

**THE EFFECT OF NON-PAYMENT DIVIDEND POLICY ON THE  
VALUE OF INVESTMENT CATEGORY FIRMS LISTED AT THE  
NAIROBI SECURITIES EXCHANGE**

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## **DECLARATION**

This management research proposal is my original work and has not been submitted for the award of a degree in any other university.

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## **DEDICATION**

This project is dedicated to my wife Mrs. Ruth Ongeta who saw to it that I got the best financial and moral support during the period of the research. To my children and friends who supported me.

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## **ABBREVIATIONS AND ACRONYMS**

**AIMS:** Alternative Investment Market Segment

**ANOVA:** Analysis of Variance

**CMA:** Capital Markets Authority

**EPS:** Earnings Per Share

**FIMS:** Fixed Income Market Segment

**MIMS:** Main Investment Market Segment

**MM:** Modigliani & Miller

**NAVPS:** Net Assets Values Per Share

**NSE:** Nairobi Securities Exchange

**OLS:** Ordinary Least Squares

**SPSS:** Statistical Package for Social Science

## **ABSTRACT**

This study was on the effect of non-payment dividend policy on the value of investment category firms listed at the Nairobi Securities Exchange. The research objective was to establish the effect of non-dividend payment on value of investment firms listed on the Nairobi Securities Exchange. The results will assist in the understanding of how non-dividend payment policy influences a firm's value. Firms can then make use of such information to implement a non-dividend payment policy which satisfies its shareholders expectations. The value of the firms with the policy of non-payment was compared with those which pay dividends. The firm will also ensure that the non-dividend policy implemented is not negatively affected by the firm's value since a decline in firms value can be interpreted in terms of worse times ahead for such a firm. The research was based on the investment firms consistently listed at the NSE for the five years' period from 2010 to 2014 inclusive. Data on listed firms is readily available and regarded credible for use. Five firms were used in the analysis upon which regression analysis and the SPSS analytical software were used to analyze the data. The research found that there was a significant relationship between non-dividend payment policy and firms value. Firm's value was also found to vary in the different years under study. Non-Payment policy was therefore one of the factors that influenced the value of the firm though further research is therefore necessary to establish the effect of the same in other categories of firms listed on Nairobi Securities Exchange and other firms not listed.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

Each operating enterprise is interested in running a profitable business which meets the shareholders or stakeholders objectives. The main objective of firms is to maximize the shareholders wealth. Copeland and Weston (1988) says that this might be achieved by exploiting a complex of different factors that affect the value of firms and making critical decisions by managers of firms who are the agents of the shareholders.

One of the major decisions which managers have to make to be able to address the shareholders needs is Dividend policy. This is because the dividend policy was to determine whether the firm would invest in new investment projects using either external or internal financing. This decision which may turn out to influence the value of the firm especially from the shareholders preferences of the timing of the dividends. Copeland and Weston (1988), Firms listed in the securities exchange must therefore decide whether to adopt a dividend payout policy of paying out dividends or reinvesting them into the business and then determine which of the two would affect the value of the firm positively in order to maximize the shareholders wealth.

### 1.1.1 Dividend Policy

Dividend policy is the set of guidelines a company uses to decide how much of its earnings it will pay out to shareholders. Some evidence suggests that investors are not concerned with a company's dividend policy since they can sell a portion of their portfolio of equities if they want cash. This evidence is called the dividend irrelevance theory and it essentially indicates that an issuance of dividends should have little to no impact on stock price. (Modigliani and Miller, 1961).

Some firms have a policy of non-payment of dividends. These are usually firms that are young and unstable and therefore would like to reinvest the dividends instead of paying out to the shareholders. Firms with investment opportunities would as well employ a policy of non-payment so as to finance the ventures with the aim of increasing and maximizing the shareholders wealth.

One type of dividend policy involves use of a constant payout ratio. The dividend payout ratio indicates the percentage of each dollar earned that is distributed to the owners in form of cash. It is calculated by dividing the firms' dividend per share by its earnings per share. With a constant payout ratio dividend policy, the firm establishes that certain percentage of earnings is to be paid to owners of firms in each dividend period.

The regular dividend policy is based on the payment of fixed – dollar dividend in each period. This policy provides owners with generally positive information, thereby minimizing their uncertainty. Often firms that use this policy increase the regular dividend once a proven increase of earnings has occurred. Under this policy dividends are mostly never decreased but remain constant or increase depending on the earnings.

Some firms establish a low-regular -extra dividend policy, paying a low regular dividend supplemented by additional dividend when earnings are higher than normal in a given period. By calling additional dividend an extra dividend, the firms avoid giving shareholders false hopes. This policy is especially common among companies that experience cyclical shifts in earnings in different periods.

Dividend policy represents a plan of action to be followed whenever the dividend decision is made. Firms develop policies which are consistent with their goals. Several factors affect dividend policy decisions made by firms. Some of the factors which affect the dividend policy decisions include;

Legal constraints prohibit firms from paying out cash dividends from the firm's capital. These capital impairment restrictions are established to provide sufficient equity base to protect creditors' claims. Also imposed is the requirement limiting firms from paying more cash dividends than their most recent and past retained earnings, Elston, Julie Ann (1996).

The firm's financial requirements are directly related to how much it expects to grow and what assets it will need to acquire. Firms therefore will evaluate their profitability and risk to develop and risk of raising external capital. The speed and cost associated with obtaining financing is a major factor firms consider as they decide whether to pay dividends or not. The growth firm is likely to depend heavily on internal financing through retained earnings and it's likely to pay a very small percentage of its earnings as dividends. A more established firm is likely to pay large proportions of its earnings as dividends.

Owners of firms may influence dividend policy adopted by the firm by considering their tax status. If a firm has a large percentage of wealth shareholders who have sizable incomes, it may decide to pay a lower percentage of its earnings to allow the owners delay the payment of taxes unlike small and unstable firms who cannot access

external financing easily and whose customers are consumers. A consideration of new equity capital due to dividends payout may lead to potential dilution of ownership and this may affect the dividend payment decisions, Elston, et al, (1996).

An awareness of a markets probable response to certain types of policies is helpful in formulating dividend policy. Shareholders are believed to value a fixed or increasing level of dividends as opposed to a fluctuating pattern of dividends. Shareholders value a policy of continuous dividend payment because it eliminates uncertainty about the returns of a firm which are likely to be discounted at a lower rate. Shareholders view dividend payment as a signal of the firm's future success. A stable and continuous dividend is a positive signal signaling a firm's good financial decision. Non-payment of dividends signals negative about the financial position of the firm

### **1.1.2 Value of the Firm**

The value of the firm's equity is the discounted value of its shareholders earnings called net income. That is, the net income divided by the equity capitalization rate or expected rate of return on equity. Modigliani (1980), the net income is obtained by subtracting interest on debt from net operating income.

