DETERMINANTS OF DIVIDEND PAYOUT: THE CASE OF LISTED COMPANIES IN KENYA.

BY

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DECLARATION

This research project is my original work and has not been presented for a degree in any other university.

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

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DEDICATION

To Andrew and Karen.

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ABBREVIATIONS

AAEF	- Ability to access external finance
AGRI	- Agriculture Industry
API	- Availability of profitable investments
Avg	- Average
Bg	- Big
Bet	- Between
COMSI	- Commercial and Services industry
CSC	- Current shareholder control
Ctrl	- Control
DPOC	- Dividend payout of other companies
Econ. Gr	- Economic growth rate
EPS	- Earnings per share
FCII	- Finance and Investment industry
FNC	- Financial needs of the company
IIDP	- Investor interpretation of dividend payout
IND	- Industry
INDRI	- Industrial and Allied Industry
Infl	- Inflation rate
Interp	- Interpretation
Max	- Maximum
Mgt	- Management

NPV - Net present value

NSE - Nairobi Stock Exchange

PFCF - Present and future cash flows

PIPM - Personal inclinations and preferences of management

Resp - Respondent

RLC - Restrictions in loan contracts

Sml - Small

Std Dev - Standard deviation

Sz - Size

TPR - Target payout ratio

TRDI - Tax rate on dividend income

YOP - Years of operation

ABSTRACT

The dividend decision is one of the major policy issues in a firm, impacting on the financing and investment policies and thus the long term objective of shareholder wealth maximisation. An inapppropriate dividend payout policy may lead to an increase in the firm's cost of capital and reduce the overall return to shareholders. The main objective of this study was to identify the factors that successful listed companies consider in determining the dividend payout to their shareholders. For the purpose of this study, successful companies were defined as those companies that had maintained a positive average EPS over the eight year period from 1999 to 2005 and which had been continuosly quoted at the NSE over the same period.

To facilitate the attainment of the objective of this study, questionnaires were administered to the Finance Directors of respondent companies. The response rate for the questionnaires administered was 76%. Data was presented using tables , graphs and charts from the coded questionnaires. Descriptive statistics in form of means and standard deviation were further used to discuss and present the findings.

From the study, it was found that successful companies accord key importance to four factors in determining their dividend payout policies. These factors are; the current and future profitability of the company, the cash flow position, the financing requirements and the availability of profitable investments, in that order. The nature of the industry, the size of the company and the number of years the company had been in operation were

found not to significantly affect a company's dividend policy in relation to payout. However, companies in the finance and investment industry rated certain factors such as inflation and the economic growth rate higher as determinants of payout policy, as compared to companies in other industries.

The main challenges and limitations encoutered during the research were lack of adequate time to follow up all potential respondents, suspicion from some respondents on the confidentiality of information provided and the lack of adequate local literature and research material on the subject of dividend payout formulation.

CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND

1.1.1 The Dividend Decision

Dividend policy stipulates the proportion of earnings that a company pays out as cash to the shareholders. A company distributing a high proportion of its earnings as dividend may, while pleasing the investors who have a preference for cash dividends, reduce the amount of earnings retained in the firm thus affecting the total amount of internal financing. On the other hand, a company may adopt a low dividend payout policy, which, though providing retained earnings finance, may send a wrong signal to the investors who interpret a low dividend payout as a sign of low management confidence on a company's future prospects (Pandey, 1991).

The important aspect of dividend policy is to determine the amount of earnings to be distributed to shareholders and the amount to be retained in the firm. Retained earnings are the most important internal sources of financing the growth of the firm (Barclay, 1995). On the other hand, dividends may be considered desirable from shareholders point of view as they tend to increase current returns.

The term dividend when used by itself is generally understood to mean a distribution of cash by a company to its shareholders (Farida, 1993). Dividends may be distributed in many other forms including property dividends, which are in terms of physical assets of the company, and stock dividends, which is the payment of additional stock to current shareholders. This research will focus on cash dividends, since investors generally perceive dividends in terms of a cash return on their stock and are also the most common form of dividends.

