dividend policy by examining Malaysian listed

companies from 2002 to 2006. The study finds that the largest shareholder or a shareholder group owns around 40 percent of the company paid-up capital. Analysis has been carried out with the view that companies dividend policy may be used to expropriate wealth from minority shareholders. Tobit regression results suggest if there is control of shareholder it influence the dividend policy of Malaysian companies. If the shareholding higher the dividend is also high. But if the second ownership of shareholder is high it is also effect a positive impact on dividend payout policy

(Ramli, 2010) Fida et al. (2012) conduct a study “The Impact of Ownership Structure on Dividend Policy Evidence from Emerging Markets KSE-100 Index Pakistan” to study investigates the determinants of the corporate dividend policy in the context of agency relation. Stepwise multiple regressions used to check the different variables of ownership with relation to the dividend payout policy. The study tells us that there is negative relationship between the managerial ownership and the dividend payout policy that cause the agency problem. Where there has positive relationship between the institutional and foreign share ownership suggested that the higher has their shareholdings the higher will be the firm dividend payouts. Thus, the ownership structure play important role in the corporate dividend policy while minimizing the agency cost associated with the agency issue (Fida et al, 2012).

Al- Gharaibeh et al. (2013) conduct a study to find out that how the ownership structure of a company affects its dividend policy. In their research paper named “The Effect of Ownership Structure on Dividends Policy in Jordanian Companies” they make a sample of 35 Jordanian corporations listed on the Amman Stock Exchange over the period 2005-2010. In methodology they used two models one is full adjustment and other is partial adjustment model. They said full adjustment model is superior because it explain 61.5% of the variation in dividend as compared to partial which is 20.65%.

2.4.2 Local Evidence

Karanja(1987) in his study of the reasons why many publicly quoted companies pay dividends found out that availability of the earnings and the share price are the major drivers. He further cited the firm's cash position as the main consideration when it comes to the timing.

Nd'ungu (2009) and Ahmed(2008) in their study of the various criterion factors that necessitate the declaration of dividends in the Nairobi Stock Exchange between the period between the year 2000 and 2009 mentioned that markets not fully developed and different cultures make the decisions in the local industry a little bit less sensitive as compared to the developed markets. Mutswenje (2006), in a multi-correlation analysis of the dividend paid against other factors (twenty seven in total) such as need of the investors, share price of the firm and broker information; cite a varied response to different conditions the dividend decision will definitely change. Mwaura and Waweru (2012) investigated the signaling hypothesis by testing the placement property of dividends. The study's findings provided further empirical evidence that dividends are used as signals about future earnings prospects of the firm.

2.5 Summary of Literature Review

This literature review analyzed the theoretical foundations of the study by looking at the traditional dividend signaling theory and Miller & Modigliani's proposed irrelevance and relevance theories. It compares information risk and dividend policy and evaluates the information risk and Stock>Returns relationship. The chapter also reviews empirical literature both in Kenya and globally.

The review evaluated the approach in testing for the free cash flow hypothesis, and concludes that the study's results did not provide evidence in favour of the cash flow hypothesis. The review results shed further insights on the controversy regarding the information content of individual changes about future profitability of a firm. The review reveals that scheduled and unscheduled macroeconomics announcements have different effects on the conditional volatility of returns. Specifically, scheduled announcements have less persistent effects on conditional volatility. This review reveals that in Kenya availability of the earnings and the share price are

the major drivers, while empirical evidence that dividends are used as signals about future earnings prospects of the firm.

Although there is evidence that asset returns respond to new macroeconomic information, little is known about the link between announcements about fundamentals and the stock market's reaction. This study therefore proposes to bridge this gap by giving empirical findings to show whether information risks have a significant influence on returns to earnings relation. Previous empirical studies have focused mainly on developed economies. This study examines the relationship between determinants of dividend payout ratios from the context of a developing country. The study looks at the issue from a developing country perspective by focusing specifically on firms listed on the Nairobi Securities Exchange (NSE). This study defines the dividend payout ratio as the percentage of profits paid as dividend.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methods, tools and sources of research data, targeted groups and sample from which data was to be collected in order to attain the objective of the study which is to determine the extent to which current and expected future earnings are influenced by ownership structure of the company. It further discusses how the data was to be processed and tools to be used in data analysis and presentation.