The most readily available measure of the value of a firm is its accounting net worth, or book value. The market value of all its outstanding shares is a popular everyday-world method of valuating public firms. Its application, however, requires an efficient real market for shares. In calculating the value of s stock, expected dividend is used as a variable which is derived from the previous dividends adjusted for dividend growth.

The capitalized value of firms' projected future earnings also provides the value of the firm. The future earnings are discounted using the rate of return for the market and this provides the value of the firm. Dividends are distributions from the earnings and therefore a key factor in valuation.

Bureaucratic theory assumes that value is created through standardization and rules that help to fulfill anticipated needs (Weber, 1947). Alchian and Demsetz's (1972) team production approach, on the other hand, considers value to derive from the collaboration between individuals, and Porter's (1985) value chain model assumes that value derives from the improvement and alignment of a firm's activities.

Behavioral theory (Cyert & March, 1963) assumes that firms create value by compensating for the individuals cognitive limitations, thereby enabling more rational decisions. On the other hand, entrepreneurial theories of the firm consider the firm to be an instrument for entrepreneurs to realize their visions (Alvarez & Barney, 2007; Witt, 2007). As such, firms are assumed to create value for the entrepreneurs that establish them.

The resource-based view, for example, assumes that value is an inherent property of resources, and that firms create value by obtaining these resources at a lower price than for which they can be sold in the future (Barney, 1991). At the other end, stakeholder theory assumes that firms create value by aligning and synthesizing the interest of all stakeholders involved in a firm whereas the knowledge-based view assumes that firms create value by combining and integrating specialized tacit knowledge of individuals through rules and routines (Grant, 1996).



### **1.1.3 Relationship between Dividend Policy and the Value of the Firm**

A more sophisticated argument for a relationship between the value of the firm and dividend payout proposed by Gordon and Lintner (1956) is that although the dividend decision cannot change the present value of cash payments to shareholders, it can affect the temporal pattern of payouts.

Firm value can be measured by the earnings generated by the company in terms of profitability. Dividends are important to shareholders and potential investors in showing the earnings that a company is generating. A study by Zhou & Ruland (2006) revealed high dividend payout firms tend to experience strong future earnings but relatively low past earnings growth despite market observers having a contradicting view. The findings of another study done by Arnott & Asness (2003) also revealed that future earnings growth is associated with higher rather than low dividend payout. They concluded that this historical evidence strongly suggests that expected future earnings grow this fastest when current payout ratios are high and slowest when payout ratios are low.

With growth of companies being closely associated with dividend pay outs, there exists a relationship between the dividend policy and future expected earnings and by extension the value of the firm. Non-dividend payout influences the investments of firms using retained earnings which are a cheap source of capital compared to other external sources of finance.

### **1.1.4 Firms listed at the Nairobi Securities Exchange**

The NSE is categorized into three market segments of Main Investment Market Segment (MIMS), Alternative Investment Market Segment (AIMS) and Fixed Income Market Segment (FIMS) (Capital Markets Authority, 2002). The MIMS is the main quotation market. Companies listed under this segment are further categorized into four sectors that describe the nature of their business. These are agricultural, Automobiles and accessories, Banking, commercial and services, construction and allied, energy and petroleum, insurance, investment, investment services, manufacturing and allied and telecommunications and technology (Capital Markets Authority, 2015).

The AIMS provides an alternative method of raising capital to small, medium-sized and young companies that find it difficult to meet the more stringent listing requirements of the MIMS. The FIMS, on the other hand, provides an independent market for fixed income securities, such as treasury bonds, corporate bonds, preference shares and debenture stocks, as well as short-term financial instruments, such as treasury bills and commercial papers (Capital Markets Authority, 2002; Nairobi Securities Exchange, 2012).

For the purpose of this study, there are five firms listed in the NSE under the investments category. Out of the five firms some employ the dividends non-payment policy for example centum investment company while others have a policy on dividend payout. Both these firms have their values either increasing or decreasing. Therefore the study tried to answer the question on the effect of non-payment dividend policy on the values of firms listed in the investment category in the NSE.

## **1.2 Research Problem**

Despite numerous studies that have been done, the effect of dividend policy on firms' value and share prices remain an unresolved issue in finance. Several theories that have been put forward have not had a universal proposition (DeAngelo, et. al, 2006). Modigliani and Miller (1961), one of the pioneers of dividend irrelevance theories stated that dividends are irrelevant in the valuation of a firm since investors can create "homemade" dividends by practicing arbitrage. Walter (1963) on the other hand disagreed with MM and had a view that dividend policy would only be irrelevant if the level of growth rate and weights employed in determining cost of capital are independent of dividend payout policy. Investors prefer lower pay-out companies in order to avoid current taxation since dividends are taxed at higher rates than capital gains (Litzenberger & Ramaswamy, 1979).

The choice of dividend policy will always affect the value of an enterprise since markets are never perfect in the real world (Walter, 1963). The announcement of dividends convey certain information which is not available to the public thus there is a positive relationship between asymmetry of information and dividend policy hence managers use dividends to convey useful information about a firm's future earnings to investors (Bhattacharya, 1979).

Studies suggest that dividend policy decisions carry concealed messages from management that may influence share prices (Zhou & Ruland, 2006). A number of studies have been done mostly in the developed world to establish the relationship between dividend policy and share prices especially in advanced markets. Azhagaiah & Priya (2008) established that higher dividends increased the market value of shares

while lower dividends reduced the market value of shares since shareholders prefer dividends to future capital gains. Studies have analyzed the relationship between dividend policy and value of the firms with greater emphasis to firms paying out dividends as opposed to those with dividend non-payment policy.

A local study by Bitok (2004) on the effect of dividend policy on the value of the firms quoted at the NSE found that paying dividends reduces risk to the companies and thus influence stock price. The study also found that dividend yields and payout ratio serves as proxies for the amount of projected growth opportunities. On another research by Karanja (1987) on dividend practices of publicly quoted companies, it was found that there are many reasons why firms pay dividends and the dividend payment directly affected the share price of the company in question. One reason is lack of investment opportunities, which promises adequate returns.

Current dividend payments reduce investor uncertainty, causing investors to discount the firm's earnings at lower rates of return while dividend reduction increases uncertainty thereby raising the required rate of return (Waithaka et al., 2012) which is a variable in valuation of firms. The announcement of dividends by a firm has short term effect on its share price Muriuki (2010) and the effect of dividend per share (DPS) on firm value is stronger than that of retained earnings per share (REPS) when DPS and REPS are the only two explanatory variables (Mohammed, 2010).