In essence, the dividend policy decision has a direct impact on a company's financing options and the investors' perceptions of the company's prospects. All critical factors should be given consideration before a dividend policy is set. A balance has to be established between the interests of the company and that of investors (Kuria, 2001).

1.1.2 The dividend decision in relation to other firm decisions.

A firm's decision about dividends is often mixed up with other financing and investment decisions. Some firms pay low dividends because management is optimistic about the firm's future and wishes to retain earnings for expansion. In this case, the firm's dividend is a by-product of the firm's borrowing decision.

Brealey and Myers (1991) defined a dividend policy as "the trade-off between retained earnings on one hand and paying out cash and issuing new shares on the other hand". Miller and Modigliani (1961) caution that dividend policy should not be confused with investment policy or with any other aspects of the firm that can obviously affect market value independently of dividend policy. To avoid this kind of confusion, Miller and Modigliani (1961) chose to narrowly define dividend policy choice within a given firm as the choice from among alternative cash payout sequences that are consistent with a given sequence of net cash flows for the firm.

1.1.3 Managerial considerations in the dividend decision.

A number of things come into play when a company establishes a dividend policy. Some of these factors include:

(i) ***Fund needs of the firm***: The dividend payout will be based on whether funds exist after servicing the financial needs of the firm, including all profitable investment projects (Maina, 2001). The likely ability of the firm to sustain a dividend will be analyzed relative to the probability distributions of possible future cash flows and cash position. On the basis of this analysis, the firm can determine its likely future residual funds (Van Horne, 1983). Large payments may be experienced as the firm matures and fewer productive investments are found.

(ii) ***Liquidity***: The liquidity of a company is a prime consideration in many dividend decisions. As dividends represent a cash outflow, the greater the cash position and overall liquidity of the company, the greater its ability to pay a dividend. The liquidity of the company is strongly influenced by the firm's investment and financing decisions (Maina, 2002). The investment decision determines the rate of asset expansion and the firm's needs for funds, and the financing decision determines the way in which this need will be financed (Weston and Brigham, 1981).

(iii) ***Ability to borrow***: The larger and more established a company, the better its access to capital markets. The greater the ability of the firm to borrow, the greater its flexibility and the greater its ability to pay a cash dividend. With ready access to debt funds, management should be less concerned with the effect that a cash dividend has on its liquidity (Van Horne, 1983).

(iv) ***Assessment of any valuation information***: Most companies look at the dividend payout ratios of other companies in the industry, particularly those having about the same growth. A company should also judge the informational effect of a dividend (Bitok, 2004). What do investors expect? The company should ask itself what information it is conveying with its present dividend and what it would convey with a possible change in dividend (Helfert, 1966).

(v) ***Control***: If a company pays substantial dividends, it may need to raise capital at a later time through the sale of stock. 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 a low dividend payout and the financing of investment needs with retained earnings. Companies in danger of being acquired may establish a high dividend payout in order to please stockholders (Weston and Brigham,1981)

(vi) ***Nature of stockholders***: When a firm is closely held, management usually knows the dividend desires of its stockholders. If most stockholders are in high tax brackets and prefer capital gains to current income, the firm can establish a low dividend payout, subject to availability of investments (Ochola, 2005).

(vii) ***Restrictions in bond or loan agreements***: The protective covenants in a bond or loan agreement may include a restriction on payment of dividends. This restriction is employed by lenders to preserve the company's liquidity to service a debt. When such a restriction is in force, it naturally influences the dividend policy of the firm. Sometimes, the management of a company welcomes a restriction imposed by lenders because it does not then have to justify to shareholders the retention of earnings. It need only point to the restriction (Kolb and Demong, 1988).

(viii) ***Dividend stability***: Dividends may serve to resolve uncertainty. When earnings drop and a company does not cut its dividends, the market may have more confidence in the stock than it would have if the dividend were cut. The stable dividend may convey management's view that the future of the company is better than the drop in earnings suggests (Bitok, 2004).

(ix) ***Target payout ratios***: A number of companies appear to follow the policy of a target dividend payout ratio over the long run. Lintner (1956) contends that dividends are adjusted to changes in earnings.

When earnings increase to a new level, a company increases dividends only when it feels it can maintain the increase in earnings.