3.2 Research Design

This study used a descriptive research design approach. Research design is a blue-print for fulfilling the objectives and answering questions of the study (Cooper and Schindler, 2009) Types of research designs are descriptive research design, exploratory research design causal research designs. This study will use a descriptive research design. A descriptive survey, by contrast, typically seeks to ascertain respondents' perspectives or experiences on a specified subject in a predetermined structured manner

3.3 Target Population

Target population in statistics is the specific population about which information is desired. For the purpose of this study and to avoid ambiguity, the target population of the study were all the 62 companies listed at the Nairobi Securities Exchange, under the main segment. (See appendix I). This built a more cross sector evaluation contrary to prior studies that have concentrated on specific segments. The information/data on the sample will be obtained from the Capital Market Authority (CMA).

3.4 Data Collection Procedure

The study solely used secondary data sources available at the companies' financial statements at the NSE or Capital Market Authority offices. The Secondary data sources were chosen owing to the fact that they are cheaper and more quickly available than primary data and help clarify and answer research question. Every listed company is required to report the extent to which they

complied with the CMA Principles in their annual reports and other information will be readily accessible at the CMA. Data on performance will be collected on return on equity, dividend payout and stock price, size, and Return on assets.

3.5 Data Analysis

The study used regression to estimate the model with dividend payout as the dependent variable and ownership structure attributes as the independent variables. It analyses the effect of ownership structure by use of two proxy variables the proportion of management ownership and proportion of individual ownership. Size, leverage and profitability are also included in the model as control factors. For the robustness of results i propose to use dividend intensity as dependent variables. The method of estimation will be Ordinary Least Squares (OLS) so as to establish the relationship between ownership structure and dividend payout.

3.5.1 Analytic Model

The economic model to be used in the study is given as:

$$DPO_{it} = \alpha + \beta_1 (MNG)_{it} + \beta_2 (IND)_{it} + \beta_3 (SZ)_{it} + \beta_4 (LVRG)_{it} + \beta_5 (PRFT)_{it} + \epsilon_{it}$$

Where; DPO =	Dividend Payout
α =	constant term
β_n =	coefficient of i
MNG =	proportion of managerial ownership
IND =	proportion of individual ownership
SZ =	size
LVRG =	leverage
PRFT =	profitability
ϵ_{it} =	Standard Error

Operationalization of Variables of the study

Firm size: Large firms should be willing to pay out higher dividend compared to small firms therefore to measure the firm size I consider to use log of Asset.

SIZE 1: Dummy equals to 1 if Gross Total Assets is more than Kenya shillings 5Million but less 400 million

SIZE2: Dummy equals to 1 if Gross Total Assets is more than Kenya shillings 400 Million but less 500 million

SIZE 3: Dummy equals to 1 if Gross Total Assets is more than Kenya shillings 500 Million but less 2billion

SIZE4: Dummy equals to 1 if Gross Total Assets is more than Kenya shillings 2 billion but less 5 billion

SIZE5: Dummy equals to 1 if Gross Total Assets is more than Kenya shillings 5 billion

Ownership structure: In order to analyze managerial ownership, I consider using the proportion of shares held by Board of Directors (BOD) and executive officers. Whereas for individual ownership, I use proportion of shares held by individual investors (individual shareholdings)

MNG 1: Dummy equals to 1 on proportion of stock owned by board members and their relatives

MNG 2: Dummy equals to 1 on proportion of stock owned by institutional shareholders

MNG 3: Dummy equals to 1 on proportion of stock owned by outsiders

IND1: Dummy equals to zero on proportion of stock owned by individuals

PRFT: ROE = Return on Equity Total =Profit after tax/Total equity shares in issue

