

**THE EFFECT OF DIVIDEND POLICY ON THE
SHARE PRICE OF MANUFACTURING FIRMS
LISTED ON THE NAIROBI SECURITIES EXCHANGE**

BY

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DECLARATION

This research proposal is my original work and has not been presented for a degree or any other examination to any other university.

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DEDICATION

To Everlyn Kwoba,

Your memory has been key in motivating me to achieve my academic goals

To my father, Grishom Kwoba

I am forever grateful for the sacrifices you've made for my academic success

To my sisters

Your wholehearted support, understanding and encouragement motivated me to
successfully finish this project.

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I recognise and appreciate the support and assistance received from the various people who empowered me to successfully complete this project.

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ABSTRACT

Dividend policy is a widely researched concept in corporate finance. Various researchers have conducted studies to understand the connection between dividend policy and share price for firms in various industries. The objective of the study was to examine the relationship between dividend policy and share price for manufacturing companies listed at the Nairobi Securities Exchange. Descriptive research design was used for the study. The population consisted all manufacturing firms listed on the Nairobi securities exchange as at end of year 2016 and data for the companies for the period ranging from 2008 and 2016 was collected using a data collection form from secondary sources of data and analysed using SPSS. Data collected obtained was analysed using simple linear regression and correlation analysis. The study determined that there exists a positive but insignificant relationship between the dividend pay-out ratio of a manufacturing organization and its share price. This therefore implies that dividend policies that facilitate payment of dividends by firms cause a rise in share price. The study also concluded that there exists a positive insignificant relationship between profitability and share price and a negative insignificant relationship between leverage and share price of a manufacturing firm. Finally, the study recommended that similar studies should be carried out using additional moderating variables and over a longer period.

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LIST OF ABBREVIATIONS

D/E Debt-Equity Ratio

DSE Dhaka Stock Exchange

GDP Gross Domestic Product

KSE Karachi Stock Exchange

NSE Nairobi Securities Exchange

ROA Return on Assets

ROE Return on Assets

ROI Return on Investment

SPSS Statistical Package for Social Science

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

An organization's share price is influenced by many factors including dividend, size of the firm, and management team among others. Payment of dividends is important, as this is the main means by which shareholders obtain a return on their investment or shares in a given business (Ross et al, 2010). Management teams rely on a dividend policy to guide them on the level of dividends to be issued to stockholders. Therefore, dividend policy plays a primary role in determining a company's dividend payout pattern.

There are various theories that seek to highlight the association between the dividend pay-out of a firm its corresponding value. Two main schools of thought currently exist with regard to the relevance of the dividend payout decision in affecting an organization's value. These theories are: the dividend relevance and the dividend irrelevance schools of thought (Mutwiri,2014).

The varying theories in this area highlights the need for further research studies to demystify and highlight the link amid the dividend policy and share price. This information is crucial to stakeholders such as management teams and investors of a firm. The management's main objective is to maximise investors wealth, which directly results in maximizing the value of a firm. This value can be reflected through a company's stock price.

The importance of the manufacturing sector to the Kenyan economy cannot be ignored as the industry is responsible for producing goods, development of new

technologies and providing employment opportunities. With ten manufacturing firms currently listed at the NSE, it is significant to comprehend how the dividend pay-out of these listed firms affect their share prices and ultimately the values of the companies.

1.1.1 Dividend Policy

Dividend policy is the blueprint used to define the portion of the dividends to be shared and or reinvested (Arnott, 2003). The extent of dividend paid out by an organization is primarily influenced by an organizations dividend policy, which are rules and procedures a business uses to select which proportion of its earnings it will give back to its stakeholders.

Braely, Myer and Allen (2011) define the term dividend as payment by a company to its stockholders. Emekekwe (2008) further defines dividend as that section of a business's profit that is shared out to the investors as reward for investment. Dividend may therefore be viewed as the section of a firms's net income that the directors propose to distribute amongst investors in proportion to their shareholdings in the firm (Pandy ,1979).

Fumey and Doku (2013) outline that dividend payout relates to a proportion of total profit remitted to ordinary shareholders as dividends. Dividend payout ratio is considered vital in providing insight on a company's dividend policy to its stakeholders .Organizations may pay dividends to their stakeholders in various forms such as cash dividend, bonus shares and share repurchase however, the most common form of dividends issued by organizations to its stakeholders is cash dividend (Murekefu & Ouma, 2012).

Khan and Thoufiqulla (2013) define bonus shares as additional free shares issued to current shareholders in a business without any additional cost based upon the amount of shares that the shareholder already owns. Consequently, an issue of bonus shares improves the total sum of shares issued and owned, but does not change an organization's value. Generally, the issue of bonus shares by a firm is perceived as a positive message conveyed by firms to investors on the performance of a firm. A share repurchase, refers to the purchase made by a company of its outstanding shares in order to decrease its quantity of shares on the open. Companies may engage in repurchasing their own stocks in order to limit the control of external investors on the company or to improve the value of the firm's share by limiting the supply of the shares available in the open market.

1.1.2 Share Price

Huang (2004) describes share price as the worth of a one stock of saleable shares of a firm. Once an investor purchases shares in a company, they become a shareholder. Different shareholders in a company have different rights depending on the types of shares they own, that is, ordinary shares, and preference shares (Brigham and Dave ,2010). The key motivators for investors to invest in a company is either to earn dividend or capital gains.

For companies listed in securities exchange, details on share price may be obtained from such exchanges based on their geographical location. Ideally firms may be listed in a securities exchange from regions where the company was registered but some companies have been known to undertake cross border listing as well. A firm's share price is influenced by factors within the firm or from other general macroeconomic factors such as economic , social, political factors among others (Muigai, 2012).

These factors influence the level of demand and supply for shares at different time periods and therefore ultimately determine the share price of a firm's stock.

1.1.2 Dividend Policy and Share Price

Variations in dividend payout over time communicate strong signals concerning the present and future cash-flows, sent out by management teams to shareholders of a firm (Bhattacharya, 1979). Investors are majorly interested in the dividend pay-out ratio of a firm as it helps to indicate what level of a firm's net income has been distributed to its shareholders therefore, dividend pay-out has a substantial effect on the share price of an organization. Graham and Dodd (1951) maintained that a rise in dividend payout triggers a rise in stock price and firm's value and a decline in the cost of equity.

