RELATIONSHIP BETWEEN DIVIDEND PAYMENT AND SHARE PRICE FOR COMPANIES LISTED AT THE NAIROBI STOCK EXCHANGE

BY

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DECLARATION

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

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

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ABSTRACT

Dividend payout decision is among the basic policy confronting corporate financial officers especially on how much to pay. A number of conflicting theoretical models define current attempt to explain corporate dividend behavior. One faction see dividend as attractive and as a positive influence on share price, the second group believes that share prices vary inversely with dividend payout level and the third group believes that dividend policy is irrelevant on share prices. This research paper tests the relationship between dividend payment and share prices of companies quoted at the Nairobi Stock Exchange.

Data was collected from the annual reports and share price schedules obtained from the Nairobi Stock Exchange. A sample of 17 companies was selected consisting of all the companies quoted consistently at Nairobi Stock Exchange for a period of 5 years from 2006 – 2010. There are 56 listed companies at the Nairobi Stock Exchange that formed the population for this research study. The secondary data collected was then analyzed using simple linear regression and correlation analysis through the use of Statistical Package for Social Science (SPSS) version 17.

The findings of the research established that there was weak positive relationship between the dividend payout ratio (DPOR) and share prices of companies quoted at the Nairobi Stock Exchange.

LIST OF ABBREVIATIONS

NSE	-	Nairobi Stock Exchange
DPOR	-	Dividend Payout Ratio
DPS	-	Dividend per Share
MPS	-	Market Price per Share
EPS	-	Earning per Share
R	-	Coefficient of Correlation
R Square	-	Coefficient of Determination
SPSS	-	Statistical Package for Social Science

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background to the Study

Dividends are payments made by a corporation out of its profits to its shareholders. Dividend policies are regulations and guidelines that firm develops and implement as a mean of splitting their earnings between distributing to their shareholders and retained earnings. The main aim of dividend policy is to maximize the shareholders wealth. Dividend policy remains a source of controversy despite years of theoretical and empirical research, including one aspect of dividend policy: the linkage between dividend policy and stock price (Allen and Rachim, 1996). Paying large dividends reduces risk and thus influence stock price (Gordon, 1963) and is a proxy for the future earnings (Baskin, 1989). Dividend payout decision is among the basic policy confronting corporate financial officers especially on how much to pay. A number of conflicting theoretical models define current attempt to explain corporate dividend behavior. One faction see dividend as attractive and as a positive influence on share price, the second group believes that share prices vary inversely with dividend payout level and the third group believes that dividend policy is irrelevant on share prices.

Dividends are relevant because they have informational value. Financial signaling theory implies that dividends may be used to convey information. Information, rather than dividends itself, affects share prices (Brigham and Gapenski, 1994). The payment of dividends conveys to shareholders that the company is profitable and financially strong.

This in turn causes an upsurge in demand for the firm's shares causing a rise in their prices. When a firm changes its dividends policy, investors assume that it is in response to an expected change in the firm's profitability which will last long (Pandey, 2004). An increase in payout ratio signals to shareholders a permanent or long term increase in firm's expected earnings.

Accordingly, the prices of shares are affected by changes in dividends payments. This, therefore call for studies to be conducted in the area of dividend payment and how this payments affects share price. Lintner's seminal work on dividend payout practices (1956) finds that managers believe that stockholders prefer stable dividends and that the market puts a premium on such stability. He hypothesizes that differences among firms in target payout ratios reflect judgments based on factors such as prospects for growth of the industry and the individual firm, cyclical movements of investment opportunities, and earnings prospects for the firm. Myers' (1984) description of managers' pecking order preferences for internal financing includes a link between dividend payout and factors such as investment opportunities and fluctuations in firm profitability. Empirical support for such a link is found in studies of the dividend payout practices of U.S. firms by McCabe (1979) to the late 1960s and early 1970s and by Rozeff (1982) to the late 1970s. Lintner also suggests that dividend policies have industry effects. While an industry effect may reflect correlation of factors such as investment opportunities, earnings stability, and internal funds availability among firms within the same industry (Lintner, 1956), Lintner seems to have had more in mind. He refers (p. 104, fn. 3) to dividend leadership as analogous to price leadership and wage leadership, thereby suggesting a competitive dimension of the dividend decision apart from other firm-

specific variables. In an earlier paper (1953, p. 252, fn. 60), Lintner cites the oil industry as an example of dividend leadership at work. He states that "Companies probably most generally follow the 'lead' of other companies in the same industry, but on occasion may be concerned with maintaining some sort of conformance to other companies whose securities are, investment-wise, close substitutes for the company's own securities, even though the other companies are in entirely different industries."In their recent study of aggregate dividend behavior of U.S. firms, Marsh and Miller (1987, p. 4) also suggest that firms observe industry practice in the selection of their target payout ratios, although they do not test explicitly for its effect. In one of the few direct tests of the industry effect hypothesis, Michel (1979) finds statistically significant differences in dividend payout ratios among 13 different industries during the late 1960s to the mid-1970s.

Michel tests only for firm size (in regard to firm-specific variables that may affect dividend payouts) and finds no significant effect. He suggests, however, (1979, p. 24) that investment opportunities within industries may account partially for the industry effect. He too finds support for industry effects on dividend payout ratios, but, like Michel, he does not control for other variables.

Rozeff (1982) analyzes dividend payout ratios for a cross-section of 1,000 unregulated U.S. firms from 1974 to 1980 with regard to firm-specific determinants. Casting the payout decision as a tradeoff between transaction costs and agency costs, his model includes variables intended to capture the effects of investment opportunities and earnings variability on dividend payout. In addition, it includes variables that serve as proxies for agency cost effects on dividend decisions. All of the variables are highly

significant with the expected signs, and the model accounts for nearly half of the variation in dividend payout ratios for his sample.

Several theories concerning the relationship of dividend policies and stock returns have been documented in the financial literature as share price maximization is the central focus in finance. In 1961, Miller and Modigliani (M&M) advanced the Dividend Irrelevance Theory which theorizes that in a perfect world where there is no corporate and personal taxes, no transaction and floatation costs, no single individual who can affect a security's price through his/ her trade, all individuals have similar expectations with respect to a company's future investment and profit, and where a company has a planned and fixed investment policy (Ross et al. 1999), the value of a company and thus its share prices are unaffected by the distribution of dividends. Hence, the value of a company is determined solely by the earning power and the risk of its assets but not by the manner in which it splits its earnings stream between retained earnings and dividends. They argued that an increase in dividend payment should result in a capital loss to existing shareholders and these two will offset each other. Dividend changes are theorized as involving the tradeoff between the current income and the future selling price. Though, the validity of the perfect world is empirically unjustified, the Dividend Irrelevance Theory is crucial for the formulation of further theories that account for various imperfections in the real world.

One such imperfection which is critical to the development of theories related to dividend is the asymmetric information problem which lends importance to the Signaling Theory. This is also referred to as the information content of dividend hypothesis. According to this theory, also founded by M&M, dividend announcements are hypothesized to have

information content, whereby managers use cash dividend announcement to signal changes in their expectation about the future prospect of the company when the markets are imperfect. The information content inherent in a dividend announcement would cause the shareholders to react to the announcement and thus influence the company share prices. There are however debates with respect to the form of information content that is being conveyed to the market through the dividend announcement.

Built on the premise of the information content of dividend hypothesis, other theories have been developed to explain the nature of information content in a dividend announcement. The cash flow signaling theory, also referred as the cash flow hypothesis developed by Bhattacharya (1979, 1980), John and Williams (1985) and Miller and Rock (1985) theoritized that dividend changes are explicit signals about the current and/or future cash flows, sent intentionally and at some costs by management to the company and its stockholders. Miller and Rock assumed asymmetric information with respect to the magnitude of a company's current internal cash flow, but symmetric information to its level of planned investment and value of assets. They studied the impact of dividend payment.

According to them, cash dividend payment is normally associated with a company's operating cash flow assuming the amount of investment and external financing is constant. If a company announced dividend payment which is greater than expected by the market, it reveals an increase of the company's future cash flow which brings up an upward movement in its stock price. The theory thus hypothesized that an increase (decrease) in dividend will lead to an increase (decrease) in stock prices where the levels

of cash dividends are associated with the levels of permanent earnings which would affect the stock value.

Jensen (1986), on the other hand, proposed a theory which is widely known as the *Free Cash Flow Hypothesis*. According to Jensen, the free cash flow exists in a company when there are excess funds left over after taking into account all positive net present value projects. He argues that a conflict of interest between shareholders and managers over the payment policies of these free cash flows could explain the stock price reaction. The theory predicts that stock prices will increase if there is unexpected dividend payment. It associates an increase in dividend with less free cash flow and thus less tendency to over-invest, for example accepting marginal investment projects that have negative NPVs. In other words, changes in dividend payment signal changes in investment policy.

Similar prediction could also be inferred from the agency cost theory forwarded by Easterbrook (1984). According to him, the separation of ownership from control would discourage managers to misuse the company's resources for their personal gain. A regular cash dividend payment ensures the managers are alert with their actions. If there is a reduction in dividend, this would increase access to internally generated funds where there is a likelihood of the management to allocate a greater proportion of the company's resources into perquisites. In such a case, the agency cost theory associates cash dividend decrease with a reduction in a company's equity value, hence a negative price effect is expected out of the announcement.

Nairobi Stock Exchange

A stock market is a place where securities are traded. These securities are issued by listed companies and by the government, with the aim of raising funds for different purposes such as to fund expansion for the former, and development and finance budget deficits for the latter. Common securities traded on a Stock Exchange include company shares, corporate bonds, and government debt in the form of treasury bonds. The Nairobi Stock Exchange which was formed in 1954 as a voluntary organization of stock brokers is now one of the most active capital markets in Africa. Subsequent development of the market has seen an increase in the number of stockbrokers, introduction of investment banks, establishment of custodial institutions and credit rating agencies and the number of listed companies have increased over time. As a capital market institution, the Stock Exchange plays an important role in the process of economic development. It helps mobilize domestic savings thereby bringing about the reallocation of financial resources from dormant to active agents. Long-term investments are made liquid, as the transfer of securities between shareholders is facilitated. The Exchange has also enabled companies to engage local participation in their equity, thereby giving Kenyans a chance to own shares.