LVRG = leverage, total liabilities to total assets

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

The purpose of this study was to determine the effect of ownership structure on dividend payout of firms listed in the Nairobi Security Exchange. The study specifically sought to examine the dividend payout as a measure of firm performance and ownership structure

The study relied solely on secondary data which was extracted from the companies' annual financial statements for the year ending December 2013. The populations of companies under study were all the 62 companies listed in the Nairobi securities exchange (NSE). The annual financial reports available at the Capital Markets Authority offices were however for 49 companies. This therefore constituted a response rate of 79%. Data was captured in Ms Excel and SPSS for analysis Regression analysis was used to drive the model in order to determine the relationships

4.2 Response Rate

Out of a total of 62 companies listed in Nairobi securities exchange (NSE). The annual financial reports available at the Capital Markets Authority offices were however for 49 companies. This therefore constituted a response rate of 79% which compared well with other previous empirical studies where the average response rate was 65 percent (Bhunian, 1996). Mugenda and Mugenda (1999) stipulate that even a response rate of 50 percent is adequate for analysis and reporting.

Table 4.1 Response rate

	<i>frequency</i>	<i>percentage</i>
Target	62	100
Actual	49	79

Table 4.1 indicates in the analysis effect of ownership structure on dividend payout the response rate was 79%.

4.3 Descriptive Statistics

The study examined the relationship between some organizational measures with return on equity as a determinant of dividend payout.

Table 4.2 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
RETURN ON EQUITY	49	-22.25	149.00	11.1661	27.61628
LEVERAGE	49	.01	6.90	1.8755	2.26539
SIZE	49	2	5	3.39	.909
OWNERSHIP STRUCTURE	49	0	3	1.51	1.139

Of the firms studied, the mean ROE was 11.1661 suggesting that the firms in the Nairobi Securities Exchange have relatively moderate dividend pay outs. With a maximum of 149.00 and a standard deviation of 27.61628, the implication is that firms at the NSE have relatively different structures and dividend payout sizes.

As far as leverage was concerned the difference is statistically significant in that the majority of the firm in the stock exchange having a ratio of 1.8755 with a standard deviation of 2.26539 implying that on average most companies had more external debts. The descriptive statistics for size indicates that the mean was 3.39 and a standard deviation of 0.909. From these findings most companies were those on the bracket size of 500 Million but less 2billion. From this analysis, most of the firms in the stock exchange had a mean of 1.51 implying that as far as ownership structure was concerned the majority of the firm's equity was owned by institutional

4.4 Descriptive Statistics for Size

The study set to investigate the influence of size. Table 4.3 below shows the study findings, which indicated that the most common size was companies capitalized 500 Million but less 2billion with a frequency of 20.

Table 4.3 Size

		SIZE			
		Frequen cy	Percent	Valid Percent	Cumulative Percent
Valid	400 Million but less 500 million	8	16.3	16.3	16.3
	500 Million but less 2billion	20	40.8	40.8	57.1
	2 billion but less 5 billion	15	30.6	30.6	87.8
	more than Kenya shillings 5 billion	6	12.2	12.2	100.0
	Total	49	100.0	100.0	

Table 4.3 gives a summary of the company size where companies with 500 Million but less 2billion are leading followed by those with 2 billion but less 5 billion with a frequency of 15. These findings imply that the companies in the Nairobi securities exchange are small and medium sized

4.5 Descriptive Statistics for Ownership Structure

The study set to investigate the influence of ownership structure on dividend payout. Table 4.4 below shows the study findings which indicates that the most common structure was companies owned by institutional shareholders with a frequency of 17

Table 4.4 Ownership Structure

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid proportion of stock owned by individuals	14	28.6	28.6	28.6
owned by board members and their relatives	7	14.3	14.3	42.9
stock owned by institutional shareholders	17	34.7	34.7	77.6
stock owned by outsiders	11	22.4	22.4	100.0
Total	49	100.0	100.0	

Table 4.4 gives a summary of the company ownership where companies owned by institutional shareholders are leading, followed by those owned by individual shareholders (f=14). . These findings imply that the companies in the Nairobi securities exchange are mostly owned by institutions and individual shareholders