Dividend policy and dividend pay-out remain a cause of controversy in spite of years of empirical and theoretical research. Waithaka, Ngugi, Aiyabei, Itunga & Kirago (2012) contend that dividend policy has an influence on shares of organizations quoted on the Nairobi Securities Exchange. Gill, Biger, and Tibrewala (2010) outline that if firms with a long history of steady dividend pay-outs lowered or omitted their dividend, they would be negatively affected and vice versa. This therefore suggests that for a company's shares to continue performing well on a securities exchange, the company must distribute consistent dividend to its shareholders.

Theories such as the signalling theory state that dividends can communicate information and therefore, Information, instead of dividend itself, influences share prices (Brigham and Gapenski, 1994.) However, Lie (2005) outlines there is insufficient proof that dividend-paying organizations subsequently exhibit growths in their performance.

1.1.4 Manufacturing Firms Listed on the Nairobi Securities Exchange

Public markets such as securities exchange, are significant sources for firms to access funds as they allows business to be traded publicly. Participants in the securities exchange may vary from individual investors to large hedge fund traders, who can be based anywhere (Jaswani, 2008). The Nairobi Securities exchange was formed in 1954 and currently has sixty five firms listed and categorised into various categories such as manufacturing, banking, insurance amongst others (NSE 2017).

Manufacturing entails the practice of transforming raw materials into intermediate goods or final products through various processes in order to meet customer needs. The manufacturing companies in Kenya engage in diverse activities such as product manufacturing, food processing, mining companies, energy production among others. There is a large number of manufacturing firms in kenya that work towards meeting local and international demand for products.

Equity investors are an important source of capital to manufacturing firms as the industry requires companies to invest in a lot of raw materials, plants and machinery. In order to attract and retain investors, companies may pay out dividends to their shareholders. This is because shareholders will only invest their resources in a firm if they expect that this would lead to maximization of their wealth, by way of returns earned in dividends paid or capital gains (Mutwiri,2014).

1.2 Research Problem

The manufacturing sector has been identified by the The Kenya National Bureau of Statistics as an important growth drivers of the Kenyan economy as the sector contributes on average at least 10 percent of the country's Gross Domestic Product

.Due to the capital intensive nature of manufacturing activities, equity investors are an important source of capital for firms. Ideally, firms would focus on increasing their retained earnings in order to have enough fund to finance their long-term plans. However, since the firms are also owned by shareholders, manufacturing firms have to establish an optimal level of dividend pay-out that would maximize the wealth of the firm and communicate to shareholders effectively (Kapoor,2009).

Maude, Jimoh and Okpanachi (2015) outline that there have been contradicting arguments on firms dividend payout ratio such as rightist, leftist and the middle of the road hypothesis on whether firms should pay dividend or not. Gordon (1962) and Walter (1963) support the rightists argument by proposing that a policy of paying out more cash dividends to stock holders, all factors held constant, will cause a rise in the value of a firm. This is because investors tend to avoid risks and would therefore prefer dividend over capital gains. Gordon (1959) also established that the multiplier influence of dividends on share price is relatively higher as compared to that of retained earnings.

Litzenberger and Ramaswamy (1982) support the leftist view by proposing that high dividend payout is unfavourable since it causes a reduction in the share price of an organization. This is because the rate of tax on dividends is greater as compared to the rate on capital gains. Additionally, capital gain tax may be deferred until shares are sold unlike the ordinary tax which has to be paid when dividends are remitted to stockholders. Lastly, the middle-of-the-Roaders such as Miller and Modigliani (1961) outline that the share price of an organization is not influenced by its dividend policy.

Various scholars have undertaken studies to understand the link amid dividend policy and share price for organizations in various industries. In particular, a few scholars

have examined the link between dividend policy and share prices for manufacturing firms. Al-Hasan, Asaduzzaman and Karim (2013) conducted a study on 28 companies from automobile, cement, textile and pharmacy industry listed in DSE in Bangladesh. The research established that dividend policy has a substantial influence over the share market price.

Locally, several researchers have undertaken research on dividend payout ratio and dividend policy in the manufacturing industry. Nyamosi and Omwenga (2016) undertook a research on dividend policy and share prices for the manufacturing organizations enlisted at the NSE. They concluded that dividend policy influences share price positively and that it results in a high performance of company's stock at the Nairobi Securities exchange.

Nyagaka (2012), through his study focused at establishing the impact of dividend payout ratio on market value of organizations registered at the NSE, established that there exists a weak link amid dividend pay-out ratio and market value. Conversely, Lie (2005) contends that there is no sufficient proof supporting the concept that dividend-paying organizations subsequently exhibit enhancements in performance.

These conflicting findings suggest that more theoretic and empirical studies are necessary before a consensus can be reached. Black (1976) outlines the dividend puzzle by affirming that the more we observe the dividend picture, the further it appears like a mystery. In the Kenyan context, studies conducted on this subject have yielded varying results and this therefore highlights the need for further research. This study therefore seeks to answer the question; what is the effect of dividend policy on the share price of manufacturing firms listed in the Nairobi Securities exchange?

1.3 Research Objective

To determine the relationship between dividend policy and share price of manufacturing firms listed on the Nairobi Securities Exchange.

1.4 Value of the Study

Manufacturing companies currently account for almost fifteen percent of the listed organizations on the NSE and are therefore a major avenue for investors. The management of listed manufacturing companies will comprehend the influence of a company's dividend policy on its share price. This information is crucial in influencing an organization's dividend decisions, which ultimately shape the dividend policy of a organizations, and ultimately influence the value of a firm.

Investors, whose main objective is to earn profit from investments, will be able to understand how a variation in dividend payout patterns in organization may influence changes in share price. This will help investors anticipate changes in share price and therefore engage in buying and selling of shares at the most appropriate time. In addition to these, the findings of this study can be used by financial consultants to give their clients accurate advice as they can observe.

The government may also use the findings of the research while determining the most appropriate level of taxation on dividends through formulation of tax policies. For example, the study will highlight the implication of taxes on dividends pay-outs and capital gains

Lastly, researchers and academicians may also utilise the findings of this study as a foundation for additional research on this topic or other similar subjects.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section reviews relevant material from scholars who conducted studies and research in similar fields of study. The sub topics covered here include the theoretical framework, determinants of share price and empirical studies relevant to dividend policy and share price.

2.2 Theoretical framework

This section reviews theories that will guide the study.