There is no known study done locally to establish the effect of the non-Payment dividend policy on firm value of companies listed in the NSE. Past studies have generalized their research to a given sample drawn from the stock exchanges without

attempting to focus on the difference of value between firms that have a policy of non-payment like Centum Investments and firms that pay dividends. From these studies there is no conclusive position about the non-Payment dividend policy and value of the firm in the listed in the NSE.

The point of concern is whether or not the dividend policy affects market values of company shares and by extension the firm's value. This study therefore seeks to establish the effect of policy of dividend non-payment policy on value of firms listed on NSE. The research therefore seeks to answer the question on the relationship between non-dividend policy and firm value among the listed investment firms in Kenya.

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

The objective of this study was to establish the effect of non-dividend payment policy on value of investment category firms listed on the Nairobi Securities Exchange.

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

The study is expected to be of help to various groups as follows:

The study will inform the fiscal policies of the Government. This is because dividends are subject to withholding tax and therefore form part of the revenues collected by the Kenya Revenue Authority. This study will inform the government on the best policies to assist in revenue collection. Terms of trade and credit would also be affected by this information. It is intended to lobby for Kenyan investors to be involved in the events that lead to the creation, modification of various dividend policy practices and thus enable them to be more applicable and relevant in the firms.

The study forms the basis for future researchers and academicians who may be conducting research on roles and effectiveness of non-payment dividend policy specialists in service delivery since such policies have changed over the years thus contributing to theory by indicating whether such policies are fully applicable in the industries. It will add to the existing body of knowledge and provide a source of reference to further empirical studies into the little known ways of formulating such policies.

The study will offer the suggestions to the firm's management as to internal controls that the sector could implement to reduce the likelihood of shareholders pulling out and to strengthen the effectiveness of such services for the survival of the sector. The study will assist managers also in making dividend policy decisions which will serve the interest of their principals.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

Literature is reviewed in three sections. Apart from the introduction which covers section one; the second section covers theoretical literature, largely on dividend theories. The third section covers empirical literature. The study focuses on effects that a firm's non-dividend policy might have on the firm's value.

This study will review both theoretical and empirical from various researchers and this will form the basis of this research. Past researchers will provide the theory behind the relevance and irrelevance of the dividend policy to the value of the firm. The empirical literature review will inform if the same study has been done for the NSE context and provide the gap to be filled by this research especially in establishing the effect of non-dividend policy on value of investment category firms listed at the NSE.

In the NSE, the investments firms listed include; Centum Investments, Home Afrika Ltd, Kurwitu Ventures Ltd, Olympia Capital Holdings and Trans Century ltd. In this group some of the firms have a dividend non-payment policy for example Centum Investments while the others have a dividend pay-out policy. Both dividend policies have an effect on the values of the respective firms and we shall review the literature to be able to find out the relationship.

### **2.2 Theoretical Literature**

The study is anchored on the two main categories of dividend irrelevance theories and the dividend relevance theories.

Miller and Modigliani, 1986 and Miller and Modigliani, 1961) provides a hypothesis for dividend policy irrelevance. This group bases its theory on the assumptions of perfect capital markets, meaning no taxes or transaction costs exist, the market price cannot be influenced by a single buyer or seller, and there is costless access to information, rational behavior on the part of participants in the market, valuing securities based on the discounted value of future cash flows accruing to investors, certainty about the investment policy of the firm and complete knowledge of these cash flows and managers that act as perfect agents of the shareholders. For dividend policy to matter, one or more of these assumptions cannot hold.

The interests of non-investor stakeholders can affect the financial decision-making process of firms, through both explicit and implicit claims on the value of the firm (Jensen, 1983). The value of implicit claims is related to the total risk of the firm. As the firm decreases its ability to honor implicit claims, it becomes riskier to its stakeholders. As noted above, to compensate for this risk, the value of the goods or services that the firm sells is reduced. Implicit claims are more sensitive to changes in the financial condition of the firm than are explicit claims, since a firm can choose to default on its implicit claims without being forced into bankruptcy. If firms have serious cash flow shortages, they will default on implicit claims first, then on explicit claims. Thus, implicit claimants are at the greatest risk.

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

Dividend policy has been extensively studied within the financial literature. In 1961, two noble laureates, Merton Miller and Franco Modigliani (M&M) showed that under



certain simplifying assumptions, a firm's dividend policy does not affect its value. M&M concluded that given a firm's optimal investment policy, the firm's choice of dividend policy has no impact on shareholders' wealth. In other words, all dividend policies are equivalent.

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

### **2.2.2 Tax-Preference Theory**

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

Individual investors pay higher ordinary income taxes on dividends but lower tax rates on long term capital gains (Brigham and Enhardt, 2011).

Even if dividends and capital gains are taxed equally, the taxes paid on dividends will be far much more compared to the taxes paid on capital gains due to time value of money. A shilling worth of tax today is more in value than the shilling in the future hence capital gains in future are preferred to dividends today (Brigham and Enhardt, 2011).

### **2.2.3 Signaling Theory**

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

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

hypothesis includes that dividends and future earnings are in relation to each other. The studies then examine fundamentally how dividends affect future earnings. Such studies are, for instance, Lintner's (1956) and Watt's (1973) propositions. Under the title of signaling or information content of dividends, a number of studies have been made to examine the reaction of stock markets to dividend announcements. These studies have, in fact, examined stock markets' semi strong-form efficiency. Empirical results have found the signaling effect of dividends especially on U.S. data. Fama–Fisher–Jensen–Roll (1969) proposed the basic hypothesis explaining price reactions to stock dividends and stock splits. These announcements signal higher expected future earnings, which can later result in higher cash dividends.

#### **2.2.4 Agency Theory**

Traditionally, corporate dividend policy has been examined under the assumptions that the firm is one homogenous unit and that the management's objective is to maximize its value as a whole. The agency cost approach differs from the traditional approach mainly in the sense that it explicitly recognizes the firm as a collection of groups of individuals with conflicting interests and self-seeking motives. Under the agency theory, these behavioral implications cause individuals to maximize their own utility instead of maximizing the firm's wealth. According to Jensen–Meckling (1976), agency problems in corporations primarily arise from external debt and external equity.

Agency theory underpins the relationship between the principal and the agent. Within the context of the firm, agency theory is primarily concerned with owner-manager relationship and with the need for shareholders to monitor management behavior. This need arises due to the separation of ownership and control and the associated conflicts

of interests that arise between shareholders (principals) and managers (agents). The agency-related rationale for paying dividends is based on the idea that monitoring of the firm and its management is helpful in reducing agency conflicts and in convincing the market that the managers are not in a position to abuse their position. Some shareholders may be monitoring managers, but the problem of collective action results in too little monitoring taking place.