(x) ***Inflation***: With rising prices, funds generated from depreciation are not sufficient to replace or restore existing assets as they wear out or become obsolete. Consequently, a case can be made for retaining earnings simply to preserve the earnings power of the firm. The decision must be based upon investment policy and valuation (Seitz, 1990).

(xi) ***Attitude of the Board of Directors***: Dividend policy is also influenced by the attitude of the Board of Directors (Karanja, 1987).It should be remembered that the dividend rate decision is the discretion of the Board of Directors and shareholders can legally do nothing to change the decision once made. Rubner (1966) argued that there was no objective criteria for determining dividend rates and concluded that it is the subjective inclinations of directors which decisively determine the payout rates. These inclinations and sentiments cannot always be categorized and indeed they are not always rational (Rubner, 1966).Thus the Board of Directors could base their dividend decision on other irrational factors than those generally considered as prudent.

1.2 PROBLEM STATEMENT

A firm can use its earnings to pay dividends or it can use the funds for other purposes such as bond retirement or acquisition of new investments. Management must decide on the amount or proportion of earnings to pay out as dividends or the amount to retain given the objectives of the firm. The long run dividend policy of the firm can affect its financing program and capital budget and is therefore an important consideration for a firm manager (Weston and Brigham, 1981).

A number of factors come into play whenever a company establishes a dividend payout policy. These factors include the company's liquidity, financial needs and its ability to borrow, the signaling effects of dividends on a company's prospects and the taxation of dividend income (Ochola, 2005). How do these factors influence company's dividend policy and performance? Do relatively stable companies have a tendency to consider certain of these factors as more critical?

It is important that finance managers understand the factors which should be accorded consideration in arriving at the dividend payout decision. The problem in this research is therefore to isolate the factors generally considered by quoted companies as significant in influencing the dividend payout decision.

1.3 OBJECTIVES OF THE STUDY

This research has two principal objectives:

1. To identify those factors that significantly influence the dividend payout decision of listed companies in Kenya.
2. To determine the extent to which other factors, in particular the industry, size and age of a company affect the company's dividend payout policy through their influences on factor rankings.

For the purpose of this research, emphasis will be laid on those companies that have maintained a positive average earnings per share (EPS) and have been consistently quoted at the Nairobi Stock Exchange over the past eight years ended 31 December 2005, that is, from 1998 to 2005.

1.4 JUSTIFICATION OF THE STUDY

The findings of the research will be of benefit to the following, among others:

(i) Management of companies in formulation of dividend policy. The research will highlight the factors that should be given critical consideration due to their impact on company success in terms of financing and value maximization. Management will be able to see how their dividend policies compare with those of other firms of similar size and those operating in the same industry.

(ii) Investors who can incorporate dividend policy in their choice of companies to invest in. The study will aid the investors in understanding the various dividend policies pursued by firms in Kenya. They will gain a better understanding of the factors influencing the dividend payouts of firms in Kenya. Hence the findings will provide investors with valuable information to be used in making investment decisions.

(iii) Scholars with an interest on the subject of dividends and who can use the findings of this research as a basis for conducting further research on the subject. The study will add to the body of knowledge in the finance discipline.

(iv) The government which will be in a position to ascertain how its tax policy influences a firm's dividend decision and thus be able to formulate a tax policy that encourages stock market activity.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 DIVIDEND POLICY THEORIES

Different theories have been advanced explaining dividend policy in relation to the value of the firm. Some of these theories argue for the relevance of dividends in firm valuation while others argue that dividends are irrelevant in firm valuation. These theories are explained below;

2.1.1 Bird in Hand Theory

This theory argues for the relevance of dividends in firm valuation. It was advanced by Lintner (1962) and furthered by Gordon (1963). It argues that shareholders are risk averse and prefer certainty. Dividend payments are more certain than capital gains which rely on demand and supply forces to determine their share prices.

Therefore, one bird in hand (certain dividends) is better than two in the bush (uncertain capital gains). Hence, a firm paying high dividends (certain) will have a higher value since shareholders will require using lower discounting rates.