2.2.1. Miller and Modigliani Irrelevance Theory

Miller and Modigliani (1961) proposed that an organization's worth is influenced by its basic earning power and its business risk. This theory states that investors do not consider the dividend history of a firm and therefore, dividends are immaterial in establishing the value of an organization. It proposes that capital gains and dividends are equal while an investor makes decisions on returns on investment. This is because regardless of whether the firm pays its investors dividend or not, an investor can make decisions on whether to purchase or sell stock in order to satisfy their cash flow needs.

Earnings are viewed as the key determinant of the value of a company and therefore investors will be interested in variables that affect the company's earning, primarily the investment policies of the company. The theory also uses the arbitrage argument to show that dividends distribution amongst shareholders is balanced by the external

financing. This is because the distribution of dividend will cause a fall in stock price of a company (Gitere, 2014). Therefore, the Miller and Modigliani irrelevance theory suggest that dividends are irrelevant and consequently, a variation in dividend payout ratio does not influence share price

2.2.2. Bird-In-The-Hand Theory

Linter (1962) and Gordon (1963) outlines that dividends are relevant in establishing the value of an organization. The main concept is that investor or shareholders avoid risk and favour current dividends owing to their reduced level of risk in comparison to future possible capital gains.

Capital gains refer to possible future income investors may earn from sale of their shares hence investors prefer dividend due to the high risk associated with capital gains. Consequently, sure dividend income is more desirable than two birds in the bush that is, uncertain capital gains (Mutwiri, 2014). Investors will always favour dividends because of time value of money (Munyua, 2014).

Based on this theory, dividend payments, can then be linked with growth in firms value (Al-Malkawi, Raffert and Pillai, 2010). This therefore implies that a rise in the dividend pay-out of a firm, results in a rise in share price. Consequently, a higher dividend payout ratio leads to maximization of a firm's value (Aduda and Kimathi, 2011).

2.2.3 Tax-Preference Theory

Litzenberger and Ramaswamy (1979) fronted a theory, outlining that shareholders favour lower pay-out firms for aversion of current taxation. Dividends are usually taxed at greater rates in comparison to capital gains therefore investors prefer capital gains over dividends.

Litzenberger et al. (1979) further contended that the lesser the dividend payout, the greater the value of the company and vice versa. This is because the tax rate on capital gains is lesser than on dividends. A company that allocates higher dividends to its shareholders will consequently have a lower value as the shareholders pay higher tax on dividends. Decisions on dividend are therefore relevant and the lesser the dividend the greater the value of the organization and vice versa.

2.2.4 Clientele Effect Theory

The theory states that investors are sensitive to an organizations 's policies and that variations will trigger changes in the acquisition or sale of the underlying organization's stock based on an investor's preferences (Farrar and Selwyn, 1967).The theory further outlines that specific stakeholders are drawn towards diverse company policies, and that when they vary, investors will also vary the stocks they invest in consequently. Because of this changes, the stock price will also vary depending on the investor activities. Litzenberger and Ramasawmy (1979) further define the clientele effect theory as firms arriving at their dividend policy decision guided by the investors they would like to attract to themselves.

The theory therefore suggests that the association amid dividend payout ratio and share price will vary from one firm to another depending on the type of shareholders or investors the firm has. For Example, Allen (2000) presented a model in which dividends appeal to institutional investors since they are taxed lower as compared to retail investors .

2.2.5 Signaling Theory

According to Bhattacharya (1979), variations in dividend policy communicate information about variations in future cash flows. The signalling theory majorly relies on the supposition that information asymmetry exists, meaning that the management of an organization may have more information about the financial state of an organization than external investors and therefore dividend payout may be utilised by management to deliver certain information on an organization's performance. For example, an increases in a company's dividend payout may be an indicator of positive forthcoming growth of the firm's shares, while a decline in dividend payouts indicates a negative future performance by the company.

Stephen Ross (1977) outlines that in an inefficient market, management can make use of dividend policy to communicate to the market .Therefore dividend is relevant and consequently variations in dividend payout ratio will affect the share price of a firm (Fama,Fisher,Jensen and Roll ,1969)

2.2.6 Agency Costs Theory

Jensen and Meckling (2006,) outline that an agency relationship is an agreement under which individuals engage each other to complete some services on their behalf. In the context of a firm, shareholders are considered the owners of a firm and the management, acting as agents, has a responsibility to protect the interest of the shareholders.

Agency complications in firms majorly arise from external obligation and external equity. Managers understand that raising additional equity capital to finance the firms operations also exposes the firm to external parties and in order to avoid this, they may prefer to pay their current investors a higher dividend to avert this situation. According to the agency theory, a firm implementing high dividend payout ratio will therefore have a greater value because of reduction in agency costs. Rozeff (1982), Porta et al. (2000) and Lozano et al. (2005) agree that the dividend policy is a valuable tool to decrease agency conflicts and subsequently, agency costs.

2.3 Determinants of share Price of Listed Firms

There are numerous determinants of share price which can be grouped into country, firm, industry, and market or international and non-market factors and economic and non-economic factors (Mutwiri, 2014). These elements can be further classified into macro and micro determinants. For purposes of this study, a few determinants have been highlighted based on their significance in influencing share price

2.3.1 Dividend Payment

Braely, Myer and Allen (2011) define the term dividend as payment by a company to its stockholders. For investors who prefer earning profit from dividend as opposed to capital gains, dividend payment of a company's share is a key determinant on which shares the investors choose to invest in. Therefore the more attractive the dividend payments of a firm's share, the greater the demand for the shares and hence the higher the share price. The dividend history of a share is therefore able to influence the popularity of a share amongst investors in a stock market as most investors view dividend payments as an avenue used by organizations to communicate to investors about their performance (Bhattacharya, 1979).

Baker and Powell (2001) outlines that dividend policy influences the value of the company, and subsequently, the income of investors. This is because investors compare dividend payout ratio's amongst various firms while making investment decisions (Gitere, 2014).

2.3.2 Size of the firm

Cheung and Lilian (1992) concluded that there is an association between the information content in earnings announcement and variations in share price for companies with different levels of market capitalization. They observed that variations in share prices tend to be influenced by size of the firm and that the change is more significant for smaller firms since earning announcements in smaller firms usually have more informational content than larger organizations. This is because most information on larger firms is relatively easily accessible to the public via various forms of media and financial analysts as compared to smaller firms.

The size of the company influences the stock returns positively as large firms are more diversified and have therefore spread their risk as compared to smaller firms (Benishy, 1961). Atiase (1985) also outlined that the bigger the organization, the lower the stock price volatility. Azhagaiah (2008) further contended that size of the firm doesn't dictate the dividend payout ratio. Lastly, Banz (1981) outlined there exists an inverse association between size and returns. This effect is commonly referred to as the size anomaly (Fama & French, 1993).