4.6 Effect of Size on return on equity

The study set to investigate the influence of size on dividend payout. Table 4.5 below shows the study findings which indicates that smaller companies (400 Million but less 500 million) with a mean of 17.2838 had a better ROE

Table 4.5 Returns on Equity

SIZE	Mean	N	Std. Deviation
400 Million but less 500 million	17.2838	8	33.11348
500 Million but less 2billion	15.9825	20	37.07690
2 billion but less 5 billion	5.0467	15	7.84657
more than Kenya shillings 5 billion	2.2533	6	5.46305
Total	11.1661	49	27.61628

Table 4.5 gives a summary of the company sizes where companies with (400 Million but less 500 million) with a mean of 17.2838 had a better ROE followed by those with mean=15.9825 (500 Million but less 2billion). These findings imply that smaller companies in the Nairobi securities exchange are mostly paid better dividends to shareholders.

4.7 Effect of ownership structure on return on equity

The study set to investigate the Effect of ownership structure on dividend payout. Table 4.6 below shows the study findings which indicates that companies that were owned by board members and their relatives paid better dividends mean=28.8786

Table 4.6 Return on Equity Ownership Structure

OWNERSHIPSTRUCTURE	Mean	N	Std. Deviation
proportion of stock owned by individuals	3.5871	14	11.95567
owned by board members and their relatives	28.8786	7	41.91754
stock owned by institutional shareholders	12.5735	17	35.57233
stock owned by outsiders	7.3655	11	8.76272
Total	11.1661	49	27.61628

Table 4.6 gives a summary of the company ownership where companies with owned by board members and their relatives pay better dividends mean 28.8786 followed by those owned by institutional shareholders mean=12.5735 and those by stock owned by outsiders . These findings are consistent with the view that ownership structures, whether diffuse or concentrated, that maximize shareholder expected returns are those that emerge from the interplay of market forces.

4.8 Correlation analysis

This study was guided by the aim of establishing the effect of ownership structure on dividend payout of firms listed in the Nairobi Security Exchange. Correlation analysis was used to determine whether a change in one variable is accompanied by a change in another variable.

Pearson's correlation coefficient, were computed between the measure of ROE and each of the independent variables.

Table 4.7 shows the results

Correlations

		RETURNONEQ UITY	LEVERAG E	SIZE	Ow. STRUCTURE
RETURN ON EQUITY	Pearson Correlation	1	-.136	-.206	.031
	Sig. (2-tailed)		.351	.156	.834
	N	49	49	49	49
LEVERAGE	Pearson Correlation	-.136	1	.126	.088
	Sig. (2-tailed)	.351		.390	.549
	N	49	49	49	49
SIZE	Pearson Correlation	-.206	.126	1	.429**
	Sig. (2-tailed)	.156	.390		.002
	N	49	49	49	49
OWNERSHIP STRUCTURE	Pearson Correlation	.031	.088	.429**	1
	Sig. (2-tailed)	.834	.549	.002	
	N	49	49	49	49

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

From the Correlations matrix, the findings show a negative correlation between ROE and leverage ($r = -0.136$) of a quoted company. There is a negative correlation ($r = -0.206$) between

ROE and size while the relationship between ROE and ownership structure ($r= 0.031$). The findings generally showed a positive correlation between leverage and size $r= 0.126$ and a positive relationship between leverage and ownership structure ($r= 0.031$)

4.9 Regression Analysis

Linear regression was used to derive a linear model describing the relationship between each of the independent variables and the Return on Equity. This has been generated to test whether there is any independent variable that affects or influences another independent variable. In any regression analysis, an assumption is made that the independent variable should not influence each other since it will be difficult to isolate the impacts of one independent variable on the dependent variable. This has determined the extent to which the study variables are correlated. The model summary table below reports the strength of the relationship between the model and the dependent variable

4.9.1 Analysis of the variance (ANOVA)

Table 4.8 Analysis of the variance (ANOVA)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			
					R Square Change	F Change	df1	Sig. F Change
1	.270 ^a	.730	.071	27.45873	.073	1.184	3	.326

a. Predictors: (Constant), OWNERSHIPSTRUCTURE, LEVERAGE, SIZE

As shown in Table 4.8 the significance value of the F statistic is less than 0.326 (95% confidence interval). This implies that the variation explained by the model is not due to chance. This signals the models' efficiency in estimating the relationship between the dependent and the independent variables.