Miller and Modigliani (1961) argued against the above propositions, asserting that the required rate of return is independent of dividend policy.

2.1.2 Tax Differential Theory

This theory was advanced by Litzenberger and Ramaswamy in 1979.According to this theory, dividends are relevant in firm valuation. They argued that tax rate on dividends is higher than tax rate on capital gains.

Therefore, a firm that pays dividends has lower value since shareholders pay more on dividends. Dividend decisions are relevant but the lower the dividends, the higher the value of the firm and the higher the dividends, the lower the value of the firm. In Kenya, dividends attract withholding tax of 5% which is final, and capital gains are tax exempt.

2.1.3 Clientele Effect Theory

This theory was advanced by Petit in 1977 and argues for the relevance of dividends in firm valuation. It states that different groups of shareholders (clientele) have different preferences for dividends depending on their level of income from other sources. Low income earners prefer high dividends to meet their daily consumption while high income earners prefer low dividends to avoid payment of more taxes.

Therefore, when a firm sets a dividend policy, there will be shifting of investors into and out of the firm until equilibrium is achieved. Low income shareholders will shift to firms paying high dividends and high income shareholders will shift to firms paying low dividends. At equilibrium, dividend policy will be consistent with the clientele the firm has. Dividend decisions at equilibrium are irrelevant since they cannot cause any shifting by investors (Pandey, 1991).

2.1.4 Information Signaling Effect Theory

This theory was advanced by Stephen Ross in 1977. He argued that dividends are relevant and that in an efficient market, management can use dividend policy to signal important information to the market which is only known to them. For example, if management pays high dividends, it signals high expected profits in future to maintain the high dividend level. This would increase the share price of the firm. Low dividends would signal low expected profits in future hence reducing the share price of the firm.

MM (1961) attached this proposition that the change in share value following the change in dividend amount is due to informational content of dividend policy rather than the dividend policy itself. Therefore, dividends are irrelevant if information can be given by the market to all players. Dividend decisions are relevant in an inefficient market and the higher the dividends, the higher the value of the firm.

2.1.5 Dividend Irrelevance Theory

This theory was advanced by Miller and Modigliani (M and M, 1961). They argued that in ideal circumstances, the level of a firm's dividends will not affect the value of the firm with shareholders being indifferent to an announcement of high or low levels of dividends.

M and M (1961) further argued that the value of a company depends solely upon the investment opportunities available to it. They also argued that finance for investment is always available for worthwhile projects, that is, for a given set of investment opportunities the firm can raise sufficient capital internally and externally to fund both its investment programs and dividends.

From the perspective of a firm's management, an essential component of irrelevance view is that investment decisions should not be affected by dividend policy.

In a situation of induced capital market rationing, it is accepted that investment choices will be heavily influenced by the quantity of retained earnings in which case dividend policy will directly impact on investment and the M and M (1961) argument will not apply (Maina, 2001).

The implication of M and M (1961) proposition on managers is that they should spend more time managing the firm's assets. From the shareholders perspective, irrelevance implies that they are indifferent between receiving returns as dividends or as capital gains. A lower dividend implies a greater capital gain and a higher dividend implies a lower capital gain. The overall return is equivalent in either case.

2.1.6 Residual Dividend Theory

This theory was advanced by Myers (1984) and argues for the irrelevance of dividends. The essence of the theory is that the firm will only pay dividends from residual earnings , that is, from earnings left over after all suitable (positive NPV) investment opportunities have been financed. According to Myers (1984), managers will prefer to utilize retained earnings as the primary source of investment financing before issuing debt or equity. This is so because retained earnings are a cheaper source of finance than making a fresh issue of equity due to expensive equity costs (such as advertising, brokerage, and underwriting fees).

The existence of these issue costs are examples of real world market imperfections as suggested by M and M (1961). This implies that most companies would favour using retained earnings to finance investment projects rather than making a fresh equity issue. This implies a residual approach to dividend policy as the first claim on retained earnings will be the financing of investment projects.

With a residual dividend policy, the primary focus of the firm's management is on investments, not dividends. Dividend policy becomes irrelevant and is treated as a passive, rather than an active decision variable. The view of management in this case is that the value of the firm and the wealth of the shareholders will be maximized by investing earnings in investment projects, rather than paying them out as dividends to shareholders.