Companies can also raise extra finance essential for expansion and development. To raise funds, a new issuer publishes a prospectus which gives all pertinent particulars about the operations and future prospects and states the price of the issue. A stock market also enhances the inflow of international capital. They can also be useful tools for privatization programs. The Nairobi Stock Exchange deals in both variable income

securities and fixed income securities. Variable income securities are the ordinary shares which have no fixed rate of dividend payable as the dividend is dependent upon both the profitability of the company and what the board of directors decides. The fixed income securities include Treasury and Corporate Bonds, preference shares, debenture stocks - these have a fixed rate of interest/dividend, which is not dependent on profitability.

Most of the businesses in the exchange are in the financial or industrial sectors, though agriculture and other commercial services are also represented. (www.nse.co.ke).

1.2 Statement of the Problem

Studies from other countries in both developing and developed economies have shown that there exists a relationship between the dividend payment and share prices. In Kenya, most of the quoted companies pay dividends semiannually. There is no legal requirement that firms adopt a specific dividend payment schedule, however dividend distribution do face legal restrictions for instance that dividends should not be paid out of capital unless during liquidation. Financial signaling theory implies that dividends may be used to convey information. Information, rather than dividends itself, affects share prices .The payment of dividends conveys to shareholders that the company is profitable and financially strong. This in turn causes an upsurge in demand for the firm's shares causing a rise in their prices. When a firm changes its dividends policy, investors assume that it is in response to an expected change in the firm's profitability which will last long. An increase in payout ratio signals to shareholders a permanent or long term increase in

firm's expected earnings. Accordingly, the prices of shares are affected by changes in dividend payment policies.

Karanja (1987) studied dividend practices of publicly quoted companies and found out that there were many reasons why firms paid dividends. One reason was lack of investment opportunities which promises adequate returns. Firm's cash position will be the most important consideration of timing of dividends. Onyango (1999) noted that shareholders tend to receive higher cash dividends after bonus issue. There will be an increase in cash dividend of 10.23% after the issue of bonus shares which will be significantly significant.

Njoroge (2001) examined the relationship between dividend payout and some financial ratios such as return on assets. The results obtained were that the most significant variable in making dividend decisions is return on assets while return on equity and growth in assets are not considered in making dividend decisions.

Ngunjiri (2010) studied the relationship between dividend payment policies and stock price volatility. His findings indicated that payment policies had a great impact on the stock price volatility. Mbuki (2010) studied factors that determine dividend payout ratio among SACCOs in Kenya. He found out that the dividend payout ratio was determined by different factors including availability of investment opportunities, availability of cash to pay the dividend and the sustainability of the dividend in future.

According to the dividend signaling hypothesis, cash dividends function as a good signaling vehicle of a firm's future cash flow, thus implying that unanticipated dividend changes should be accompanied by share price changes in the same direction.

From the foregoing discussion, it emerges that few researches on this topic have been done in Kenya. The dynamic environment in which businesses operates in Kenya posses varying conditions with time. The number of quoted companies has increased with time; market capitalization and market share index have been on the rise thus changing the circumstances that existed when these studies were done. There has also been some changes in politics especially due to politicians affected by the International Criminal Court and also changes in investors perception towards property market as opposed to security market. Motivated by this gap in literature, the study seeks to determine the relationship between share prices and dividend payment of companies quoted at the Nairobi Stock Exchange.

1.3 Objective of the Study

The objective of the study was to determine the relationship between dividend payment and share prices of companies quoted at the Nairobi Stock Exchange.

1.4 Importance of the Study

The findings of this study would be of interest to the management of publicly quoted companies who will be able to determine the effect of dividends on the value of their firms so that they can make prudent dividend decisions.

The government of Kenya would be enlightened in a bid to make policies relating to dividends and taxes. Through knowledge of the effect of dividends on the value of the firms will assist in ascertaining the appropriate amount of tax to pay for dividends paid out

and their effects on the value of the firm.

These findings would enable financial consultants to offer proper services to their clients. This relates to optimal dividend policy where the values of their firms can be maximized.

Scholars and academicians who may wish to use the findings of this study as a basis for further research on this subject.

Investors who may need to have an indication of the relationship between dividends policy and value of the firm for them to choose which firm to invest their funds in.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter presented the literature in the field of dividend policies and the share prices. First, various dividend policies were discussed followed by the discussion on the considerations in determining dividend payout. This was followed by a discussion of dividend hypothesis, discussion of the relationship between dividend policies and share prices, summary of empirical evidences and a chapter summary.

2.2 Dividend Policies

2.2.1 Constant Payout Ratio

This is where the firm pays a fixed dividend rate (e.g. 40% of earnings). The dividend per share would therefore fluctuate as the earnings per share changes. Dividends are directly dependent on the firm's earnings ability and if no profits are made then, no dividends are paid. This policy creates uncertainty to ordinary shareholders especially those who rely on dividend income and they might demand a higher required rate of return (Gitman, 1998).

2.2.2 Constant Amount per Share

The dividend per share (DPS) is fixed in amount irrespective of the earnings levels (Gitman, 1998). This creates certainty and is therefore preferred by shareholders who have a high reliance on dividend income. It protects the firm from periods of low earnings by fixing, DPS at a low level. This policy treats all shareholders by giving a

fixed return. The DPS could be increased to a higher level if earnings appear relatively permanent and sustainable.

2.2.3 Constant Dividend per Share plus Extra/Surplus

Under this policy, a constant DPS is paid every year, however extra dividends are paid in years of supernormal earnings. It gives the firm flexibility to increase dividends when earnings are high and participate in supernormal earnings. The extra dividends are given in such a way that it is not perceived as a commitment by the firm to continue the extra dividend in the future. It is applied by the firms whose earnings are highly volatile e.g agricultural sector (Gitman, 1998).

2.2.4 Residual Dividend Policy

Under this policy, dividends are paid out of earnings left over after investment decisions have been financed (Gitman, 1998). Dividends will only be paid if there are no profitable investment opportunities available. The policy is consistent with shareholders wealth maximization (Pandey, 1994).

2.3 Mode of Paying Dividends

2.3.1 Cash and Bonus Issues

For a firm to pay cash dividends, it should have adequate liquid funds. However, under conditions of liquidity and financial constraints, a firm can pay stock dividends (Bonus issue). Bonus issue involves issue of additional shares for free (instead of cash) to existing shareholders in their shareholder's proportion. Stock dividends/Bonus issue

involves capitalization of retained earnings and does not increase the wealth of shareholders. This is because retained earnings are converted to shares (Pandey, 2004).

2.3.2 Considerations in Determining a Dividend Payout

These are the various factors that firms in practice can and should analyze when approaching a dividend decision.

2.3.3 Fund Needs of the Firm

The expected operating cash flows of the firm, expected future capital expenditures, any likely build-ups in receivables and inventories, scheduled reduction in debt, and anything that affects the cash position of the firm should be taken into account (Gitman, 1998). The key is to determine the likely cash flows and cash position of a change in dividend. In addition to looking at expected outcomes, business risk should be factored in so that we may obtain a range of possible cash-flow outcomes (Hirt, 1980, Gitman, 1998).

The firm wishes to determine if anything is left over after servicing its fund needs, including profitable investment projects. In this regard, the firm should look at its situation over a reasonable number of future years, to iron out fluctuations. The likely ability of the firm to sustain dividends should be analysed relative to the probability of distributions of possible future cash flow and cash position. On the basis of this analysis, the firm can determine its likely future residual funds (Van Horne, 1989).

2.3.4 Liquidity

The liquidity of company is a prime consideration in many dividend decisions. As dividends represent cash outflow, the greater the cash position and overall liquidity of a company, the greater it's ability to pay a dividend. A company that is growing and profitable may not be liquid, for its funds may go into fixed assets and permanent current assets. Because management of such a company usually desires to maintain some liquidity cushion to give it flexibility and protection against uncertainty, it may be reluctant to jeopardize this position in order to pay a large dividend. The investment decision determines the rate of asset expansion and the firm's need for funds, and the financing decision determines the way in which, this need will be financed (Weston & Brigham, 1981).

2.3.5 Ability to Borrow

A liquid position is not the only way to provide for flexibility and protect against uncertainty. If a firm thereby has the ability to borrow on a comparatively short notice, it may be relatively flexible. The ability to borrow can be in the form of a line of credit or a revolving credit from a bank or simply the informal willing of a financial institution to extend credit (Gitman, 1998). In addition, flexibility can come from the ability of a firm to go to the capital markets with a bond issue. The larger and more established a company, the better its access to capital markets. The greater the ability to borrow, the greater is its ability to pay a cash dividend. With ready access to debt funds, management should be less concerned with the effect that the cash dividend has upon its liquidity (Van Horne, 1989).

2.3.6 Control

If a company pays substantial dividends it may need to raise capital at a later time through sale of stock in order to finance profitable investment opportunities. Under such circumstances, the controlling interest of the company may be diluted if controlling stockholders do not or cannot subscribe for additional shares. These stockholders may prefer low dividends payout and the financing of the investment needs with retained earnings. Control can work in two ways, however, when a company is being bought by another company or individuals, a low dividend payout may work to the advantage of the "outsiders" seeking control. The outsiders may be able to convince stockholders that the company is not maximizing shareholder wealth and that they (the outsiders) can do a better job. Consequently, companies in danger of being acquired may establish a high dividend payout in order to please stockholders (Weston & Brigham, 1981).

2.4 Dividend Theories

2.4.1 Full Information Models -The Tax Factor

Tax-adjusted models surmise that investors require secure higher expected returns on shares of dividend-paying stocks. The imposition of a tax liability on dividends causes the dividend payment to be grossed up to increase the shareholder's pre-tax return. Under capital asset pricing theory, investors offer a lower price for the shares because of the future tax liability of the dividend payment.

One consequence of the tax-adjusted model is the division of investors into dividend tax clienteles, an argument first proposed in the seminal work of Miller and Modigliani

(1961). In later research, Modigliani (1982) finds that the clientele effect is responsible for only nominal alterations in portfolio composition rather than the major differences predicted by Miller (1977). Masulis and Truman (1988) model assumes cash dividend payments as products of deferred dividend costs. Their model predicts that investors with differing tax liabilities will not be uniform in their ideal firm investment/dividend policy. As the tax liability on dividends increases (decreases), the dividend payment decreases (increases) while earnings reinvestment increases (decreases). Differences are minimized by segregation of investors into clienteles.