Table 4.8 further shows that R, the correlation coefficients has a value of 0.270 this signify a linear correlation between the observed and model-predicted values of the dependent variable. R square, the coefficient of determination yielded a value of 0.073. This implies that 73% of the variation in ROE is explained by the model or that the model is 73 % efficient in estimating the relationship.

4.9.2 Regression coefficient

The contribution of each independent variable in the model is shown by the size of the coefficient. Table 4.9 shows the coefficients of the independent variables in the model. This has been used to test or determine the overall exploratory powers of the entire regression. ANOVA uses the F statistics or F ratio to test the hypothesis that the variations in the independent variables, (Average Dividends per share, Average Total Earnings Per share and explains the significant proportion of the variations in the dependent variable (Average dividend payout). This has used the F statistics to test the null hypothesis that all the regression coefficient are equal to zero gains the alternative hypothesis that they are not all equal to zero.

Table 4.9 Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	34.641	15.407		2.248	.029
LEVERAGE	-1.431	1.765	-.117	-.811	.422
SIZE	-7.766	4.852	-.256	-1.601	.116
OWNERSHIP STRUCTURE	3.654	3.856	.151	.948	.348

a. Dependent Variable: RETURN ON EQUITY

The table above gives the coefficients of the tested variables in the regression model. This suggests that amongst all the other variables only ownership was positively related to ROE. In summation the linear model for estimating the effect of ownership structure on dividend payout in terms of other variables can be expressed thus: $X = 34.641 + 3.654 \text{ ownership} - 1.431 \text{ Leverage} - 7.766 \text{ size} + \epsilon$

From the study findings there is a significant relationship between ownership structure and the dividend payout of the firm. The null hypothesis is therefore rejected.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The objective of the study was to investigate the effect of ownership structure on dividend payout of firms listed in the Nairobi Security Exchange. In order to attain this objective, statistical analysis was done for 49 companies out of a population of 62 companies quoted in the period ending December 2013.

This chapter gives a summary of the study findings. It also presents the limitations and recommendations for further research. The data were analyzed by use of SPSS package to produce the correlation as well as regression analysis. Tables were used to describe the data and draw conclusions on the findings.

According to the findings presented in the previous chapter, the following summaries can be drawn:

The findings have shown that the correlation coefficient between ROE and the Size factor was this by extension implies that ROE was positively affected by the size of the firm

The correlation between ROE and the leverage was a negative correlation implying that there was a corresponding poor performance of ROE where the firm had a lot of external debt

The findings also showed a miniature positive correlation between the relationship between ROE and ownership structure the findings and analysis implied ownership structure to some extent affected the dividend payout decisions

The linear model for estimating illiquidity in terms of other variables can be expressed thus:

$$Y = 34.641 + 3.654 \text{ ownership} - 1.431 \text{ Leverage} - 7.766 \text{ size} + \epsilon$$

5.2 Conclusions

This study was conducted with the primary aim of establishing the effect of ownership structure on firms' dividend policy. The study also aimed at establishing the association between changes in ownership structure and corresponding changes in payout. The study focused on firms listed in

the Nairobi Securities Exchange. To achieve the above objectives, a regression analysis was conducted whereby changes in firms' ROE were regressed against the three explanatory variables; ownership structure, Size and Leverage. Ownership for a period the period (2012-2013). Data on changes of ROE (Y) for the study firms' was obtained from the NSE; corresponding data for Size and leverage respectively (X1, X2) was also obtained from the same source. The two sets of data were then subjected to a regression analysis.