Easterbrook (1984) suggests that one way of solving this problem is by increasing the payout ratio. When the firm increases its dividend payment, assuming it wishes to proceed with planned investment, it is forced to go to the capital market to raise additional finance. This induces monitoring by potential investors of the firm and its management, thus reducing agency problems. Rozeff (1982) develops a model that underpins this theory, called the cost minimization model. The model combines the transaction costs that may be controlled by limiting the payout ratio, with the agency costs that may be controlled by raising the payout ratio. The central idea on which the model rests is that the optimal payout ratio is at the level where the sum of these two types of costs is minimized.

### **2.3 Determinants of Firm Value**

One way to value a company is to total the sum of its tangible assets. Tangible assets include real estate, equipment such as computers, office furniture, stock and any other physical item of value owned by the company. Any debt or liabilities owed by the company should be subtracted from the sum of assets. This will give the net assets of the firm by subtracting liabilities from total assets. By dividing net assets by the outstanding shares gives rise to NAVPS which is major determinants of firm's value.

One advantage of this method is that it can be done quickly. However, this method does not take into account the future earning potential of an organization. (Ramirez et al 1993).

Another common approach to business valuation is to look at a company's cash flow and project what the cash flow might be in the future. This can be done simply, by subtracting total expenses from total earnings; more complex variations project future cash flow by taking into account such elements as monetary inflation and risk. While this method may be more accurate than simply looking at assets, it can take longer and may require the assistance of an accountant.

While publicly held businesses are required to publish earnings on a semi-annual basis, small private businesses are not. One way to estimate the value of a small business is to look at its relative worth. This entails comparing it to similar companies that is companies of like size and in the same industry whose worth is already known. Looking at the selling price of similar companies will help to more properly value the organization one is looking to buy or sell (Ramirez et al, 1993).

Some intangible assets, although difficult to value precisely, should be taken into consideration when valuing a company. For example, what is the reputation of the business? An organization with a proud history and a loyal customer network is obviously worth more than an organization reeling from scandal. Other intangible assets to consider are the value of any patents or intellectual property held by the company, the company's relationship to supplier networks and the value of the company's workforce.

## **2.4 Empirical Literature Review**

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

Bunyasi (2012) sought to establish the effect of dividend policy on the market value of shares of public companies quoted at the Nairobi Stock Exchange. This involved finding out whether payment or nonpayment of dividends affects the value of a firm as measured by the market share prices. The population of study consisted of the 48 companies quoted at the N.S.E. The study also looked at the factors that determine dividend payment. The study period was the years 1997 - 2005.

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

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

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

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

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).

A local study by Bitok (2004) on the effect of dividend policy on the value of the firms quoted at the NSE found that paying dividends reduces risk to the companies and thus influence stock price. The study also found that dividend yields and payout ratio serves as proxies for the amount of projected growth opportunities.

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



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

More recently Limungi (2011) in his study on the ex-dividend day stock price behavior 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 NSE.

Enhardt (2013) also conducted another study whose findings showed that there was correlation between dividend policies and share prices. During the study, it was

realized 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**

From the studies, it is evident that dividend policy has some relationship with the value firms. According to the model founded by Graham and Dodd, the market price of the shares will increase when a company declares a dividend rather than when it does not. James Walter also concluded that the dividend policy of a company has an impact on the share valuation of firms and therefore its value and finally Myron Gordon, the dividend policy of the company has an impact on share valuation.

Most of the studies have dealt with the effect of dividend pay-out on the value of firms while even those firms with a policy of non-payment of dividends have their values moving in a certain direction. The studies also failed to investigate the effect of non-payment of dividends to the value of the firm for those listed in the NSE.

This study therefore tried to answer the question on the effect of dividend non-payment policy on the value of firms listed in the NSE. The study therefore tries to bridge the gap specifically finding the relationship between dividend non-payment

policy and firm's value for firms listed in the NSE where markets are imperfect and some firms pay dividends and others do not pay and the effect of these on the firms' value.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter discusses research methods and procedures that will be employed in this study and the research design. It also discusses the population of the study, sample and sampling techniques, data collection methods as well as data analysis and data presentation methods employed in the study and highlight the sources of information for the research and data validation and integrity so that the kinds of errors could be identified and eliminated during the analysis and interpretation.

### **3.2 Research Design**

The nature of the study was a correlational research study. A correlational study is a scientific study in which a researcher investigates associations between variables. It attempts to explore relationships to make predictions. It uses one set of subjects with two or more variables for each. This study therefore will be able to generalize the findings to a larger population. The main focus of this study will be quantitative. In order to capture the required information to answer to the research questions, a survey of all investment category firms listed at the NSE was conducted for a period of 5 years from 2010 to 2014. The study seeks to establish the effect of non-payment dividend policy on value of investment category firms listed at the NSE as at 3<sup>rd</sup> of October 2015.

### **3.3 Population of the Study**

The NSE has a total of sixty four listed companies. The companies are classified into the following categories; Agricultural, Automobiles and accessories, Banking,

Commercial and Services, Construction and Allied, Energy and Petroleum, Insurance, Investment, Investment Services, Manufacturing and Allied, Telecommunications and technology.

The target population under study includes all the Investment category of firms listed at NSE. The Investments category firms include five listed companies namely; Centum Investments Limited, Home Afrika Limited, Kurwitu Ventures Limited, Olympia Capital Holdings Limited and Trans Century Limited. The study used all the five listed Investment companies for the research as sample size adopted from Investments category of Nairobi Securities Exchange list of quoted companies.

### **3.4 Data Collection**

Data collection is gathering empirical evidence in order to gain new insights about a situation and answer questions that prompt undertaking of the research (Kothari, 2004). This study was facilitated by use of secondary data which were be extracted from published financial statements of the five investment companies publicly available from the companies websites. The NSE formed another source of the data either directly or through their websites.

Data was collected using an excel data collection form. The tool collected data of all variables for the five investment category firms which were used to analyze and come up with the findings.

### **3.5 Data Analysis and Presentation**

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

This study used multivariate regression and correlation analysis to determine the relationship between the dependent and independent variables. The results of the analysis are presented out in tables. Earnings per Share (EPS) and Net Assets values per share (NAVPS) were obtained from the annual reports of respective companies.

These were used as control variables. Firm's value was obtained from the NSE over the same period. The significance of the relationship between non-dividend payment policy and firms value was tested at a confidence level of 95% using t-values.

A longitudinal survey was conducted; this is a correlational research study that involves repeated observations of the same variables over long periods of time. This study is often used in psychology to study developmental trends across the life span, and in sociology to study life events throughout lifetimes or generations. The reason for this is that, unlike cross-sectional studies, in which different individuals with same characteristics are compared, longitudinal studies track the same people, and therefore

the differences observed in those people are less likely to be the result of cultural differences across generations. Because of this benefit, longitudinal studies make observing changes more accurate, and they are applied in various other fields.