The model developed by Farrar and Selwyn (1967) assumes that investors maximize after-tax income. In a partial equilibrium framework, investors have two choices. Individuals choose the amount of personal and corporate leverage and also whether to receive corporate distributions as dividends or capital gains. This model contends that no dividends should be paid; rather, that share repurchase should be used to distribute corporate earnings.

Auerbach (1979a) develops a discrete-time, infinite-horizon model in which shareholders (as opposed to firm market value) maximize their wealth. If a capital gains/dividends tax differential exists, wealth maximization no longer implies firm market value maximization. Subsequently, Auerbach (1979b) posits that dividend distributions occur because of the consistent, long-term undervaluation of corporate capital. The undervaluation is the result of a dynamic process encompassing multiple periods of total

reinvestment of all firm profits followed by firm returns less than the returns expected by investors.

Tax-adjusted models are criticized as incompatible with rational behavior; this criticism prompts Miller (1986) to suggest a strategy of tax sheltering of income by high-tax-bracket individuals. Individuals can refrain, of course, from purchasing dividend-paying shares to avoid the tax liability of these payments. Alternatively, using a strategy first advanced by Miller and Scholes (1978), shareholders can purchase dividend-paying stocks and receive the distributions, then simultaneously borrow funds to invest in tax-free securities.

2.4.2 Signaling Models

The market imperfection of asymmetric information is the basis for three distinct efforts to explain corporate dividend policy. The mitigation of the information asymmetries between managers and owners via unexpected changes in dividend policy is the cornerstone of dividend signaling models. Agency cost theory uses dividend policy to better align the interests of shareholders and corporate managers. The free cash flow hypothesis is an ad hoc combination of the signaling and agency costs paradigms; the payment of dividends can decrease the level of funds available for perquisite consumption by corporate managers. Akerlof's (1970) model of the used car market as a pooling equilibrium in the absence of signaling activities illuminates the costs of information asymmetries. The generalization of Akerlof's model by Spence (1973, 1974) became the prototype for all financial models of signaling. The model defines a unique and specific signaling equilibrium in which a job seeker signals his/her quality to a

prospective employer. Although the scenario is developed using the employment market, Spence contends that extension to a limited number of other settings (admissions procedures, promotions, and credit applications) is possible.

Bhattacharya (1979, 1980), Hakansson (1982), John and Williams (1985), Miller and Rock (1985), Rodriguez (1992), and many others offer signaling models of corporate dividend policy. The proponents of signaling theories believe that a corporate dividend policy used as a means of putting the message of quality across has a lower cost than other alternatives. The use of dividends as signals implies that alternative methods of signaling are not perfect substitutes (Asquith and Mullins, 1986).

2.4.3 Agency Cost

The recognition of potential agency costs associated with the separation of management and ownership is not new; differences in managerial and shareholder priorities have been recognized for more than three centuries. Adam Smith (1937) adjudged the management of early joint stock companies to be negligent in many of their activities. These problems were especially prevalent in the British East Indies Company and attempts to monitor managers were largely unsuccessful because of inefficiencies and costs associated with shareholder monitoring. Dolnadson (1961) question these assertions while control and organization were less than ideal, the continued success and long life of the corporation imply generally sound managerial practices. Although some fraud no doubt existed, the majority of managerial activities coincided with shareholder desires.

Modern agency theory seeks to explain corporate capital structure as the result of attempts to minimize the costs associated with the separation of corporate ownership and control. Agency costs are lower in firms with high managerial ownership stakes because of the better alignment of shareholder and manager goals (Jensen and Meckling, 1976) and in firms with large block shareholders that are better able to monitor managerial activities (Shleifer and Vishney, 1986). Agency problems result from information asymmetries, potential wealth transfers from bondholders to stockholders through the acceptance of high-risk and high-return projects by managers, and failure to accept positive net present value projects and perquisite consumption in excess of the level consumed by prudent corporate managers.

Dividend policy influences these relations in two ways. Fama and Jensen (1983a, 1983b) espouse that potential shareholder and bondholder conflicts can be mitigated by covenants governing claim priority. These orderings can be circumvented by large dividend payments to stockholders. Debt covenants to minimize dividend payments are necessary to prevent bondholder wealth transfers to shareholders (John and Kalay, 1982). Although potentially substantial in precipitation of agency costs, its dividend policy is not a major source of bondholder wealth expropriation. In firms where dividend payouts are limited by bondholder covenants, dividend payout levels are still below the maximum level allowed by the constraints (John and Kalay, 1982).

The second way dividend policy affects agency costs is the reduction of these costs through increased monitoring by capital markets. Large dividend payments reduce funds

available for perquisite consumption and investment opportunities and require managers to seek financing in capital markets. The efficient monitoring of capital markets reduces less-than-optimal investment activity and excess perquisite consumption and hence reduces the costs associated with ownership and control separation (Easterbrook, 1984).

2.4.4 The Free Cash Flow Hypothesis

Prudent managers working in the shareholders' best interests should invest in all profitable opportunities. Management and owner separation avoids corporate managers the temptation, however, to consume or otherwise will use the surplus funds. The inefficient use of funds in excess of profitable investment opportunities by management will be first recognized by Berle and Means (1932). Jensen's (1986) free cash flow hypothesis updated this assertion, combining market information asymmetries with agency theory. The funds remaining after financing all positive net present value projects cause conflicts of interest between managers and shareholders. Dividend and debt interest payments decrease the free cash flow available to managers to invest in marginal net present value projects and manager perquisite consumption. This combination of agency and signaling theory should better explain dividend policy than either theory alone, but the free cash flow hypothesis does a better job of rationalizing the corporate takeover frenzy of the 1980's Myers (1984) than it does of providing a comprehensive and observable dividend policy.

2.4.5 Behavioral Models

No paradigm discussed this far completely explains observed corporate dividend behavior. Investor behavior is substantially influenced by societal norms and attitudes

(Shiller, 1984). Unfortunately, this motivation has been ignored by financial theorists for the most part because of the difficulty of introducing investor behavior into traditional financial pricing models. According to Shiller (1984), including these influences in modeling efforts can enrich the development of a theory to explain the endurance of corporate dividend policy.

Ordinary investors are faced not with risk, but with uncertainty and lack of concise judgment and sense of objective evidence (Knight, 1964). Social pressures can lead to errors in judgment and trading activities by shareholders that cannot be logically explained. These errors in judgment are only mistakes, not lapses of rational investment activity. Mass investor psychology profoundly influences aggregate market activity (Shiller, 1984). Dividend policy is inconsistent with wealth maximization of the shareholder and is better explained by the addition of a socioeconomic-behavior paradigm into economic models. Dividend payouts can be viewed as the socioeconomic repercussion of corporate evolution the information asymmetries between managers and shareholders cause dividends to be paid to increase the attractiveness of equity issues (Frankfurter and Lane, 1992).

The systematic relation between industry type and dividend policy reported by Michel (1979) implies that managers are influenced by the actions of executives from competitive firms when determining dividend payout levels. Managers, realizing that shareholders desire dividends, pay or increase dividends to mollify investors (Frankfurter and Lane, 1992). Dividend payments to shareholders should help increase the

corporation's stability by serving as a ritualistic reminder of the managerial and owner relationship. As Frankfurter and Lane (1992) contend, dividends are partially a tradition and partially a method to allay investor anxiety.

2.5 Managerial Surveys

Lintner (1956) surveyed corporate chief executive officers and chief financial officers and found that dividend policy is an active decision variable because managers believe that stable dividends lessen negative investor reactions. The active determination of dividend policy implies that the level of retained earnings and savings is a dividend decision byproduct. Darling (1957), and Fama and Babiak (1968) find empirical support for Lintner's findings; dividends are a function of current and past profit levels, and expected future earnings, and are negatively correlated with changes in the level of sales. Current income remains the critical determinant of corporate dividend policy 25 years after Lintner's original survey (DeAngelo, DeAngelo, and Skinner, 1992).

Other factors not considered by Lintner (regulatory constraints, investment magnitude, debt and firm size) also affect dividend policy. Variations in dividend policy are primarily due to a combination of endogenous and exogenous elements (Dhrymes and Kurz, 1964). Harkins and Walsh (1971) find that shareholder dividend desires and management need of retained earnings for investment opportunities conflict. A compromise policy partially satisfying both parties is chosen. Managers consider current and expected earnings, dividend payment history, dividend level stability, cash flows and

investment opportunities, and shareholder desires in their determination of the payout level.

Surveys of chief financial officers (CFO's) by Baker, Farrelly, and Edelman (1985) and Baker and Farrelly (1988) confirm the Lintner (1956) results. The CFO's cite the importance of dividend continuity, the belief that share prices are affected by dividend policy, and the difference in classification of regular and unusual cash flows as important determinants of dividend policy. Managerial views of dividend policy are essentially unchanged 30 years after Lintner's study; dividends are paid because shareholders expect continued dividend growth and managers believe investors want to receive dividends. Managers believe that dividend payments are necessary to maintain or increase share price and to attract new investors. Dividend payout policy is determined using criteria including sustainability, current firm profitability, future cash flow expectations, and industry norms.

2.6 Theoretical Behavioural Models

Feldstein and Green (1983) model explain the corporate dividend decision as the last step in a process that evaluates inputs from five sources. First, dividend policy is a consequence of investor consumption needs. The tax liabilities from dividend payment are less than the transaction costs of selling shares to provide income if earnings are retained. Second, the market value of retained earnings is less than the market value of dividends. Third, dividend payment is consistent with steady state growth and an optimal debt/equity ratio. Fourth, dividend payments are a by-product of the separation of

corporation owners and managers; dividend payments help to diminish the agency costs arising from separation of corporate owners and managers and are used for signaling activities. Finally, although asymmetric information and agency costs are present in the model, the paradigm is not dependent on these market imperfections. The involvement of shareholders with diverse tax liabilities and diversification goals in an equilibrium with uncertainty results in dividend payments.