2.3.3 Management

A change in the management team of a firm may have an influence on its share price. This is because the management team helps to influence the level of confidence of investors in shares of a firm which will ultimately influence the level of demand of a firm's shares in the market. For example, when managers who are viewed by investors as highly efficient leave a company, some investors may opt not to invest in shares of the company and vice versa.

Good Leadership should take on an organization-wide viewpoint (Steinberg, 2012). Shen and Canella (2002) also state that the chairman and the Chief executive officers need to learn how to hold managers accountable for their work as their actions impact the share price and ultimately the value of a firm

2.3.4 Corporate governance

This generally refers to a set or framework of rules, practices and policies by which board of directors and management teams run an organization (Shahid, 2001) Good corporate governance plays a key role in mitigating information asymmetry amongst

stakeholders of a firm. This helps to improve the confidence level of investors in the performance of an organization and hence impact the share price of the firm as demand for its shares varies .

According to some research studies, it has been established that creditors may be unwilling to offer financing to firms with corporate governance that is weak or charge greater interest to obtain an suitable rate of return (Lins 2003, Jackson and Roe 2009). This therefore implies that a firm with perceived poor corporate governance may incur higher cost, which may reduce profitability of a firm and subsequently affect share price negatively.

2.3.5 Leverage

Sunde and Sanderson (2009) define leverage as the relative proportion of equity and debt that a firm uses to finance its assets. Firms which heavily rely on debt face a major challenge of settling periodic interest payments for the debts received, (Gulnur and Sheeja, 2008). This will lead to a decline in the level of earnings such firms can distribute to its shareholders hence affecting the level of demand for such shares amongst investors.

Various studies on the link between leverage and share price have resulted in contradicting findings. Hall (1967), established that there exists an inverse relationship amid leverage and returns. Dimitrov and Jain (2005) also agree that the lesser the leverage, the greater the stock returns.

2.3.6 Profitability

Muya and Gathogo (2016) define profitability as the ability to generate benefits from all the business activities of a business organization, company or firm . Profit is the

difference between revenue received from sales and total costs which includes material costs, labor and so on (Stierwald, 2010).

Profits are viewed by investors as an indication of a company's financial performance. Therefore, a profitable company is more likely to experience a rise in its share price as more investors demand for the shares (AL Nu'aimat, and Dahmash 2012).

2.4 Empirical Review

Lintner (1956) undertook a research on the allocation of incomes of companies among dividends, taxes and retained earnings on 28 well established industrial firms in the US for the period from 1947 to 1953. Regression analysis was utilised to analysing dividend patterns for the selected organizations in the United States of America. The study determined that companies will increase their dividend payout when financial managers are satisfied by the expected performance in the future and they may be reluctant to lower dividend payout unless they are persuaded the company's earnings will decline permanently in future

Khan (2009) undertook a study on the factors influencing share price variations in bangladesh: retained earnings and dividends. Information for identified organizations enlisted at the DSE during the year 2000 to 2006 was obtained from financial reports of the particular organizations and regular price quotation of Dhaka Stock Exchange. This study concluded that the general influence of dividend on share prices is stronger when compared with that of retained earnings.

Nishat and Irfan (2001) observed the link between, dividend policy and stock price variations in Pakistan for 160 organizations enlisted at the KSE from year 1981 to 2000. The association of stock price variations and dividend policy was analysed. The study determined that dividend policy measures have noteworthy influence on the share price.

Dangol (2016) undertook a research on earnings and dividends announcements on share market prices in Nepal between 2000 and 2011. The study found that, a change in dividend and earnings influenced the share prices. This outcome suggests that change in dividends communicates useful information to the market and therefore supports the dividend-signalling hypothesis.

Maude, Jimoh and Okpanachi (2015) conducted a study on dividend payout pattern for Nigerian deposit money banks. The study relied on information obtained from the annual reports of seven banks enlisted at the Nigeria Stock Exchange. The research study found that all the explanatory variables including inflation, share price and earnings per share had a substantial influence on dividend pay-out. The study also recommended that deposit money banks in Nigeria should improve on their performance to increase earnings, which would then influence the dividend pay-out pattern of their banks.

Murekefu and Ouma, (2012) investigated the connection amongst dividend pay-out and company performance of organizations in Kenya that are listed. The secondary data was obtained from forty one firms and a regression performed. They established that dividend policy is relevant and therefore leaders in organizations should invest a

suitable amount of resources in making a dividend policy in order to advance firms' performance and subsequently shareholder wealth.

Aroni, Namusonge and Sakwa (2014) undertook a study on dividend payout and investment in shares for Kenyan retail investors. Primary data was obtained from respondents randomly sampled from the investors who had been actively participating in investing activities at the NSE as at the year 2013. The results showed that dividend payout had a considerable impact on decisions to invest in shares by investors.

Huka (1998) undertook a research to understand the effect of dividend policy on shareholder's wealth for firms quoted at the NSE from year 1997 to 2000. The study established that stockholders' inclination towards dividends changed from one organization to the other and concluded that there exists an inverse association amid dividend payment and share prices.

Munyua (2014) undertook a study on the effects of dividends on the market price of stocks for corporations quoted at the NSE. The researcher used a descriptive research design from a census survey of the 61 listed organizations for ten years. The study determined that there exists a strong positive relationship between stock prices and dividends for organisations listed at the Nairobi securities exchange.