Earnings per Share and Net Assets values per share were the independent variables while Firm value was the dependent variable. In order to examine the effect of non-dividend policy on Firm value, a multiple regression analysis was conducted so as to determine the relationship among the variables and the effect of non-dividend policy on firm value. The study considered an instance where a firm may not be in position to pay dividend (Kim and Maddala, 1992). The following codes were used to represent the two set of companies.

$Y_i$  = the value of the company that has a policy to pay dividend,

$Y_0$  = the value of the company that has a policy not to pay dividends.

The regression equation took the form;

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \alpha \dots \dots \dots (1)$$

$$Y_0 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \alpha \dots \dots \dots (2)$$

Where;

$Y_i$  is Year End value of dividend paying firms,

$Y_0$  is Year End value of firms not paying dividend,

$\beta_0$  is the regression coefficient

$\beta_1, \beta_2$ , are the coefficients of the independent variables

$X_1$  is EPS =Earnings per share

$X_2$  is NAVPS=Net assets values per share

$\alpha$  is an error term

Value of the firm ( $Y_i$  and  $Y_o$ ) was measured by Tobin's q ratio calculated by dividing the sum of market value of owner equity and the book value of total liabilities to the book value of total assets. A ratio devised by James Tobin of Yale University, Nobel laureate in economics, who hypothesized that the combined market value of all the companies on the stock market should be about equal to their replacement costs. The Q ratio is calculated as the market value of a company divided by the replacement value of the firm's assets:

Where  $Y_i$  and  $Y_o$  is the dependent variable (year-end Firm value per Share for the  $i^{\text{th}}$  company in a sample of "n" companies from the NSE) while  $\beta_0$  is the regression coefficient.  $X_1$  represents EPS,  $X_2$  NAVPS while  $\alpha$  is an error term normally distributed about a mean of 0 and for purposes of computation, the error is assumed to be 0.  $\beta_1$ ,  $\beta_2$ , and are the coefficients of the independent variables. The selected model was based on the Gordon model of common stock valuation where by earnings per share and Net Assets Values Per Share are very significant in determining the value of a firm.

This model was also used by Akoth (2013) who analyzed the effect of dividend policy on share prices of multinational and local companies listed at the Nairobi Securities Exchange. The dependent variable was share price while the independent variables were payout ratio, Earnings per Share and Net Assets Values per Share.



## **CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND INTERPRETATION.**

### **4.1 Introduction**

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

This study was carried out to determine the relationship between the value of the investment category firms listed in the NSE over the years for those that do not pay dividends and those that pay dividends.

The data obtained from secondary means was analyzed, presented and interpreted in order to arrive at the findings on the relationship. This data was obtained from the published financial statements of Investment firms listed at the NSE market. The data analysis was based on the research objective and analyzed using the regression statistical tool by the assistance of SPSS analytical tool in order to assess the nature of the effect of non-dividend payment policy on the value of investment category firms in NSE.

The figures below show values of all investment firms for five years from 2010 to 2014.

**Figure 4.1: Value of Centum Investment Limited (Non Paying Dividend Policy)**

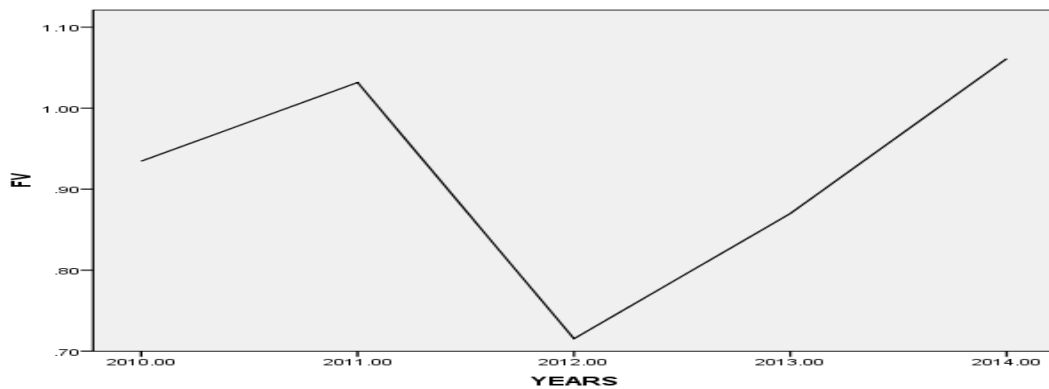


Figure 4.1 above show that the value of the firms' not paying dividend increased from 0.93 in year 2010 to 1.03 in year 2011. A decrease in firm's value was established between 2011 and 2012. However the value of the firm's increases drastically from 0.72 in 2012 to 0.87 in 2013 and further 1.06 in 2014. This could be due to the policy on nonpayment adopted in 2010 which enhanced the reinvestment of the money in the firm.

**Figure 4.2: Value of Home Africa Ltd (Paying Dividends)**

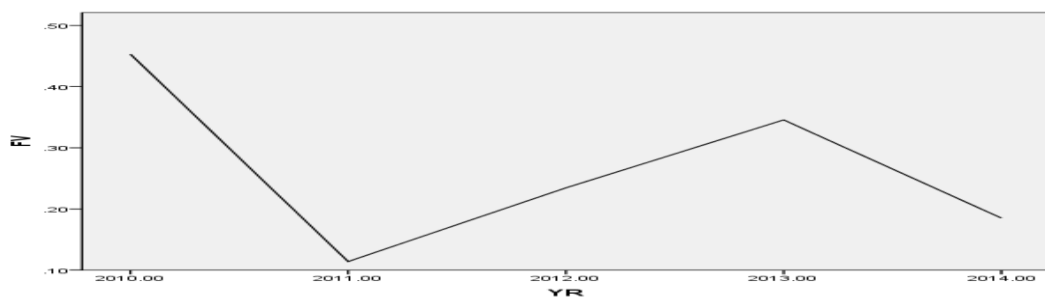


Figure 4.2 above show that the value of the firm reduced from 0.45 in year 2010 to 0.11 in year 2011. However the value of the firm increases drastically from 0.23 in 2012 to 0.34 in 2013 and further reduces to 0.18 in 2014.