Shefrin and Statman (1984) explain dividend preference by using the theory of self control (Thaler and Shefrin, 1981) and the descriptive theory of choice under uncertainty (Kahneman and Tversky, 1982). Information models are used to justify the presence of corporate dividends while the tax liability of dividends is used as a counter-argument. This model is also consistent with dividend clienteles.

Dividends and capital gains are not always perfect substitutes (even in a world without taxes and transaction costs) because of a lack of self-control to delay gratification (Thaler and Shefrin, 1981). In financial theory, dividends and capital gains have the same value; this is not the case in a world modeled using the theory of self-control. Dividend checks are appreciated more than capital gains and provide an automatic control device on spending levels (Thaler, 1980). Risky alternatives, costs, and payoffs are evaluated separately. The greater effects shown following dividend decreases also support this contention; losses are more significant than gains. Kahneman and Tversky (1982) posit that the sale of shares of stock causes more investor regret and anxiety than the spending of the cash received from dividend payments. A subsequent price rise of shares sold for

income needs increases the shareholders' contrition. Clearly, in this model, capital gains and dividends are not perfect substitutes. Regret aversion can induce a preference for dividends through the use of a consumption rule based on the utilization of dividends, not invested capital. Dividend yields are positively correlated with the planned dissaving rate. If dissaving is positively related to age and negatively related to income, portfolio dividend yields will be positively correlated with age and negatively correlated with income.

Marsh and Merton (1986) develop a rational expectations model of dividend policy as management's response to permanent earnings. In equilibrium, dividend levels are determined using future earnings expectations. Using dividends as signals is incompatible with this model.

2.7 Dividend Policies and Share Prices

Dividend policy remains a source of controversy despite years of theoretical and empirical research, including one aspect of dividend policy: the linkage between dividend policy and stock price (Allen and Rachim, 1996). Paying large dividends reduces risk and thus influence stock price (Gordon, 1963) and is a proxy for the future earnings (Baskin, 1989). A number of theoretical mechanisms have been suggested that cause dividend yield and payout ratios to vary inversely with common stock volatility. These are duration effect, rate of return effect, arbitrage pricing effect and information effect. Duration effect implies that high dividend yield provides more near term cash flow. If dividend policy is stable high dividend stocks will have a shorter duration. Gordon

Growth Model can be used to predict that high-dividend will be less sensitive to fluctuations in discount rates and thus ought to display lower price volatility.

Agency cost argument, as developed by Jensen and Meckling (1976) proposed that dividend payments reduce costs and increase cash flow, that is, payment of dividends motivates managers to disgorge cash rather than investing at below the cost of capital (Rozeff, 1982 and Easterbrook 1984). Some authors have stressed the importance of information content of dividend (Asquith and Mullin, 1983; Born et al., 1983). Miller and Rock (1985) suggested that dividend announcements provide the missing pieces of information about the firm and allows the market to estimate the firm's current earnings. Investors may have greater confidence that reported earnings reflect economic profits when announcements are accompanied by ample dividends. If investors are more certain in their opinions, they may react less to questionable sources of information and their expectation of value may be insulated from irrational influence.

Rate of return effect, as discussed by Gordon (1963), is that a firm with low payout and low dividend yield may tend to be valued more in terms of future investment opportunities (Donaldson, 1961). Consequently, its stock price may be more sensitive to changing estimates of rates of return over distant time periods. Thus expanding firms although may have lower payout ratio and dividend yield, exhibit price stability. This may be because dividend yields and payout ratio serves as proxies for the amount of projected growth opportunities. If forecasts of profits from growth opportunities are less reliable than forecasts of returns on assets in place, firms with low payout and low

dividend yield may have greater price volatility. According to duration effect and arbitrage effect, the dividend yield and not the payout ratio is the relevant measure. The rate of return effect implies that both dividend yield and payout ratio matters. Dividend policy may serve as a proxy for growth and investment opportunities. Both the duration effect and the rate of return effect assume differentials in the timing of the underlying cash flow of the business. If the relationship between risk and dividend policy remains after controlling for growth, this would suggest evidence of either the arbitrage or information effect.

Empirical studies have examined cross-sectional variation in dividend payout ratios and CAPM beta coefficients. Beaver et. al. (1970) estimated CAPM betas for 307 US firms and obtained significant correlation between beta and dividend payout. Rozeff (1982) found a high correlation between value line CAPM and betas and dividend payout for 1000 US firms. Fama (1991) and Fama and French (1992) focus on dividends and other cash flow variables such as accounting earnings, investment, industrial production etc to explain stock returns. Baskin (1989) takes a slightly different approach and examines the influence of dividend policy on stock price volatility, as opposed to returns.

The difficulty in any empirical work examining the linkage between dividend policy and stock volatility or returns lies in the setting up of adequate controls for the other factors. For example, the accounting system generates information on several relationships that are considered by many to be measures of risk. Baskin (1989) suggests the use of the following control variables in testing the significance of the relationship between

dividend yield and price volatility: operating earnings, size of the firm, level of debt financing, payout ratio and level of growth. These variables have a clear impact on stock returns but also impact on dividend yield.

2.8 Empirical Review

Review of research articles particularly on the determinants of corporate dividend policies has been made as follows:

Lintner (1956) conducted an empirical research over dividend pattern of 28 companies for the period of 1947-1953 with the help of regression analysis. The study concluded that a major portion of dividend of a firm would be expressed in terms of firm's desired dividend payment and target payout ratio. Miller and Modigliani (1961) advanced the view of dividend policy in their most celebrated article "Dividend Policy Growth and the Valuation of Shares" that the value of firm depends solely on its earnings power and is not influenced by the manner in which its earnings are split between dividends and retained earnings.

Fama and Babiak (1968) studied the determinants of dividend payments by individual firms during 1946-64. For this propose, the study used the statistical techniques of regression analysis, simulations and prediction tests. The study concluded that net income seems to provide a better measure of dividend than either cash flow or net income and depreciation included as separate variable in the model. Murray (1981) used non-capital market data to test the theoretical implication that dividend payout is negatively

correlated with earning uncertainty. The study concluded that earnings uncertainty is a determinant of the corporate dividend decision. Ambarish et al. (1987) examined signaling equilibrium with dividends and new stock issues. A major implication of this paper is that since the tax on dividends is not significant, the dividend itself may not be an economical signal. By combining the dividend signal with other signals such as debt or investment changes, the firm may be able to obtain a less-costly signaling-mix.

Kim and Viswanath (1992) studied the influence of transaction costs and agency costs on dividend payout of companies. The cross-sectional tests of the models performed on a sample of 357 industrial companies in 1979-1981 related dividend payout ratios to explanatory variables such as the fraction of equity held by insiders, past and expected future growth of the firm, the firms beta, the total risk of the firm, the number of shareholders of the firm and the research and development expenditure of the firm. The results of the study indicated that transaction costs and agency costs are likely to influence company's dividend policy.

Mulwa (2006) examined whether the signaling efficiency of dividend changes on the future profitability of quoted companies at the Nairobi Stock Exchange. The population consisted of the 48 companies listed at the Nairobi Stock Exchange and covered a period of 5 years (1998 – 2002). Secondary data obtained from Nairobi Stock Exchange, Stockbrokers, Kenya bureau of standards & Capital market Authority was used. Comparison of actual dividend changes in relation to the earnings of the firm and also regression analysis was employed. From the comparison, it was established that at least

in the year of dividend payment a relationship exists. However, for the first and second year after, though a relationship existed, it was very insignificant.

Bitok (2004) in a study carried out to establish the effect of the dividend policy on the value of the firm quoted at the Nairobi Stock Exchange. With a population of all the firms quoted at the Nairobi Stock Exchange. Sample consisted of all the firms quoted consistently at Nairobi Stock Exchange for a period of six years from 1998 – 2003, using a secondary data. The technique used in analysing the data was regression and trend analysis. He found on average there was a significant relationship between the dividend payout ratio to the value of the firm.

Njuru (2007) examined whether the behaviour of stock prices following stock dividend announcement showed evidence of 'under reaction' anomaly at Nairobi Stock Exchange. The population consisted of 48 companies listed at the Nairobi Stock Exchange and covered a period of 8 years (1st Jan 1999 to 31st Dec 2006) taking a sample from all the companies that declared stock bonus. A comparison-period-return approach (CPRA) was used in analyzing price movement. The comparative period taken was the 50 days period starting 60 days before the event and ending 10 days to the event. The 10 trading days prior to the event was used to avoid possible price lead-up proceeding announcements that could be occasioned by insider trading. He found out that there was a continuation in the positive returns after the stock dividend announcement, meaning that the effect of stock dividend announcement at the Nairobi Stock Exchange was not fully incorporated in stock prices in the event day.

Aduda and Kimathi (2009) tested the applicability of constant dividend model from companies listed at the Nairobi Stock Exchange. Data was collected from annual reports and share price schedules obtained from Nairobi Stock Exchange and Capital market Authority for a sample of 18 companies that paid dividends consistently from 2002 to 2008. The data was then analyzed by re-computing the dividends that should have been paid if the dividend constant model was applied. This recomputed figure was later compared to the dividends as paid out by the companies during the period of study. Paired sample t-test statistic was performed to determine whether there was a significant difference between the two dividend figures. The findings of the research established that the dividend model was not employed by the companies listed at the Nairobi Stock Exchange. Most firms adopted a stable and predictable policy where a specific amount of dividend per share was paid each year. In some years, there was a slight adjustment of the dividend paid after an increase in earnings, but only by a sustainable amount. The study showed that the relationship between the stock market prices and the dividend paid from the constant dividend model was uneven from one year to another and where there was a relationship it was insignificant.