2.5 Conceptual Framework

Miles and Huberman (1994) outline a conceptual framework as an illustration explaining graphically or in narration the key issues to be studied and the supposed relationship amongst them. Jensen and Meckling (1976) contend that there exists a

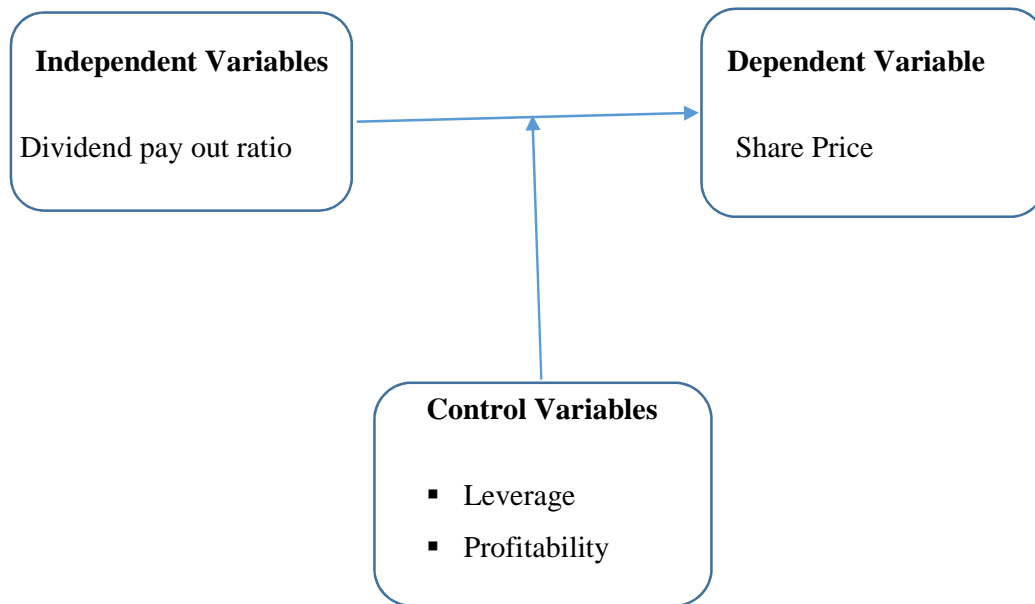
positive relationship amid the dividend pay-out ratio and share average rate of return . In addition to this Mullins(1983), also established that dividend variations are positively related to stock returns during the period surrounding firms' dividend announcement .Korteweg (2004) concluded that there exists an inverse relationship amid stock returns and leverage, This therefore indicates that the greater the dividend payout ratio, the lower the level of a firms leverage. This is because organizations with lower debt tend to experience lower agency costs and expose themselves to lower levels of interest payments from their creditors and generally maintain a higher level of financial flexibility (Gulnur & Sheeja, 2008).

Abu Hasheesh (2003) investigated the effect of profitability in affecting share prices for firms and concluded that a critical positive connection existed amid the market cost per share with ROE and ROA. AL Nu'aimat, and Dahmash (2012) also found a positive relationship amongst the three ratios and share price on conducting a similar study on publicly held insurance companies in Jordan Lastly, Even though investors tend to be interested in ROA and ROE than ROI, firms depend on ROA to monitor the varying efficiency of their asset usage periodically (Tycho Press,2013).

In conclusion, there is an expected positive relationship amongst dividend payout ratio, profitability and share price while there is an expected negative relationship between leverage and share price. Based on the literature review, research questions, and objective of the study, the following conceptual schema of the relationship amongst the independent variables, control variables and dependent variable was prepared

Figure 2.1 Conceptual Model

Source: Researcher (2017)



2.6 Summary of Literature Review

In conclusion, many scholars have tried to explore and understand the type of association between dividend policy and price of a share . Different researchers do not seem to have arrived on a unanimous conclusion on the relationships between dividend and share price, therefore this has necessitated further research in this area. There is therefore a need to conduct more studies on regular basis in the dynamic market environment, and in different industries inorder to arrive at a definite conclusion.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section highlights approaches that were adopted in collection of appropriate data for the research. The objective was to clarify how data was to be collected, analysed and interpreted.

3.2 Research design

Kothari (2004) outlines descriptive research as an attempt to define systematically a phenomenon, problem, situation, programme or service, provides information, or describes approaches towards an issue. Cooper and Schindler (2003) highlight that a descriptive study is mainly focused on establishing the what, where and how of a phenomenon. This design is most appropriate for the project as it will facilitate an examination into the type of the relationship amid dividend policy and share price for manufacturing organizations through the analysis of various variables.

3.3 Population

The target population for the research study comprised of the publicly quoted manufacturing firms in Kenya. As at 31st December 2016, there were ten companies listed under the manufacturing and allied sector at the Nairobi Securities Exchange. Data on these organizations was collected from the years 2008 to 2016.

3.4 Data collection

Secondary data was obtained from financial reports of manufacturing organizations and Nairobi Securities Exchange websites for a period of nine years that is. 2008 to 2016. Research checklists was utilised to collect the required secondary data on the variables from the organization's' financial reports.

3.5 Data Analysis

The secondary data was evaluated using SPSS, which involved using simple linear regression and correlation analysis. The researcher proposed to use dividends, profitability, and leverage as the selected variables to be used in the research model

3.5.1 Analytical Model

To analyse the effect of dividend policy on share prices, the regression equation below was derived:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Y = Share price

a = The intercept of the regression equation which represents the share prices without payment of a dividend

= The gradient which represents the degree in which the share prices changes as the amount of dividends, leverage and profitability vary

X_1 = dividend per share to earnings per share ratio

X_2 = The amount of leverage by the firm as determined by debt-equity ratio

X_3 = Return on Assets (Net income/Total Assets), representing profitability of a firm

e = error term, which reflects other factors that influence share prices.

Measurement of Variables

Table 3.1 Summary of variables

Variable	Description	Measurement
Dividend payout ratio	This is the fraction of total profit paid out to ordinary shareholders as dividends.	$\text{Dividend Payout Ratio} = \frac{\text{Dividend per share}}{\text{earning per share}}$
Return on Assets	This ratio will be used to depict the profitability of a firm	$\text{ROA} = \frac{\text{Net income}}{\text{Total Assets}}$
Share Price	This refers to worth of a single share of a number of saleable stocks of a firm	Summation of share's average closing prices from each trading day during the year divided by the number of trading days in the year.
Error terms	Reflects other factors that influence share prices	N/A

Source: Researcher (2017)

3.5.2 Diagonistic Test

According to, Gujarati (2003), There are three important assumptions for regression models: multicollinearity, normality and homoscedasticity .These tests were conducted on the data obtained during the research.

3.5.3 Test of Significance

Multiple R is the correlation coefficient was utilised to show the association amongst the study variables. Adjusted R squared (R^2), is the coefficient of determination showed the changes in the dependent variables due to variations in the independent variable. F-statistic test was used to identify whether the resultant model is statistically substantial while T-test of 95% confidence level will be used to test whether each variable used in the study is statistically significant.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.0 Introduction

This section presents the information obtained in the course of the research study on the relationship between dividend policy and share price of manufacturing companies listed in the NSE. This was conducted to achieve the objective stated in chapter one.