**Figure 4.3: Kurwitu Ventures (Paying Dividends)**

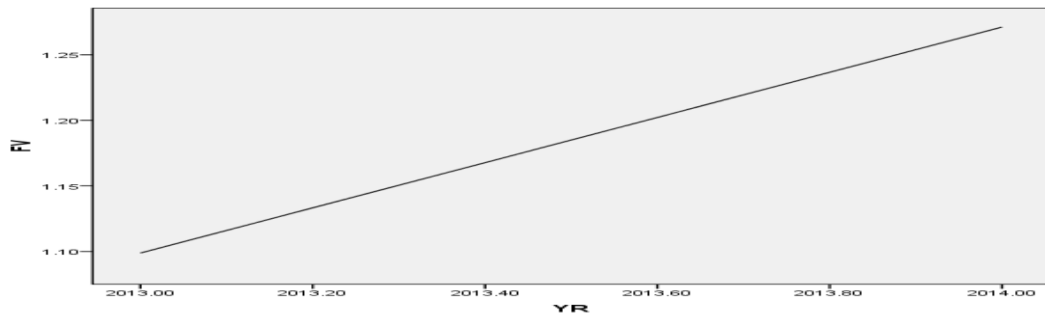


Figure 4.3 above show that the value of the firm increasing from 1.09 in year 2013 to 0.27 in year 2014.

**Figure 4.4: Olympia Capital Holdings (Paying Dividends)**

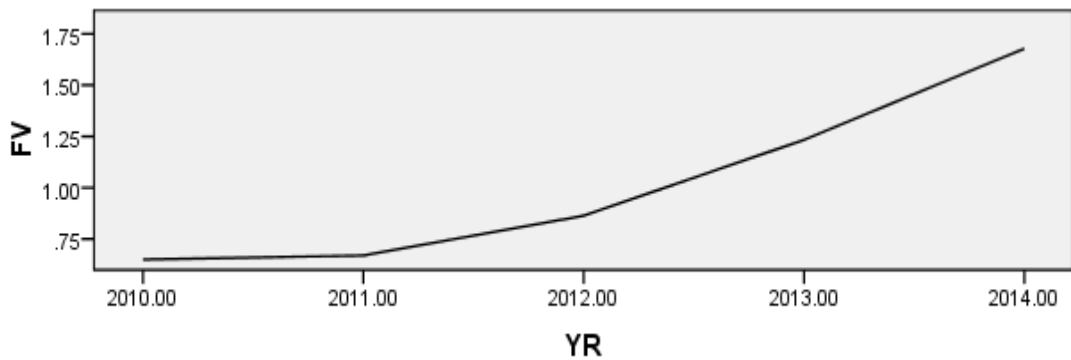


Figure 4.4 above show that the value of the firm increased from 0.65 in year 2010 to 0.68 in year 2011. However the value of the firm increases drastically from 0.86 in 2012 to 1.23 in 2013 and further increases to 1.67 in 2014.

**Figure 4.5: Trans Century Ltd Firm Value (Paying Dividends)**

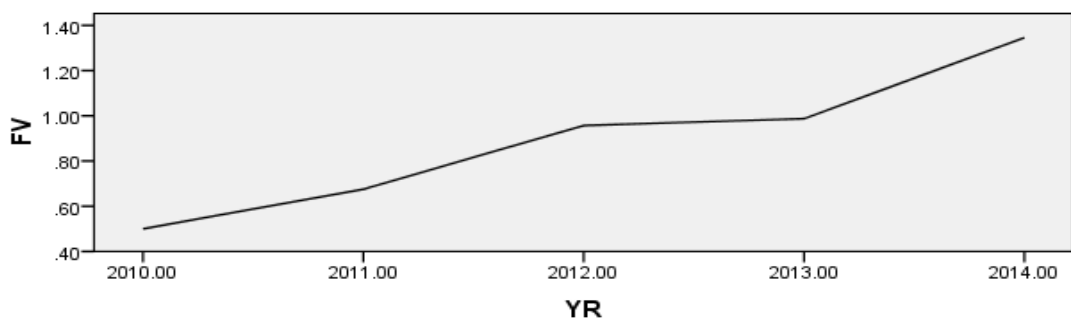


Figure 4.5 above show that the value of the firm increased from 0.500 in year 2010 to 0.67 in year 2011. The value of the firm increases drastically from 0.95 in 2012 to 0.98 in 2013 and further increases to 1.34 in 2014.

## 4.2 Reliability Test

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

**Table 4.1: Reliability Statistics**

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.499	.944	2

The findings show that Cronbach's Alpha is 0.944. This value is more than 0.7 hence the instrument was reliable.

## 4.3 Descriptive Statistics

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

**Table 4. 2: Descriptive Statistics of the Data (Non-Dividend Paying)**

	N	Minimum	Maximum	Mean	Std. Deviation
NAVPS	5	13.76	34.47	22.3820	7.74009
EPS	5	1.19	4.54	2.5640	1.49291
Valid N (listwise)	5				

Source: Research data, 2015

The table above shows the mean results and the standard deviation for the data of total firm's Net assets values per share and earnings per share in the five year period under review.

Five observations were used in the study for all the variables. The study found that NAVPS had a mean score of 22.38 and a standard deviation of 7.74. EPS had a mean of 2.5640 and standard deviation of 1.2949.

**Table 4.3: Descriptive Statistics of the Data (Dividend Paying)**

	N	Minimum	Maximum	Mean	Std. Deviation
NAVPS	17	.97	48.25	13.5659	12.37392
EPS	17	-8.95	4.67	-.6106	3.73118
Valid N (list wise)	17				

Source: Research Data, 2015

The table above shows the mean results and the standard deviation for the data of total firm's Net assets values per share and earnings per share in the five year period under review.

Five observations were used in the study for all the variables. The study found that NAVPS had a mean score of 13.5659 and a standard deviation of 12.37392. EPS had a mean of -0.6106 and standard deviation of 3.73118.

## 4.4 Regression Analysis

A multivariate regression model was used to establish the effects of non-dividend payment on value of investment category firms listed at the Nairobi Securities Exchange. This involved the use Ordinary Least Squares (OLS). The resultant regression model was as follows;

The regression equation took the form;

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \alpha \dots \dots \dots (1)$$

$$Y_o = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \alpha \dots \dots \dots (2)$$

Where;

$Y_i$  is Year End value of dividend paying firms,

$Y_o$  is Year End value of firms not paying dividend,

$\beta_0$  is the regression coefficient

$\beta_1, \beta_2$ , are the coefficients of the independent variables

$X_1$  is EPS =Earnings per share

$X_2$  is NAVPS=Net assets values per share

$\alpha$  is an error term

### 4.4.1 Non-Payment Dividend Firms

**Table 4.4: Variables Entered/Removed<sup>b</sup>**

Model	Variables Entered	Variables Removed	Method
1	NAVPS, EPS <sup>a</sup>	.	Enter

a. All requested variables entered.

b. Dependent Variable: FV

**Table 4.5: ANOVA<sup>b</sup> (Non-Dividend Paying)**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.012	2	.006	.172	.853 <sup>a</sup>
	Residual	.071	2	.035		
	Total	.083	4			

a. Predictors: (Constant), NAVPS, EPS

b. Dependent Variable: FV

In order to conduct a regression analysis using ordinary least squares, the researcher estimated the model in which all the variables under study were included. Table 4.6 presents the model summary.