Aduda and Chemarum (2010) examined the effect of stock splits at the Nairobi Stock Exchange. They achieved this by studying nine companies that had undergone stock splits in the period 2002 to 2008. They made use of the trading activity ratio to determine whether stock splits elicited any reaction in the Kenyan market. The study made use of daily adjusted prices for sample stock for the event window of 101 days, consisting of 50

days before and 50 days after the stock split. The event study methodology was employed in the determination of the effects of the split. Abnormal returns were calculated by use of the market model and t-tests are conducted to test the significance. The study found out that the Kenyan market reacted positively to stock splits, as shown by a general increase in volumes of shares traded around the stock split. There is also an increase in trading activity after the stock split as compared to that before the stock split. This was consistent with the signaling hypothesis, which states that managers of companies split their stock to act as a means of passing information to stock holders and potential investors. The study equally found out that on the split date and on days around the stock split, there was a positive average abnormal return that was very significant at 0.05% significance level. Results of the cumulative abnormal return indicated that there is a positive cumulative abnormal return across the different event windows.

2.9 Chapter Summary

The chapter has discussed the area of the study: the effects of dividend policy on share prices. The chapter commenced with introduction of the topic under study whereby it introduced the studies done on the topic, dividend policy including: constant payout ratio; constant amount per share; constant dividend per share plus extra surplus: and residual dividend policy. The chapter further discusses the modes of dividend payment which included cash dividends and bonus issue.

The chapter reviewed the factors considered in the establishment of a dividend policy which included the funds needed by the firm for investment activities; company's liquidity, company's ability to borrow and control.

The chapter further reviewed the dividend theories. These theories included the full information models (Tax factor); model of information asymmetries and behavioural model. The next chapter is a breakdown of the research methodology which includes the research design: population and sample, data collection and analysis that will be used to ensure information necessary to answer the research objective for the study.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methods that were used in the collection of data pertinent in answering the research question. The chapter is divided into research design, population and sampling design, data collection methods and data analysis methods.

3.2 Research Design

This problem was studied using a causal research design. A causal research explores the effect of one thing on another and more specifically, the effect of one variable on another. The research design attempted to explore cause and effect relationships between two or more variables (Ader, Mellenbergh and Hand, 2008). The research design was also used to measure what impact a specific change had on existing norms and allow the researcher to predict hypothetical scenarios upon which to base the findings.

3.3 Population and Sampling Design

3.3.1 Population

The population of interest in this study consisted of all the firms quoted at the Nairobi Stock Exchange (N.S.E). This study was, however, limited to quoted companies due to lack of relevant data from private companies whose shares are not freely transferable to the public.

Quoted companies in this case are the companies whose share can be freely transferred from one individual to another in the Nairobi Stock Exchange. These companies are quoted since they had floated some of their share capital to the public (had gone "public") and their share capital can be sold (are "quoted") in the Nairobi Stock Exchange.

3.3.2 Sampling Method

Stratified sampling was used; firstly the population was divided into the various stratas namely Agricultural, Commercial & Services, Finance & Investment, Industrial & Allied and Alternative Investment. A random sample of 17 companies was selected consisting of all the companies quoted consistently at Nairobi Stock Exchange for a period of 5 years from 2006 – 2010 which formed the basis of this research analysis.

3.4 Data Collection

In this study, emphasis was given to secondary data. This was collected from Nairobi Stock Exchange. The Nairobi Stock Exchange keeps copies of financial statements of all quoted companies from the time they were quoted. Share prices were obtained from the daily pricelist schedules circulated by the Nairobi Stock Exchange hand books. Final dividend payment of each company was used for the purpose of this study. The period that was covered by the financial statements was 5 years; beginning 2006 to 2010.

3.5 Data Analysis

The data collected was edited for accuracy, uniformity, consistency and completeness and arranged to enable coding and tabulation before final analysis. The data was then entered into Statistical Package for Social Sciences (SPSS) version 17 for analysis. The

secondary data collected was analyzed using simple linear regression and correlation analysis. Linear regression implements a statistical model that, when relationships between the independent variables and the dependent variable are almost linear, shows optimal results. Linear regression model is also simpler compared to other models like multivariate models that are complex and difficult to interplate results. The dividend payout ratio was computed by dividing the total amount of dividend payments by the net operating income while the share prices were measured by comparing the share prices at the announcement date of dividends payment. The significance of announcement date and information value of dividends was tested at a confidence level of 95%. In order to examine the impact of dividend payout (DPOR) on share prices, the regression equation of the form given below was established:

$$Y_i = \acute{a} + ßX_i + e;$$

Where Yi = market share prices

a = the intercept of the regression equation which represents the value of a firm (share prices) with no dividends paid out.

ß = the slope which represents the degree in which the share prices changes as the size of dividends changes.

Xi = dividend payout of the firm (proportion of total earnings)

Correlation analysis was used to describe the degree to which one variable is related to the other. The relationship, if any, was usually assumed to be linear. In this study

coefficient of correlation (r) and coefficient of determination (r^2) were estimated to determine the nature and magnitude of the relationship. Correlation coefficient was be used to measure the degree of relationship between dividend payout and the firm's share market prices. The magnitude of the sample coefficient of correlation was expected to indicate a weak or strong linear relationship.

CHAPTER FOUR

4.0 DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter presents a summary of the findings on the relationship between dividend payment and share prices of the companies listed at the NSE for the period 2006 to 2010. Discussions of these findings are presented in this chapter in both graphical and prose-form to enhance great usability. For the period 2006 to 2010, the results indicated that there was a weak positive relationship between dividend payment and share prices.

4.2 Dividend Payment Policy and Share Prices

The sample variables movement are represented prose form hereunder;

When Rea Vipingo declared a dividend payout of 43% in 2006, the share price was Ksh. 37. Dividend payout in 2007 was 42% and the share price dropped to Kshs. 30.00 while in 2008, the share value dropped further to Ksh 22.00 as the dividend payout dropped to 7%. 2009 saw the share dip further to Kshs. 12.00 notwithstanding a growth in dividend payout to 20%. In 2010, Rea Vipingo's share price rose to Kshs 14.00 after a dividend payout of 71%.The relationship between stock prices and dividend payout is weak.

In 2006, Kakuzi Ltd paid out a dividend of 25% out of its net earnings wherein the market share price was Ksh. 45.00. In 2007, the company didn't pay dividend and its share price dropped to Kshs 38.00 while the share price dropped slightly in 2008 to Kshs. 34.00 with a dividend payout of 36%. In 2009 the share price dipped further to Kshs.

27.00 notwithstanding an improvement in the payout to 45% while in 2010, the share improved considerably to trade at Kshs 66.50 with a paltry 16% dividend payout. Other than dividend payout, other factors played a key role in this company's stock movement.

In 2006, Limuru Tea paid out a dividend of 124% with share price trading at Ksh. 320.00. In 2007, the share rose to Kshs. 345.00 with a payout of 147%.When the company reduced its payout rate to 141% in 2008, the share price gave in to settle at Kshs 290.00 however, the share rose to Kshs 305.00 in 2009 notwithstanding a reduced payout to 33%. In 2010 the share price improved to settle at Kshs 317.00 while the DPOR dropped to 12%.

CMC Holdings in 2006 paid out a dividend of 161% of its net earnings of the year and the price stood at Kshs 20.00. 2007, 2008 and 2009 saw the share edge slightly upwards from kshs.11.00, Kshs.12.60 and Kshs.12.60 while the payout oscillated from 17%, 22% and 13% respectively. The share price slackened to Kshs 11.00 in 2010 despite an improved DPOR to 29% compared to the previous year.

In 2006, Kenya Airways paid a dividend of 18% of net profit and the share price was Ksh.32.80. In 2007, the dividend payout was 20% of net profit but the market share price dropped to Ksh. 22.00. In 2008, the share price dipped to Ksh.17.00 when the dividend payout slightly rose to 21% of the net profit. In 2009, the company paid a dividend of 23% and the market share price increased to Ksh. 45.00 while in 2010, the dividend payout was reduced to 20% of the period's net profit with the share price closing at Ksh. 30.00.

Analysis of Nation Media Group market share price sensitivity to the dividend payout policy indicates that when the company paid a dividend of 70%, the share prices rose to Ksh. 204 from the previous year. The year 2007, 2008 and 2009 saw the NMG share decline from Ksh 165, Ksh145 and Ksh 120 while the pay out declined from 69%, 61% and 55% respectively. The share price of the NMG stock improved in 2010 to trade at Kshs 149.00 alongside an improved dividend payout of 81.6%. The NMG share prices indicate a considerable relationship with the payout.

The share price to dividend pay-out policy sensitivity analysis showed that when East African cables paid a dividend of 50% in 2006, the share price grew to Ksh. 17.The share dropped slightly in 2007 to settle at Kshs. 16 with a dividend payout of 49%. In 2008 and 2009 East African cables share grew from 17.55 to 19.70 with a respective growth in payout rate from 52% and 66%. In 2010, the share dropped to settle at Kshs 12.00 notwithstanding and payout of 89.3%.

In 2006, Barclays bank share price traded at an average Ksh. 204.00 when a dividend of 50% was paid out. In 2007, the bank paid a dividend of 46% out of its net earnings for the year with its share price trading at Kshs 45.00.The share price dropped to Kshs 30.00 while the DPOR rose to 49%, while the following year saw the share improve to trade at Kshs 45.75 with an improved payout to 56%.In 2010, the bank's share closed the year at Kshs. 13.55 with a DPOR of 70%.

In 2006, Diamond Trust paid a dividend of 40% of the net profit while the share price was Ksh. 44.75. In 2007, the company paid out 40% of its net earnings and the share price rose to Kshs. 52, while 2008 and 2009 saw the share rise from Ksh.55.00 to Ksh.

70.00 with a respective payout of 26% and 25%.The price of Diamond trust stock improved to close at an average of Kshs 102.00 in 2010 despite a low DPOR of 14%.

When Total Kenya paid a dividend of 91% out of the net profit in 2006, its share price was Ksh. 34.75. The payout declined to 83% in 2007 when it was trading at Kshs 35.00, in 2008, the payout declined to 62% while the share price was Ksh 33, in 2009, the payout increased to 66% but retained the same price of Ksh 33 , in 2010, Shares traded on average at Kshs 20.25 with a reduction in payout to 34%. There was no considerable effect from the DPOR on share price of this company.

In 2006 British American Tobacco paid a dividend of 100% from its net earnings and the price was Kshs 200. In 2007, BAT made a dividend payout of 123% but the share dropped to Ksh 167.00 while in 2008 the share price edged to Kshs 165.00 with a dividend payout of 100%. With no change in dividend payout in 2009, the share improved to settle at Kshs 175.00. The share shot in 2010 to close the year at Kshs 248.00 with a slightly reduced payout of 99%.