The study found ownership structure of firms' influenced a dividend payout especially smaller firms that were owned by directors and their families

Two major conclusions can be drawn from the findings of this study. The results indicated that the firms' ownership structure does not significantly influence dividend policy. The study concluded that other factors other than ownership structure were responsible for changes in dividend policy of NSE listed firms.

5.3 Limitations of the Study

There was limited prior research on the relationship between ownership structure and dividend policy in Kenya.

The amount of information collected was enormous. The researcher had to discriminate among them through coding and deduction which greatly reduces the amount of data that can eventually be included in the final report.

Limited period of time and small sample size was a limitation of this study. Results may not be indicative for the entire target respondents at large.

The researcher's resources were limited. And lot of time was required to prepare and collect information.

5.4 Recommendations

From the finding and conclusion of the study, ownership structure of firms' influenced dividend payout especially smaller firms that were owned by directors and their families. It also concluded that, other than ownership structure other factors were responsible for changes in dividend policy

of NSE listed firms. The positive correlation between ROE and ownership structure implies that ownership structure affects the dividend payout decisions.

Therefore, the study recommends that further research be done to establish: the effect of other forms of ownership structures on firms' dividend policy; and why ownership structure exhibited high dividend payout for companies that are owned by board members and their relatives.

5.5 Suggestions for Further Research

Further investigation may be done to establish the effect of other forms of ownership structures on firms' dividend policy.

The role of dividend payouts in the mitigation of agency conflicts in Kenya is a fertile area for more research.

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Appendix 1: Population-Companies listed at the NSE (main segment)

AGRICULTURAL

1. Kakuzi
2. Rea Vipingo Plantations Ltd
3. Sasini Ltd
4. Williamson Tea Kenya Ltd
5. Kapchorua Tea Company Ltd
6. Limuru Tea Company Ltd
7. Longhorn Kenya Ltd
8. Kenya Orchards Ltd

COMMERCIAL AND SERVICES

9. Access Kenya Group Ltd
10. Uchumi Super market Ltd
11. Express Kenya Ltd
12. Car & General (K) Ltd
13. CMC Holdings Ltd
14. Hutchings Biemer Ltd
15. Kenya Airways Ltd
16. Marshalls (E.A.) Ltd
17. Nation Media Group
18. Safaricom Ltd
19. Scangroup Ltd
20. Standard Group Ltd
21. TPS Eastern Africa (Serena) Ltd

FINANCE AND INVESTMENT

22. Barclays Bank Ltd
23. Centum Investment Co Ltd
24. CFC Stanbic Holdings Ltd
25. Diamond Trust Bank Kenya Ltd
26. Equity Bank Ltd
27. Housing Finance Co Ltd
28. Jubilee Holdings Ltd
29. Kenya Commercial Bank Ltd
30. Kenya Re-Insurance Corporation Ltd
31. National Bank of Kenya Ltd
32. NIC Bank Ltd
33. Olympia Capital Holdings Ltd
34. Pan Africa Insurance Holdings Ltd
35. Standard Chartered Bank Ltd
36. The Co-operative Bank of Kenya Ltd
37. British-American Investment Co.
(Kenya) Ltd
38. Liberty Kenya Holdings Ltd

39. CIC Insurance Group Ltd
40. Eaagads Ltd
41. Home Africa Ltd
42. I&M Holdings Ltd
43. Centum Investment Co. Ltd
44. A.Baumann & Co. LTD

INDUSTRIAL AND ALLIED

45. Athi River Mining
46. B.O.C Kenya Ltd
47. Bamburi Cement Ltd
48. British American Tobacco K Ltd
49. Carbacid Investments Ltd
50. Crown Berger Ltd Ord
51. E.A.Cables Ltd Ord
52. E.A.Portland Cement Ltd
53. East African Breweries Ltd
54. Eveready East Africa Ltd
55. KenGen Ltd .
56. KenolKobil Ltd
57. Kenya Power & Lighting Co Ltd
58. Mumias Sugar Co. Ltd
59. Sameer Africa Ltd
60. Total Kenya Ltd
61. Unga Group Ltd
62. Ememe Ltd