4.2 Descriptive Statistics

Table 4. 1: Descriptive Statistics of the Study Variables

	Minimum	Maximum	Mean	Std. Deviation
Share price	1.330833	833.576613	115.19166196	173.630654993
Dividend payout ratio	.000000	681.818182	55.04789781	88.187792470
Deb equity ratio	.024545	1023.172545	25.29865687	134.447769517
ROA	-.503196	9.982307	1.01858756	2.618652178

From table 4.1, the mean of the share price was 115.19, with the maximum share price at 833.58 and the minimum share price at 1.33. The mean for dividend payout ratio was 55.0478 with the highest ratio observed at 681.81 and the lowest at 0. Other control variables, debt equity ratio and ROA presented a mean of 25.29 and 1.02 respectively.

4.3 Analytical Model

4.3.1 Correlation Analysis

Table 4. 2: Correlation of the Study Variables

		Share price	Dividend payout ratio	Debt equity	ROA
Share price	Pearson Correlation	1	.217	-.114	.060
	Sig. (2-tailed)		.062	.329	.609
Dividend payout ratio	Pearson Correlation	.217	1	-.113	.102
	Sig. (2-tailed)	.062		.332	.384
Debt equity	Pearson Correlation	-.114	-.113	1	-.072
	Sig. (2-tailed)	.329	.332		.537
ROA	Pearson Correlation	.060	.102	-.072	1
	Sig. (2-tailed)	.609	.384	.537	

Table 4. 3: Overall model significance

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate
1	.237 ^a	.056	.016	172.21013503 7

a. Predictors: (Constant), ROA, debt equity ratio, dividend payout ratio

The R value represents the value of the simple correlations and is 0.237 in our model.

R squared represents the proportion of our dependent variable, share price that can be attributed to variation from our independent variables, in our case this is 5.6 percent.

Table 4. 4: ANOVA Results

Model	Sum Squares	of df	Mean Square	F	Sig.	
1	Regression	125323.249	3	41774.416	1.409	.247 ^b
	Residual	2105599.473	71	29656.331		
	Total	2230922.722	74			

The ANOVA table summarises how well our regression model fits the data.

4.3.2 Regression Analysis:

Table 4. 5: Regression coefficients of the relationship between share price and the three predictive variables

Model	Unstandardized		Standardized	t	Sig.	
	Coefficients		Coefficients			
	B	Std. Error	Beta			
1	(Constant)	93.848	25.023		3.750	.000
	Dividend payout ratio	.400	.230	.203	1.743	.086
	Debt equity ratio	-.115	.150	-.089	-.765	.447
	ROA	2.181	7.699	.033	.283	.778

a. Dependent Variable: share price

The regression coefficients and their associated t statistics and p values are presented in table above.

The outcomes show that there is a positive and insignificant relationship between dividend pay-out ratio and share price. This finding is linked to the regression coefficient of 93.848 with a p value of 0.086. A regression coefficient of 0.400 implies

that an increase in dividend payout ratio by one unit causes a rise in share price by 0.400 units. The results also demonstrate that there is a negative and insignificant relationship between the debt equity ratio and the share price supported by a regression coefficient of -0.115 ($p=0.447$). Lastly the results indicated a positive and insignificant relationship between the return on Asset ratio and share price, clearly illustrated by a coefficient of 2.181 with a p value of 0.778.

From this results, the following multivariate regression model has been formulated:

$$Y=93.848+0.4X_1 -0.115X_2+ 2.181X_3 +e$$

4.4 Discussions

The results of the correlation indicate an R value of 0.217 between share price and dividend payout ratio with a significance of 0.62 . The results also indicate an R value of -0.114 ($p=0.62$) for the relationship between share price and debt equity ratio and 0.60($p=0.609$) for share price and Return on asset ratio. This results therefore indicate that a rise in dividend payout and profitability (ROA) results in a rise in share price while an rise in leverage (debt-equity ratio results in a decline in share price.

The regression results highlight a positive relationship between dividend payout ratio and share price. This is supported by a regression coefficient of 0.4 ($p=0.86$). This therefore implies that a unit rise in dividend payout ratio results in 0.4 unit rise in share price. The results also show a positive and insignificant relationship between profitability of a firm and share price. This is supported by a regression coefficient of 2.181 ($p=0.778$). This infers that a unit increase in profitability results in a rise 2.181 unit rise in share price. This results are consistent with finding by Nyagaka (2012), who in his study focused at establishing the association amid the dividend pay-out

ratio and market value of organizations listed at NSE, concluded that there is a weak relationship between dividend payout ratio and market value

Finally the results indicate a regression coefficient of -0.115 ($p=0.447$) indicating a negative insignificant relationship between share price and the leverage represented by the debt equity ratio. This result indicates that a unit rise in the debt to equity ratio results in a 0.115 unit decrease in share price.

4.5 Chapter Summary

The chapter highlighted the results after the data analysis process which was focused towards understanding the relationship between the dividend policy of manufacturing organizations quoted on the NSE and share prices. The results show that there exists a positive and insignificant relationship between dividend pay-out ratio and share prices. There was also a positive and insignificant relationship between Return on assets (ROA) ratio and share prices.

Finally, there was an inverse, insignificant relationship between debt equity ratio and share prices. The results of this chapter were useful in making a summary and conclusion in chapter five.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This section offers a summary, conclusions and recommendations of the main results on the effect of dividend policy on the share price of manufacturing organizations listed on the Nairobi Securities Exchange.

5.2 Summary of Findings

Chapter one of the study provided a brief overview of effect of dividend policy on the share price of firms. The objective of the study was to determine the relationship between dividend policy and share price of manufacturing organizations listed on the Nairobi Securities Exchange. The second chapter highlighted theories on which the study is based on and highlighted other variables that affect share price of listed manufacturing organizations. In addition to this, the chapter provided a brief summary of previous studies done in this area of study. Empirical studies were analysed in order to identify the research gap.

Chapter three identified the research methodology utilised in the study. An analytical model for linking the share price with the three predictive was developed and secondary data to be utilised for the study was identified. Secondary information was analysed in chapter four and descriptive statistics of the variables were analysed and a regression and correlation analysis was conducted.

The correlation results from the study show that there exists a positive but insignificant relationship amid dividend pay-out ratio and share price. This therefore implies that the dividend policy of a listed manufacturing organization impacts the share price of the firm, but the influence is not very significant. Finally, the correlation

coefficients of debt equity ratio with share price was negative and insignificant while the coefficient for return of assets was positive but insignificant.