**Table 4.6: Model Summary (Non- Dividend Paying)**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.381 <sup>a</sup>	.145	-.709	.18970

a. Predictors: (Constant), EPS, NAVPS

Analysis in table 4.6 shows that the coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables) R2 equals 0.381 that is, EPS and NAVPS explain 38.1% of the effects of non-dividend paying on value of investment firms listed at the Nairobi Securities Exchange leaving 61.9 percent unexplained.

**Table 4.7: Coefficients<sup>a</sup> (Non- Dividend Paying)**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.720	.340		2.116	.169
	NAVPS	.014	.027	.758	.521	.654
	EPS	-.049	.141	-.506	-.348	.761

a. Dependent Variable: FV

Source: Research Data, 2015.

From the above table of regression coefficient, the established regression was;

$$Y_0 = 0.720 - 0.049 \text{ Earnings per Share} + 0.014 \text{ Net Assets Values per Share}$$



From the above regression equation different determinants of firm's value; Earnings per share, Net assets values per share were regressed on the year-end firm value. A unit increase in Earnings per Share would lead to a decrease in Firm Value by a factor of 0.352, unit increase in Net assets values per share would lead to an increase in Firm Value by a factor of 0.014.

From tables 4.8 above, it was found that there is a positive relationship between Net assets values per share, Earnings per share and the value of the investment firms not paying dividends and the correlation coefficient was 0.758 and -0.506. The relationship is statistically significant as the correlation coefficient is above 0.5 for NAVPS implying there is strong positive relationship. The relationship of EPS however depicts strong negative correlation with the firm's value. From table 4.6 above, EPS and NAVPS account for 14.5 % of the firm's value. ( $R^2$ )

Constant = 0.720, shows that if EPS, NAVPS are rated as zero, firms value would be 0.720.

#### 4.4.2 Dividend Paying Firms

**Table 4.8: Variables Entered/Removed<sup>b</sup>**

Model	Variables Entered	Variables Removed	Method
1	EPS, NAVPS <sup>a</sup>	.	Enter

a. All requested variables entered.

b. Dependent Variable: FV

**Table 4.9: ANOVA<sup>b</sup> (Dividend Paying)**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.384	2	.192	.961	.406 <sup>a</sup>
	Residual	2.794	14	.200		
	Total	3.177	16			

a. Predictors: (Constant), EPS, NAVPS

b. Dependent Variable: FV

From the above table 4.9 the significance was 0.406 which mean that there were statistically significant differences between group means as determined by ANOVA. In order to conduct a regression analysis using ordinary least squares, the researcher estimated the model in which all the variables under study were included. Table 4.10 presents the model summary.

**Table 4.10: Model Summary (Dividend paying firms)**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.352 <sup>a</sup>	.124	-.002	.44781

a. Predictors: (Constant), EPS, NAVPS

Analysis in table 4.11 shows that the coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables) R2 equals 0.352 that is, EPS and NAVPS explain 35.2% of the effects of dividend paying on value of investment firms listed at the Nairobi Securities Exchange leaving 64.8 percent unexplained.

**Table 4.11: Coefficients<sup>a</sup> (Dividend Paying Firms)**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.612	.165		3.712	.002
	NAVPS	.013	.009	.363	1.391	.186
	EPS	.018	.031	.152	.584	.568

a. Dependent Variable: FV

Source: Research Data, 2015

From the above table 4.11 of regression coefficient, the established regression was;

$$Y_i = 0.612 + 0.018 \text{ Earnings per Share} + 0.013 \text{ Net Assets Values per Share}$$

From the above regression equation different determinants of firm's value; Earnings per share, Net assets values per share were regressed on the year-end firm value. A unit increase in Earnings Per Share would lead to an increase in Firm Value by a factor of 0.018, while unit increase in Net assets values per share would lead to an increase in Firm Value by a factor of 0.018.

From tables 4.11, it was found that there is a positive relationship between Net assets values per share, Earnings per share and the value of the investment firms paying dividends and the correlation coefficient was 0.363 and 0.152. However, the relationship is statistically insignificant as the correlation coefficient is below 0.5 for NAVPS implying there is weak positive relationship. The relationship of EPS also depicts weak positive correlation with the firm's value. From table 4.10 above, EPS and NAVPS account for 12.4% of the firm's value. ( $R^2$ )

Constant = 0.612, shows that if EPS, NAVPS are rated as zero, firms value would be 0.612.

#### **4.5 Summary of Findings and Interpretations**

The research sought to assess the effect of non-payment dividend policy on the value of investment category firms listed at Nairobi Securities Exchange. From the research findings, it was established that Non-payment dividend policy affects the value of the firm positively.

The relationship between the variables was found to be a weak positive. The weak positive relationship indicated that value of the firms earning was influenced by non-payment dividend policy, earnings per share, net assets values per share and the dividend payment policy in the same direction but not to a statistically significant level. A weak positive relationship showed that dividend payout policy had very little effect on the value of firms paying dividends with NAVPS and EPS contributing 12.4% of firms value as compared to the 14.5% of non-dividend paying firms value. Five firms were analyzed by first collecting data on the non-payment dividend policy and value of each firm.

The Correlation coefficient of EPS of the Non-Dividend paying firms to the firms' value was found to be -0.506 while that of dividend paying firms was 0.152. This means that EPS of Non-Dividend paying firms influenced their value negatively while for the dividend paying EPS influenced their value positively.

The findings concur with Linter (1956) who reviewed the different determinants of corporate dividend policy and its impact on firm's market value by conducting the interview of top management of 28 firms. However this research contradicts his findings that values of firms relies on the Dividend Payout. From the research, non-dividend payout policy positively influences values of investment firms listed at the NSE.

The value of the non-dividend paying firm increases drastically from 0.72 in 2012 to 0.87 in 2013 and further 1.06 in 2014 as shown in figure 4.1 above. This could be due to the policy on nonpayment adopted in 2010 which enhanced the reinvestment of the money in the firm.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter presents the summary of the findings presented in chapter four according to the study objective. The objective of the study was to establish the effects of non-dividend payment on value investment category firms listed at the Nairobi Securities Exchange. It presents the research findings and conclusions while at the same time discusses the limitations faced while undertaking the research and gives the recommendations for further study.

### **5.2 Conclusions**

The study sought to establish the effects of non-dividend payment policy on the value of investment firms listed at the Nairobi Securities Exchange. A total of 64 firms listed in Nairobi Stock Exchange .The study involved all the listed investment category firms listed at the NSE as the sample. The period of study was 5 years between 2010 and 2014. All the data required was obtained from the firm's audited financial statements. Shareholders make investment in equity capital with the expectation of making earning in the form of dividend or capital gains. High payout satisfies the dividend need whereas increase in market price of stock increases capital gain. Therefore, firm should make a proper balance between dividends and retained earnings. A firm's profits after-tax can either be used for dividends payment or retained in the firm to increase shareholders' fund. This may involve comparing the cost of paying dividend with the cost of retaining earnings.