In 2006 East African Breweries Ltd. dividend payout was 72% and the price was Kshs 149 while an increase in dividend payout to 95% saw the share drop to Kshs. 127.00 in 2007.In 2008 the company paid out a dividend of 84% whereas the share improved to Kshs 132.00 and a further increase in dividend payout to 92% in 2009 saw the share further improve to settle at Kshs 141.00.With a an improved payout in 2010 of 96% the company's share improved as well to settle at Kshs 179.00.Signifant relationship existed between the stock price and dividend payout of this company.

In 2006, Bamburi share price closed at Kshs 140 with a payout of 76%. In 2007, the share price edged to Kshs 142 with DPOR of 61%, while in 2008 the share price stabilized at Kshs 140 as the DPOR rose to 68%.In the following year the share price improved to Ksh 160.00 at a lower DPOR of 60% while share improved to settle at Kshs 172.00 with a slightly improved payout to 61% in 2010.

4.3 Sectoral Analysis

4.3.1 Commercial and Services Sector

The trend analysis for the Commercial and Services Sector is shown in Figure 1 below.

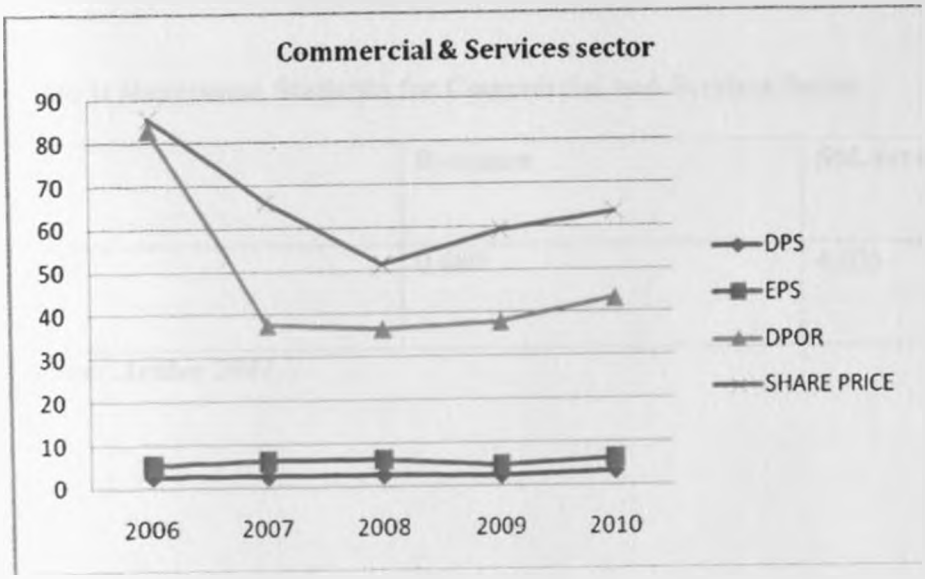

Figure 1: Line Graph for DPS, EPS, DPOR and Share Price against Time in years for the Commercial and Services Sector (Source: Author 2011)

The drop in share prices in this sector during the years 2006 and 2008 can be explained by a similar drop in the DPOR. The DPOR almost stabilised between 2007 and 2009

while share prices dipped to 2008 and thereafter started rising gradually through to 2010.The DPOR hence related to a considerable extent to the market share prices.

A regression analysis summarised and presented in Table 1 indicates that there was a strong positive correlation between dividend payout ratio and share prices for the commercial and services sector. The Pearson correlation is 62.6% at 0.01 level of significance. R-square is 0.689 while R is 0.830 and the standard error is 4.026. This shows that for Commercial and Services sector of the NSE, dividend payout ratio accounted for 68.9% change in share prices for firms in the sector. A further significance analysis reveals that the relationship is significant (Sig. = 0.115, t = 1.649). Thus, dividend policies for firms in the sector significantly influence their share prices.

Table 1: Regression Statistics for Commercial and Services Sector

R	R-square	Std. error of estimate
0.830	0.689	4.026

Source: Author 2011

4.3.2 Agricultural Sector

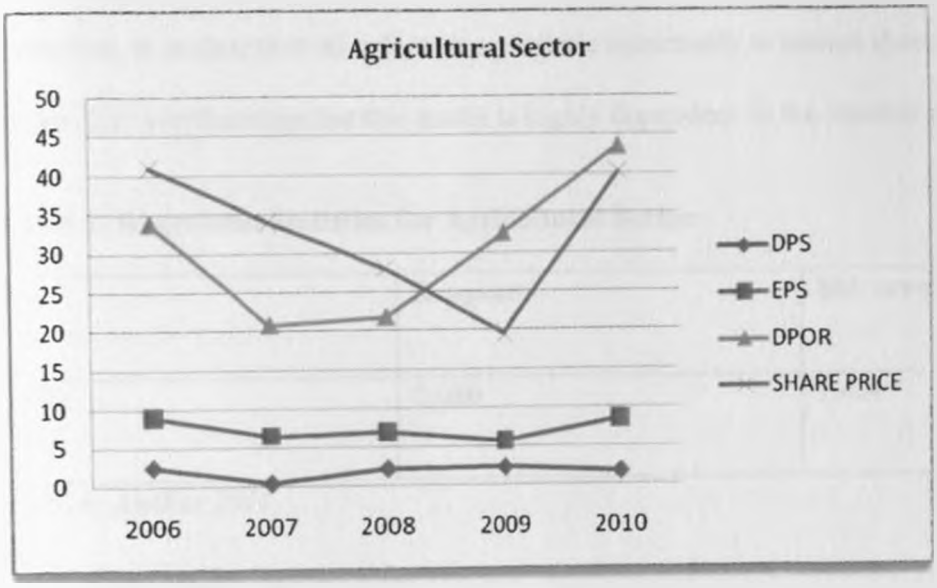

Figure 2: Line Graph for DPS, EPS, DPOR and Share Price against Time in Years for the Agricultural Sector (Source: Author 2011)

The year 2006 saw the DPOR fall and together the share prices in the agricultural sector fell through to year 2009.Both the DPOR and the share prices curve indicate that from 2009 to 2010 there was a sharp rise. In this sector the relationship between the share prices and the DPOR is not significant.

Table 2 below shows a regression analysis showing the relationship between DPOR and Share prices, R-square is 0.086 while R is 0.292. Pearson correlation between the DPOR and share prices is 6.4%. This depicted that there was very a weak relationship between

share price and dividend policy in this sector and that dividend policy only accounted for 8.6% of the change in share prices. A further test of significance reveals that dividend payout ratio did not significantly influence share prices (t = 0.243, Sig. = 0.812). Therefore, it is clear that other factors contribute immensely to market share prices of this sector. It is worth noting that this sector is highly dependent on the weather patterns.

Table 2: Regression Statistics for Agricultural Sector

R	R-square	Std. error of estimate
0.292	0.086	1.404

Source: Author 2011

4.3.3 Finance and Investment Sector

A trend analysis for the relationship between dividend payout policy and share prices is shown in Figure 3 below.

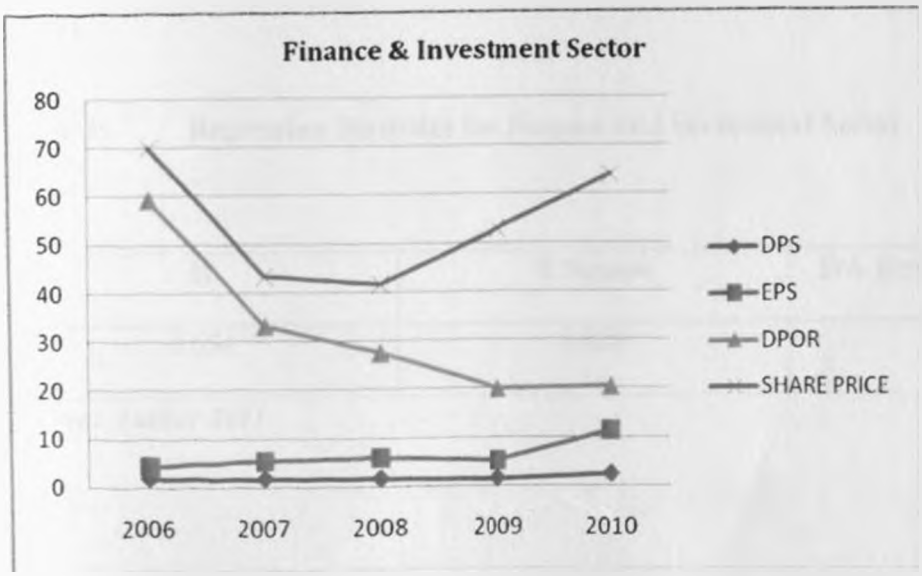

Figure 3: Line Graph for DPS, EPS, DPOR and Share Price against Time in years for the Finance and Investment Sector (Author 2011).

In the finance and investment sector, share prices dipped in 2006-2007 which can be explained by a similar dip in DPOR in the same period. Thereafter, the share prices started rising from 2008 through to 2010 however the DPOR dropped in 2007 through 2009 and stabilized in 2010.This shows that, other than the DPOR other variables contributed the share prices rise.

From the regression analysis summarized in Table 3 below, the results indicate that there was a weak positive relationship between dividend payout ratio and share prices. Pearson correlation coefficient was at 36.4% at .05 confidence level (2-tail test).The R is 0.654 while R-square is 0.428. This shows that 42.8% of the variance in share prices in the sector is as a result of dividend policy. Tests of significance revealed that there was weak (positive) significant influence of dividend policy on share prices (t = 1.342, Sig. = 0.187).

Table 3: Regression Statistics for Finance and Investment Sector

R	R Square	Std. Error of the Estimate
0.654	0.428	3.881

Source: Author 2011

i4.3.4 Industrial and Allied Sector

Figure 4 below shows the trend analysis for the Industrial and Allied Sector.