The regression outcomes indicate that there exists a positive but insignificant relationship between the dividend pay-out ratio and share price. A positive relationship between Return on asset ratio and share price and a negative relationship between debt equity ratio and share price was also identified. This therefore highlights a positive causal relationship between dividend pay-out ratio and share price of manufacturing organizations quoted on the Nairobi Securities Exchange.

5.3 Conclusions

The objective of the study was to determine the relationship between dividend policy and share price of manufacturing firms listed on the Nairobi Securities Exchange. Dividend payout ratio was identified as an independent variable for the study as dividend paid out to shareholders of a firm is influenced by a firm's dividend policy. Other variables selected for the multivariate regression model include leverage, indicated by the debt-equity ratio and profitability which was indicated by the ROA.

The results of this study showed there exists a positive relationship between the dividend pay-out ratio of a listed manufacturing organization and its share price, but this relationship is not significant. The study also concluded that other control variable, that is leverage and profitability did not possess substantial influence on the share price of listed manufacturing companies. Profitability had a positive relationship with share price while leverage displayed an inverse relationship with share price.

5.3 Recommendations

The study recommends that listed manufacturing firms should be keen on dividend policies they adopt during financial periods as the dividend pay-out of a firm influences the share price. Companies should also try and maintain consistency in their dividend payments as dividend policy is relevant to the value of a firm. For example, manufacturing companies like Eveready East Africa Limited and Mumias Sugar company have exhibited a drop in the price of the share over the period under study as they have exhibited a very low dividend payout ratio of around zero over nine years.

5.4 Limitations of Study

The information used in conducting the study is mostly secondary and was majorly acquired from the Nairobi securities exchange handbooks and manufacturing companies financial reports. Since the information is secondary, there may be possibilities of error in collecting and presenting the data.

The study focused on manufacturing organizations listed on the NSE. This suggests that there may exist varied relationships between the study variable amongst firm not listed on the NSE and there conclusions of this study should not be generalised to unquoted firms.

The firms selected for the study had varied financial year end dates such as march, June and December. This variation in year end dates may have affected some of the variables in the study as different macro economic conditions vary over various periods of a year.

Dividend pay-out ratios were calculated from earnings per share which are accounting figure that could be exposed to possibility of manipulation by companies in order to evade payment of taxes or to sway the performance of the firm. The study also only focused on financial period between year 2008 and 2016, different finding may be identified if the time period is varied.

Some manufacturing companies were suspended during the period under study and therefore no variation in share price was recorded during the period under study as their shares were not traded. For example, A baumann company was on suspension for a period of eight years before finally being delisted in August 2017. This therefore means that the share price of the company has not fluctuated as the shares has not been traded since year 2009. In addition to this, obtaining secondary data of the company from secondary sources was hampered as the company did not publicly share its reports during the suspension period.

Lastly a potential change in share structures for the different firms over the period of the study such as share splits, rights issue and bonus shares could have affected the a company's share price. For example, Flame tree Group Company announced a bonus issue in 2016 and this may have affected its share structure and price as no cash dividend was issued.

5.5 Areas for Further Study

For future studies by researcher, it will be interesting to have studies investigating the connection between share price and dividend policy for organizations listed on the NSE in other industries such as agricultural, banking, construction and allied amongst others.

Additionally, studies can also be conducted on the association between dividend policy and share price for an lengthy period of time, say 20 to 30 years in order to further clarify whether the link observed amid the dividend policy and share price changes with a variation in study period .

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APPENDICES

Appendix i: Manufacturing and Allied companies Listed on The Nairobi Securities Exchange as at 31st December 2016

B.O.C Kenya Limited

British American Tobacco Kenya Limited

Carbacid Investments Limited

East African Breweries Limited

Mumias Sugar Company Limited

Unga Group Limited

Eveready East Africa Limited

Kenya Orchards Limited

A.Baumann Company Limited

Flame Tree Group Holdings Limited

(Source: Nairobi Securities Exchange)

Appendix II: Data Collection Form

ORGANIZATION	YEAR	DIVIDEND PER SHARE	EARNING PER SHARE	DEBT- EQUITY RATIO	NET INCOME	TOTAL ASSETS

Appendix III: Data collected

ORGANIZATION	YEAR	SHARE PRICE	DIVIDEND PER SHARE	EARNING PER SHARE	DIVIDEND PAYOUT RATIO(%)	DEBT EQUITY RATIO	TOTAL ASSETS(KES 000)	NET PROFIT (KES 000)	RETURN ON ASSET
B.O.C Kenya Limited	2008	160.00	6.8	10.26	66.27680312	0.415	2,057,227.00	200,409.00	0.097
	2009	158.49	6.8	7.88	86.29441624	0.302	1,853,423.00	153,907.00	0.083
	2010	140.98	9.4	4.06	231.5270936	0.329	1,869,896.00	79,337.00	0.042
	2011	115.81	6.8	7.71	88.19714656	0.368	1,816,803.00	150,604.00	0.083
	2012	110.4023904	5.05	10.11	49.95054402	0.370	1,989,541.00	197,374.00	0.099
	2013	113.4576613	5.2	10.38	50.09633911	0.270	2,633,093.00	202,636.00	0.077
	2014	145.4653061	5.2	11.76	44.21768707	0.320	2,300,320.00	229,625.00	0.100
	2015	126.1153846	5.2	7.61	68.33114323	0.350	2,320,956.00	148,600.00	0.064
	2016	90.03833333	5.2	6.47	80.37094281	0.311	2,215,302.00	126,323.00	0.057
	British American tobacco	2008	152.52	17	17	100	1.106	10,307,602.00	1,700,395.00
2009		159.93	14.75	14.78	99.797023	1.257	10,544,068.00	1,478,431.00	0.140
2010		229.23	13.25	17.67	74.98585173	1.175	11,121,561.00	1,767,236.00	0.159
2011		254.09	30.5	30.98	98.4506133	1.144	13,750,545.00	3,097,755.00	0.225
2012		366.0318725	32.5	32.71	99.3579945	1.138	15,176,495.00	3,270,852.00	0.216
2013		556.4112903	37	37.24	99.35553169	1.243	16,985,923.00	3,723,691.00	0.219
2014		712.4897959	39	42.55	91.65687427	1.246	18,253,510.00	4,255,314.00	0.233
2015		791.2435897	42.5	49.76	85.40996785	1.110	18,681,184.00	4,976,256.00	0.266
2016		833.5766129	43	42.34	101.5588096	1.103	18,499,800.00	4,234,334.00	0.229
Carbacid Investments Limited		2008	137.00	10	14.72	67.93478261	0.181	1,209,543.00	166,760.00
	2009	140.34	15	7.54	198.938992	0.179	1,376,380.00	256,377.00	0.186
	2010	140.03	5	9.05	55.24861878	0.169	1,512,166.00	307,392.00	0.203
	2011	124.52	5	8.89	56.24296963	0.186	1,739,985.00	302,195.00	0.174
	2012	109.4003984	6	11.46	52.35602094	0.218	2,012,816.00	389,287.00	0.193
	2013	132.9566532	6	13.99	42.88777698	0.026	2,204,394.00	475,541.00	0.216
	2014	30.86326531	0.7	14.44	4.847645429	0.025	2,533,163.00	490,641.00	0.194
	2015	18.53776824	0.7	1.55	45.16129032	0.199	2,968,727.00	393,863.00	0.133
	2016	14.55188172	0.7	1.47	47.61904762	0.152	3,081,768.00	375,568.00	0.122
	East African Breweries Limited	2008	165.32	8.05	9.55	84.29319372	0.506	32,451,159.00	47,921,231