A firm with investment opportunities will prefer to use cheap sources of capital and retained earnings is one of the cheapest sources of capital. This is because it avoids floatation costs and interests on borrowing money. Therefore instead of paying dividend to shareholders, the board of directors may decide to reinvest the earnings and therefore carry out the investment opportunities which will enhance the shareholders wealth through capital gains. The shareholders may have a tax preference of postponing paying tax through dividends to capital gains arising as a result of reinvesting the income which would have been shared as dividends. This enhances the value of the firm positively.

The research study concludes that non-payment policy influenced the value of individual firms. The final correlation coefficient for investment category showed that the relationship between non-payment dividend policy and value of the firms was strong. Non-payment dividend policy could therefore be used to predict the value of individual firms. The influence of the non-payment policy was found to be limited however by other factors characterized by the individual firm policies. In most firms the years when a non-payment policy was recorded also indicated a higher value. This gave a direct relationship between the two variables.

### **5.3 Recommendations**

The study found that EPS and NAVPS contribute 38.1% of the effects of non-dividend payment on value of investment category of firms listed at the Nairobi Securities Exchange leaving 61.9 percent unexplained. This implies that there are other factors that affect value of investment firms that this study did not consider. The

study therefore recommends that other studies be done to identify other factors which may explain the remaining 61.9%.

The study also recommends further studies in the Kenyan economy outside of the NSE, that is, for private firms to establish whether the same conclusions will be arrived at. This will further affirm the theories underlying the study or even come up with new theories that will fill the knowledge gaps.

#### **5.4 Limitations of the Study**

The study was limited to investment category firms listed in NSE and excluded other categories of firms listed at the NSE as well as those firms which are not listed but operate within the country. A sample of 5 companies is also too small to generalize the results given that there are many more firms operating in the country. The study was limited to 5 years which is a short period to observe changes in variables over time.

Time and finances were also other limiting factors. It was highly time consuming to get the financial statements of the sampled firms and the time allocated for the research project was limited. Data analysis methods required resources to install the system for analysis which posed a limitation.

#### **5.5 Suggestions for further Research**

The research study covered the investment category firms. Further research should be done on similar study for other categories of listed firms to ensure that more information is gathered to adequately find the relationship between the two variables



under research. Investment firms that are not listed under the NSE market should also be researched on in regards to firm's value and non-payment dividend policy in order to also understand the relationship between the two variables among firms not listed on the NSE.

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## APPENDICES

### Appendix 1: Classification of Companies Listed at the NSE

#### AGRICULTURAL

Kapchorua Tea Co. Ltd

Kakuzi

Limuru Tea Co. Ltd

Rea Vipingo Plantations Ltd

Sasini Ltd

Williamson Tea Kenya Ltd

#### AUTOMOBILES AND ACCESSORIES

Car and General (K) Ltd

Sameer Africa Ltd

Marshalls (E.A.) Ltd

#### BANKING

Barclays Bank Ltd

CFC Stanbic Holdings Ltd

I&M Holdings Ltd

Diamond Trust Bank Kenya Ltd

Housing Finance Co Ltd

Kenya Commercial Bank Ltd

National Bank of Kenya Ltd

NIC Bank Ltd

Standard Chartered Bank Ltd

Equity Bank Ltd

The Co-operative Bank of Kenya Ltd

#### COMMERCIAL AND SERVICES

Express Ltd

Kenya Airways Ltd

Nation Media Group

Standard Group Ltd

TPS Eastern Africa (Serena) Ltd

Scangroup Ltd

Uchumi Supermarket Ltd

Hutchings Biemer Ltd

Longhorn Kenya Ltd

Atlas Development and Support Services

#### CONSTRUCTION AND ALLIED

Athi River Mining

Bamburi Cement Ltd

Crown Berger Ltd

E.A.Cables Ltd

E.A.Portland Cement Ltd

#### ENERGY AND PETROLEUM

KenolKobil Ltd

Total Kenya Ltd

KenGen Ltd

Kenya Power & Lighting Co Ltd

Umeme Ltd

#### INSURANCE

Jubilee Holdings Ltd

Pan Africa Insurance Holdings Ltd

Kenya Re-Insurance Corporation Ltd

Liberty Kenya Holdings Ltd

British-American Investments Company ( Kenya) Ltd

CIC Insurance Group Ltd Ord 1.00

## INVESTMENT

Olympia Capital Holdings Ltd

Centum Investment Co Ltd

Trans-Century Ltd

Home Afrika Ltd

Kurwitu Ventures

## INVESTMENT SERVICES

Nairobi Securities Exchange Ltd

## MANUFACTURING AND ALLIED

B.O.C Kenya Ltd

British American Tobacco Kenya Ltd

Carbacid Investments Ltd

East African Breweries Ltd

Mumias Sugar Co. Ltd

Unga Group Ltd

Eveready East Africa Ltd

Kenya Orchards Ltd

A.Baumann CO Ltd

Flame Tree Group Holdings Ltd

## TELECOMMUNICATION AND TECHNOLOGY

Safaricom Ltd

SOURCE: Sources: <http://www.nse.co.ke>, 27<sup>th</sup>September, 2015



## Appendix 2: Data Collection Tool

Investment Firms (NSE)	Years	Firm Value(Tobin's Q Ratio)	Earnings per share (EPS)	Net Assets value per share (NAVPS)
<b>Centum Investments</b>	2014	1.0611	4.54	34.47
	2013	0.8199	3.77	24.25
	2012	0.7153	1.79	20.57
	2011	1.0317	1.19	18.86
	2010	0.9348	1.53	13.76
<b>Home Afrika Ltd</b>	2014	0.18526	-0.04	0.974
	2013	0.34568	0.00	1.119
	2012	0.23456	4.67	12.234
	2011	0.11434	-8.9590	12.024
	2010	0.45325	1.0248	11.980
<b>Kurwitu Ventures Ltd</b>	2014	1.27122	1.3409	5.5597
	2013	1.0987	2.3465	4.6754
	2012			
	2011			
	2010			
<b>Olympia Capital Holdings</b>	2014	1.67854	0.23	11.90678
	2013	1.23456	0.15	11.70245
	2012	0.86430	0.38	11.78067
	2011	0.67540	-5.85	10.78998
	2010	0.65430	-2.22	10.67578
<b>Trans Century ltd</b>	2014	1.34568	-8.53	40.96451
	2013	0.9876	1.06	48.25109
	2012	0.9576	1.66	12.32454
	2011	0.6754	1.32	11.54331
	2010	0.5000	1.03	12.12345