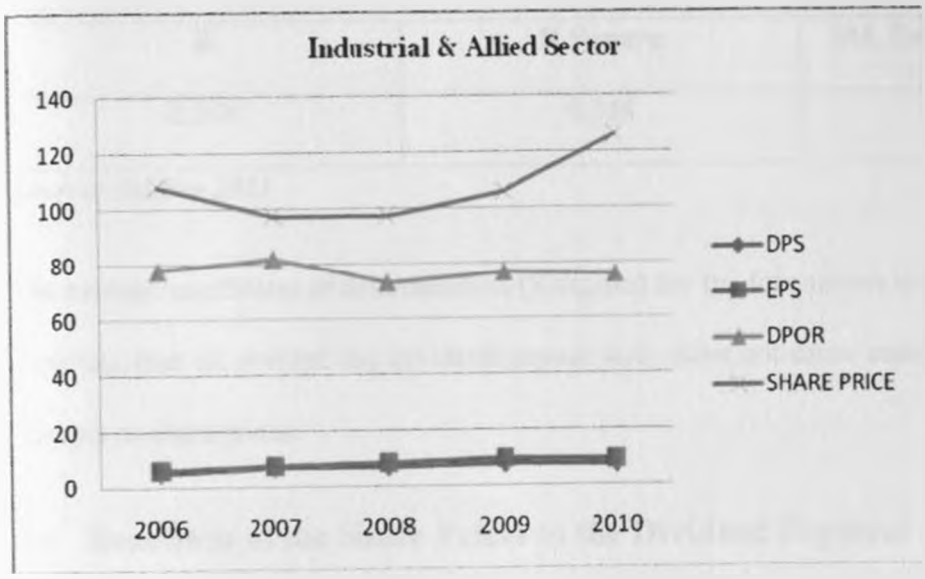

Figure 4: Line Graph for DPS, EPS, DPOR and Share Price against Time in Years for Industrial and Allied Sector (Source: Author 2011)

For the industrial and allied sector, between 2006 and 2009 the DPOR almost stabilised and this was followed by a stabilisation of share prices in 2006 and thereafter gradual rise in 2007 through to 2009. The curves for the two variables took almost a similar position the period under research.

The regression analysis, summarised and presented in Table 4 below, indicates that there is a weak positive correlation between dividend policy and share prices for the sector. Pearson correlation was 26% while R-square was 0.358. The R-square indicates that dividend payout ration accounted for 35.8% of the changes in share prices. Significance

tests revealed that the regression was significant at (t = 0.223, Sig. = 0.824). Thus, for this sector, dividend policy influenced share prices save for other factors.

Table 4: Regression Statistics for Industrial and Allied

R	R Square	Std. Error of the Estimate
0.598	0.358	7.347

Source: Author 2011

The average coefficient of determination (R square) for the four sectors is 0.39025 (39%) depicting that on average the dividend payout ratio does not cause considerable (39%) changes in share prices.

4.4 Reactions of the Share Prices to the Dividend Payment

There have been many studies that have found a positive relationship between market prices and dividend announcement. Two of the studies are explained as follows.

Lonie et al, (1996) investigated the stock market response to interactive dividend and earnings announcements by a sample of 620 UK companies over the period January to June 1991. First, the study examined the possibility that the response to a dividend announcement may be influenced by whether the dividend is being increased, decreased or left unchanged. The study suggest that this may indeed be the case and acknowledge the role of the dividend as a signal to investors: dividend increases tend to be associated with positive abnormal returns, and dividend decreases tend to be associated with negative abnormal returns around the time of the dividend announcement. Second, the study recognized that identifying a unique dividend information announcement effect is

particularly difficult in the UK because UK dividends are almost invariably announced simultaneously with information about corporate earnings. The study addressed this problem by focusing on those occasions when the signals associated with these announcements conflict with one another - where dividends are increased and earnings decrease or vice versa. The influence of combinations of dividend and earnings news was found to be important in explaining the share price reaction on the announcement day.

Dasilas (2005) investigated the market reaction to cash dividend announcements for the period 2000-2004 employing data from the Athens Stock Exchange (ASE). In particular, the paper examined both the stock price and trading volume response to dividend distribution announcements. The dividend distribution in Greece features remarkable differences from those of the US, the UK and other developed markets. First, dividends in Greece are paid annually rather than quarterly or semi-annually. Second, the Greek corporate laws designate accurately the minimum amount for distribution from the taxed corporate profits. Third, neither tax on dividends nor on capital gains is imposed. Fourth, the Greek listed firms are characterized by high ownership concentration where major owners are usually involved in management and have, therefore, less need for dividend announcements as information source. Despite this neutralized information and tax environment, the study documented significant market reaction on dividend change announcements, lending support for the "information content of dividends hypothesis".

The research also looked at the day share market trading of company in the first weeks after announcement of dividends and established that when a firm announced high dividends the market share prices of the companies shot up in the first week before declining slowly over the ensuing weeks.

CHAPTER FIVE

5.0 SUMMARY OF FINDINGS & CONCLUSIONS, LIMITATIONS, RECOMMENDATIONS AND FURTHER RESEARCH

5.1 Summary of Findings and Conclusions

5.1.1 Summary of the Findings

The objective of the research study was to establish the relationship between dividend payment and share prices. The study found out that companies consider several factors before issuing dividends; these issues are: dividends paid in the previous period, the dividends to be given to the preferred shareholder, what the rival companies pay, the net earnings during the period, the amount in the reserves and the investment prospects.

The study also found out that the stock market is positively responsive to the dividend payment such that the share value improves in the few weeks after a high dividends payment. This is consistent with several previous studies thus pointing to the fact that there is information content associated with dividends.

On average, there was a weak positive relationship between the dividend payout ratio (DPOR) and the firm's share price. In this regard, dividend payment policy is relevant to the value of share price of a listed company. From the regression and trend analysis results of the entire market it was observed that there was a weak positive relationship between DPOR and the market share prices. The average Coefficient of determination (R

square) for the overall sample was 0.39 or 39% depicting that on average the dividend payout ratio does not cause a considerable change in share prices.

5.1.2 Conclusions

From the findings, the study concludes that companies consider dividends paid in the previous period, the dividends to be distributed to the preferred shareholder, what the rival companies pay, the net earnings during the period, the amount in the reserves and the investment prospects before issuing dividends. The finding also shows that the share market is positively responsive to the dividend payment.

The findings of this research show that dividend payment policy is relevant to the value of the firm. Gordon and Lintner in their bird in- hand theory of 1962, argue that dividend policy is not passive residue determined by the firm's need for investment funds. It matters how the total net earnings are divided between dividend payment to shareholders and retention. Therefore the optimal dividend policy does exist. However, the relationship between dividend policy and the share prices of the firms quoted was positive implying that dividend policy that a firm adopts determines the market share value of the firms. It can also be concluded from the study that it is not only dividend pay-out policy that affects the market share prices but also other determinants as the bonus issues. The bonus issues affect negatively the market share prices since the shareholders do not regard it as an increase in their wealth but rather a reclassification of the companies earning from reserves to capital.

5.2 Limitations of the Study

This research did not cover unquoted companies to see whether the same results also hold by testing similar variables as in this research for companies not quoted on the Nairobi Stock Exchange.

Due to the shortcomings of regression models, other models can be used to explain the various relationships between dividends payout ratios and the value of the firms.

From this research is evident that other factors other than the dividend payment affect the market value of shares. This research did not take into account such other factors.

It was hard to get information especially for year 2010 from Nairobi Stock Exchange. The information from internet may not be 100% accurate.

It is highly time consuming to get the required information from all the financial statements of the sampled companies.

5.3 Recommendations

The study recommends that companies consider all pertinent issues before paying dividends. These issues includes; stability of the earnings, liquidity position, dividends paid in the previous period, the dividends to be distributed to the preferred shareholder, what the rival companies pay, the net earnings during the period and the investment prospects. Since the share market is positively responsive to the dividend payment, companies should always strive to pay divided consistently for their shares to perform well at the Stock Exchange. Dividend payment policy have an effect on the share prices of the firms quoted at NSE thus, companies (firms) should pay dividends to maintain

high share prices. This is pertinent with the dividend theories of bird-in-hand theory, information signaling effect theory, tax differential theory and agency theory. These theories propose that dividend payment policy is relevant to the value of the firm; other factors kept constant. It is also recommended that firms should maintain a clear and consistent dividend payment policy which positively influences the value of the firm.

5.4 Suggestions for Further Research

A similar research study should be done incorporating the unquoted companies. Further, a research study where data collection relies on primary data i.e. in-depth questionnaires and interview guide is encouraged so as to complement this research.

Further research could also be done on the entire 56 companies listed in the Nairobi Stock Exchange and especially to include companies that went public after the year 2002 which this research has excluded.

Further study is also encouraged to understand better what influences changes in share prices in the Agricultural sector.

A similar research study should be done on the financial institutions which are quoted in Nairobi Stock Exchange to find out if similar results will be obtained.

A similar research study can be done on the relationship between dividend payment and return on assets for all companies quoted at Nairobi Stock Exchange.

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APPENDICES

APPENDIX I: LISTED COMPANIES AT NAIROBI STOCK EXCHANGE

AGRICULTURE
Kakuzi Limited
Rea Vipingo Plantations Limited
Sasini Limited
COMMERCIAL AND SERVICES
Car and General (K) Limited
CMC Holdings Limited
Olympia Capital Holdings Limited
Kenya Airways Limited
Marshalls (E.A) Limited
Nation Media Group Limited
Standard Group Limited
TPS East Africa (Serena) Limited
Scangroup Limited
Access Kenya Group Limited
Safaricom Limited
Uchumi Supermarket Limited
Hutching Biemer Limited
FINANCE AND INVESTMENTS

Barclays Bank of Kenya Limited
CFC Stanbic Holdings Limited
Diamond Trust Bank (Kenya) Limited
Housing Finance Company Limited
Centum Investment Company Limited
Jubilee Holdings Limited
Kenya Commercial Bank Limited
National Bank Limited
NIC Bank Limited
Pan Africa Insurance Holdings Limited
Standard Chartered Bank Kenya Limited
Equity Bank Limited
Kenya Re- Insurance Corporation Limited
The Co-operative Bank of Kenya Limited
CFC Insurance Holdings
INDUSTRIAL AND ALLIED
Athi River Mining
B.O.C Kenya Ltd
Bamburi Cement Limited
British American Tobacco Kenya Limited
Carbacid Investments Limited
Crown Berger Limited
East African Cables Limited

East African Portland Cement Limited
East African Breweries Limited
Sameer Africa Limited
Kenolkobil Limited
Mumias Sugar Company Limited
Total Kenya Ltd
Unga Group Limited
Kengen Limited
Eveready East Africa Limited
ALTERNATIVE INVESTMENT MARKET SEGMENT (AIMS)
City Trust Limited
Eaagads Limited
Express Limited
Kapchorua Tea Company Limited
Limuru Tea Company Limited
Williamson Tea Kenya Limited
Kenya Orchards Limited
A. Baumann Company Limited

Sample size 17 companies **(highlighted)**

APPENDIX II: SPSS OUTPUTS

Agricultural sector

KEY: V2, V3, V4 and V5 represents DPS, EPS, DPOR and Share price respectively.