								.00	
	2009	133.72	8.05	8.71	92.42250287	0.539	34,546,993.00	8,262,464.00	0.239
	2010	179.66	8.75	9.08	96.36563877	0.603	38,420,709.00	8,837,560.00	0.230
	2011	183.39	8.75	9.3	94.08602151	0.849	49,712,130.00	9,023,660.00	0.182
	2012	217.123506	8.75	14.15	61.83745583	5.524	54,171,271.00	11,186,113.00	0.206
	2013	318.4637097	5.5	8.55	64.32748538	6.596	57,720,462.00	6,522,200.00	0.113
	2014	283.5020408	5.5	8.22	66.90997567	5.908	62,865,943.00	6,858,608.00	0.109
	2015	296.4529915	7.5	11.32	66.25441696	3.879	66,939,778.00	9,574,905.00	0.143
	2016	273.77	12.5	12.2	102.4590164	4.682	61,746,000.00	10,270,813.00	0.166
Mumias Sugar Company Limited	2008	10.70	0.4	0.79	50.63291139	0.565	14,145,330.00	1,213,837.00	0.086
	2009	5.67	0.4	1.05	38.0952381	0.741	17,463,620.00	1,609,972.00	0.092
	2010	11.39	0.4	1.03	38.83495146	0.667	18,323,059.00	1,572,383.00	0.086
	2011	7.13	0.5	1.26	39.68253968	0.601	23,176,516.00	1,933,225.00	0.083
	2012	5.655776892	0.5	1.32	37.87878788	0.743	27,400,113.00	2,012,679.00	0.073
	2013	4.214516129	0	-1.09	0	1.039	27,281,993.00	(1,660,406.00)	-0.061
	2014	2.659795918	0	-1.77	0	1.214	23,563,086.00	(2,706,595.00)	-0.115
	2015	2.094444444	0	-3.04	0	2.440	20,403,564.00	(4,644,801.00)	-0.228
	2016	1.330833333	0	-3.09	0	2.512	27,018,727.00	(4,731,026.00)	-0.175
Unga Group Limited	2008	13.10	0	3.06	0	0.606	6,584,774.00	373,661.00	0.057
	2009	9.03	0	1.55	0	0.769	7,298,225.00	185,192.00	0.025
	2010	11.48	0.5	1.81	27.62430939	0.505	6,709,003.00	236,173.00	0.035
	2011	10.05	0.75	3.57	21.00840336	0.524	5,708,897.00	441,043.00	0.077
	2012	11.70298805	0.75	2.81	26.69039146	0.613	6,399,829.00	348,195.00	0.054
	2013	15.99778226	0.75	2.59	28.95752896	0.889	8,108,379.00	338,196.00	0.042
	2014	31.15734694	0.75	3.65	20.54794521	0.674	7,475,611.00	474,494.00	0.063
	2015	41.88141026	1	5.27	18.97533207	0.619	8,671,788.00	621,866.00	0.072
	2016	34.55040323	0	4.31	0	0.615	9,199,783.00	508,816.00	0.055
Eveready East Africa Limited	2008	5.77	0	0.085	0	2.285	837,329.00	17,840.00	0.021

	2009	2.82	0	0.135	0	1.528	997,672.00	28,271.00	0.028
	2010	3.89	0	0.041	0	1.900	1,169,732.00	8,703.00	0.007
	2011	2.12	0	-0.59	0	2.618	1,010,864.00	(123,994.00)	-0.123
	2012	1.71314741	0	0.33	0	2.293	1,150,729.00	70,084.00	0.061
	2013	2.58125	0	0.21	0	1.383	941,797.00	45,092.00	0.048
	2014	3.403877551	0	-0.85	0	3.257	930,057.00	(177,589.00)	-0.191
	2015	3.596794872	0	-0.96	0	0.875	1,511,665.00	(77,710.00)	-0.051
	2016	2.413373656	0	-0.98	0	1.417	980,504.00	(171,824.00)	-0.175
Kenya Orchards Limited	2008	3.00				8.509	91,310.12	950.20	0.010
	2009	3.00	0		0	63.832	78,703.99	(2,875.68)	-0.037
	2010	3.00	0		0	102.589	74,491.12	561.80	0.008
	2011	3.00	0		0	1023.173	70,372.49	712.27	0.010
	2012	3	0	0	0	568.199	68,936.27	244.96	0.004
	2013	3	0	0	0	28.450	70,597.30	2,415.34	0.034
	2014	38.31469388	0	1.99	0	2.198	50,202.18	(25,261.55)	-0.503
	2015	103.6652361	0	2.24	0	13.066	78,731.22	28,915.65	0.367
	2016	96.74736842	0	0.29	0	9.168	89,241.63	3,763.11	0.042
A.Baumann Company Limited	2008	12.13	0	-8.97	0	2.677	126,428.00	(34,436.00)	-0.272
	2009	11.10	0	-2.02	0	2.608	95,920.00	(7,773.00)	-0.081
Flame Tree Group Holdings Limited	2013	0	0	1.06	0	4.420	875,809.38	149,047.39	0.170
	2014	8.792857143	1.8	0.99	181.8181818	1.788	1,054,454.81	153,126.20	0.145
	2015	7.797435897	7.5	1.1	681.8181818	1.280	1,372,229.75	178,848.09	0.130
	2016	6.402894737		0.9	0	1.115	1,521,194.80	144,980.49	0.095