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	V4, V3, V2[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: V5

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.292[a]	.086	-.143	1.404975033E1

a. Predictors: (Constant), V4, V3, V2

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	221.539	3	73.846	.374	.773[a]
	Residual	2368.746	12	197.395		
	Total	2590.285	15			

a. Predictors: (Constant), V4, V3, V2

b. Dependent Variable: V5

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	25.489	5.782		4.408	.001
	V2	.140	4.420	.010	.032	.975
	V3	-3.978	3.849	-.286	-1.033	.322
	V4	.050	.207	.077	.243	.812

a. Dependent Variable: V5

Correlation

Correlations

		V2	V3	V4	V5
V2	Pearson Correlation	1	.026	.480	.039
	Sig. (2-tailed)		.924	.060	.885
	N	16	16	16	16
V3	Pearson Correlation	.026	1	.063	-.281
	Sig. (2-tailed)	.924		.818	.292
	N	16	16	16	16
V4	Pearson Correlation	.480	.063	1	.064
	Sig. (2-tailed)	.060	.818		.815
	N	16	16	16	16
V5	Pearson Correlation	.039	-.281	.064	1
	Sig. (2-tailed)	.885	.292	.815	
	N	16	16	16	16

Commercial and services sector

Regression

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	V4, V3, V2[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: V5

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.830[a]	.689	.642	4.026952103E1

a. Predictors: (Constant), V4, V3, V2

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	71878.542	3	23959.514	14.775	.000[a]
	Residual	32432.686	20	1621.634		
	Total	104311.228	23			

a. Predictors: (Constant), V4, V3, V2

b. Dependent Variable: V5

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-14.539	18.045		-.806	.430
	V2	13.112	3.017	.681	4.346	.000
	V3	3.770	3.706	.134	1.017	.321
	V4	.676	.410	.260	1.649	.115

a. Dependent Variable: V5

Correlation

Correlations

		V2	V3	V4	V5
V2	Pearson Correlation	1	-.276	.597**	.799**
	Sig. (2-tailed)		.192	.002	.000
	N	24	24	24	24
V3	Pearson Correlation	-.276	1	-.301	-.132
	Sig. (2-tailed)	.192		.153	.540
	N	24	24	24	24
V4	Pearson Correlation	.597**	-.301	1	.626**
	Sig. (2-tailed)	.002	.153		.001
	N	24	24	24	24
V5	Pearson Correlation	.799**	-.132	.626**	1
	Sig. (2-tailed)	.000	.540	.001	
	N	24	24	24	24

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

Finance and Investment sector

Regression

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	V4, V3, V2[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: V5

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.654[a]	.428	.389	3.881751194E1

a. Predictors: (Constant), V4, V3, V2

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	49591.230	3	16530.410	10.971	.000[a]
	Residual	66299.166	44	1506.799		
	Total	115890.397	47			

a. Predictors: (Constant), V4, V3, V2

b. Dependent Variable: V5

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	13.892	12.379		1.122	.268
	V2	5.739	1.215	.578	4.724	.000
	V3	.073	1.684	.005	.043	.966
	V4	.335	.249	.165	1.342	.187

a. Dependent Variable: V5

Correlation

Correlations

		V2	V3	V4	V5
V2	Pearson Correlation	1	.194	.341*	.635**
	Sig. (2-tailed)		.186	.018	.000
	N	48	48	48	48
V3	Pearson Correlation	.194	1	.228	.155
	Sig. (2-tailed)	.186		.120	.293
	N	48	48	48	48
V4	Pearson Correlation	.341*	.228	1	.364*
	Sig. (2-tailed)	.018	.120		.011
	N	48	48	48	48
V5	Pearson Correlation	.635**	.155	.364*	1
	Sig. (2-tailed)	.000	.293	.011	
	N	48	48	48	48

*. Correlation is significant at the 0.05 level (2-tailed).

Correlations

		V2	V3	V4	V5
V2	Pearson Correlation	1	.194	.341*	.635**
	Sig. (2-tailed)		.186	.018	.000
	N	48	48	48	48
V3	Pearson Correlation	.194	1	.228	.155
	Sig. (2-tailed)	.186		.120	.293
	N	48	48	48	48
V4	Pearson Correlation	.341*	.228	1	.364*
	Sig. (2-tailed)	.018	.120		.011
	N	48	48	48	48
V5	Pearson Correlation	.635**	.155	.364*	1
	Sig. (2-tailed)	.000	.293	.011	
	N	48	48	48	48

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

Industrial & Allied Sector

Regression

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	V4, V3, V2[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: V5

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.598[a]	.358	.305	7.347614962E1

a. Predictors: (Constant), V4, V3, V2

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	108430.371	3	36143.457	6.695	.001[a]
	Residual	194354.804	36	5398.745		
	Total	302785.175	39			

a. Predictors: (Constant), V4, V3, V2

b. Dependent Variable: V5

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	36.967	21.120		1.750	.089
	V2	9.908	2.456	.618	4.034	.000
	V3	-3.046	2.779	-.155	-1.096	.280
	V4	.057	.257	.033	.223	.824

a. Dependent Variable: V5

Correlation

Correlations

		V2	V3	V4	V5
V2	Pearson Correlation	1	.335*	.412**	.580**
	Sig. (2-tailed)		.035	.008	.000
	N	40	40	40	40
V3	Pearson Correlation	.335*	1	.174	.057
	Sig. (2-tailed)	.035		.283	.725
	N	40	40	40	40
V4	Pearson Correlation	.412**	.174	1	.260
	Sig. (2-tailed)	.008	.283		.105
	N	40	40	40	40
V5	Pearson Correlation	.580**	.057	.260	1
	Sig. (2-tailed)	.000	.725	.105	
	N	40	40	40	40

*. Correlation is significant at the 0.05 level (2-tailed).

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

APPENDIX III: SAMPLED RAW DATA

SECTOR COMPANY	2006				2007				2008				2009				2010			
	DPS	EPS	DPOR	SHARE PRICE	DPS	EPS	DPOR	SHARE PRICE	DPS	EPS	DPOR	SHARE PRICE	DPS	EPS	DPOR	SHARE PRICE	DPS	EPS	DPOR	SHARE PRICE
Agricultural sector																				
Kakuzi	4.05	16	25%	45	0	11	0%	38	4	11	36%	34	3.9	8.7	45%	27	2.5	15.8	16%	66.5
Rea Vipingo	0.8	1.88	43%	37	0.8	1.92	42%	30	0.2	2.8	7%	22	0.5	2.48	20%	12	0.8	1.12	71%	14.05
Alternative Investment																				
Limuru Tea	10	8.05	124%	320	10	6.8	147%	345	10	7.1	141%	290	7.5	22.5	33%	305	7.5	62.4	12%	317
Commercial & Service Sector																				
CMC Holdings	2.3	1.43	161%	20	0.35	2.03	17%	11	0.35	1.6	22%	12.6	0.35	2.78	13%	12.6	0.2	0.7	29%	110.05
Kenya Airways	1.75	9.71	18%	32.8	1.75	8.87	20%	22	1.75	8.37	21%	17.75	1	4.4	23%	45	1.5	7.65	20%	30
NMG	3.5	4.98	70%	204	5.25	6.93	76%	165	5.5	8.25	67%	124	5.5	7	79%	120	8	9.8	82%	149
Finance and Investment																				
Barclays	1.6	3.3	50%	204	1.65	3.6	46%	45	2	4.0	49	30	2.5	4.4	56%	45.7	5.	7.8	70%	13.

	5									9	%			9		5	45	1		55
Diamond Trust	1	2.49	40%	44.7	1.4	3.53	40%	52	1.4	5.4	26%	55	1.55	6.3	25%	70	1.6	1.16	14%	102
Cfc Stanbic	1.75	6	29%	27	2.03	6.78	30%	30	1.18	7.31	16%	39	0	-0.22	0%	50.5	0.8	5.86	14%	48.75
Jubilee Insurance Co.	3.4	11.73	29%	80	4.25	13.71	31%	80	4.25	14.14	30%	85	4.1	16.67	25%	105	5.5	35.4	16%	170
NIC Bank	2.7	1.58	171%	52	0.8	2.57	31%	42	0.5	3.18	16%	32	0.5	3.31	15%	34.75	0.5	5.06	10%	33
Centum Investment	0.4	1.11	36%	12	0.45	2.03	22%	12	0.45	1.58	28%	9.4	0	0.57	0%	11.5	0	1.99	0%	16.6
Industrial & Allied																				
E.A Cables	0.7	1.4	50%	17	0.9	1.85	49%	16	1	1.94	52%	17.55	1	1.52	66%	19.7	1	1.12	89%	12
Total Kenya	2.5	2.75	91%	34.75	2.5	3	83%	35	2.5	4.02	62%	33	1	1.52	66%	33	1.05	3.005	34%	20.225
B.A.T	12	12.001	100%	200	17	13.86	123%	167	17	17	100%	165	17	17	100%	175	17.5	17.76	99%	248
E.A.B.L.	4.91	6.882	72%	149	7.34	7.76	95%	127	8.05	9.555	84%	132	8.05	8.71	92%	141	8.75	9.09	96%	179
Bamburi	5.5	7.2	76%	140	6	9.91	61%	142	6	8.78	68%	140	11	18.32	60%	160	8.5	14.40	61%	172