Thus, managers will actively seek out and invest the firm's earnings in all acceptable (in terms of risk and return) investment projects, which are expected to increase the value of the firm. Dividends will only be paid when retained earnings exceed the funds required to finance suitable investment projects.

2.2 DIVIDENDS AND AGENCY COSTS

Easterbrook (1984) and Hansen, Kumar and Shome (1984) argued that when companies pay cash dividends and at the same time finance externally, they reduce the agency conflict between managers and shareholders. The agency cost paradigm was first studied by Jensen and Meckling (1976) and then extended explicitly to dividends by Rozeff (1982), Easterbrook (1984) and Jensen (1986). It suggests that when firms are profitable, managers finance their investments from retained earnings. Such firms are also likely to generate cash flow in excess of their positive NPV investment opportunities. Furthermore, agency theory suggests that with lower monitoring costs, managers are likely to share more of the profits with investors. Jensen (1986) argues that with enhanced monitoring, firms are more likely to pay out their free cash flow. This implies a relationship between type of shareholders and amount of earnings distributed as dividends.

When managers do not have to submit to capital market monitoring to raise the financing needed, they may spend this income either on perquisites or unwise investments and acquisitions, rather than paying out the money to shareholders as cash dividends. To minimize this free cash-flow problem, investors force managers to pay out cash dividends and to raise new finance in the market place where they can be directly monitored and disciplined.

Allen, Bernado and Welch (2000) argue that to increase value, firms need larger shareholders to monitor management or facilitate takeovers of badly managed firms. Large shareholders prefer dividends because of comparative tax advantage that some shareholders have for dividend. Adverse selection problems might lead uninformed investors to prefer dividends to repurchases (Barclay and Smith, 1995).

Ergungor (2004) asserts that investors have started to put pressure on firms to declare dividends, thus paying attention to the health of companies' bottom lines instead of focusing solely on growth opportunities and future gains. Investors must recognize that paying dividends represents a choice among alternatives, and the alternatives have different costs and benefits (Ergungor, 2004).

2.3 EMPIRICAL LITERATURE

A number of studies have looked at the relationship between dividends and factors such as liquidity, cash flow position, external financing, investments and value of the firm. Helfert (1966) concluded that most companies look at the dividend payout ratios of other companies in the industry, particularly those having about the same growth rates. Weston and Brigham (1981), Van Horne (1983) and Karanja (1987) identified a company's liquidity, cash flow and ability to borrow as prime considerations in the dividend decision. Kolb and Demong (1988) introduced the issue of restrictions in bond and loan agreements while Seitz (1990) identified inflation as having an influence on the dividend payout, suggesting that a case can be made for companies retaining earnings simply to preserve the earnings power of the company. Maina (2002) concluded that a firm's dividend decision is significantly affected by the investment opportunities available.

2.3.1 Effect of Investment Decisions

Miller and Modigliani (1961) established that in a perfect capital market, optimal investment decisions by a firm are independent of how such decisions are financed. In this case, then, there should be no correlation between dividends and investment decisions.

Drhymes and Kutz (1967) further studied the relationship between investment decisions and dividend decisions. They focused on a world with imperfect capital markets and where internal funds are a cheaper source of financing than new security issues and also that dividends and investments are competing uses for limited internal funds. They hypothesized that firms not only allow investment decisions to affect dividend decisions, but that the desire to pay reasonable dividends causes investment decisions to be affected by dividend decisions. Thus, there is a high correlation between dividends and investments. The main finding of Drhymes and Kutz was that strong interdependence was evident between the dividends and investment decisions of a firm.

Fama (1974) used the argument forwarded by Miller and Modigliani and Drhymes and Kutz to examine the extent to which the dividend and investment decisions of individual firms are interrelated. Based on an imperfect capital markets scenario, Fama tested the proposition that there is a complete interdependence between the dividend and investment decisions of individual firms. He found no systematic evidence of interdependence in the year-by-year dividend and investment decisions of the firm. This finding is in complete contrast to the results of Drhymes and Kutz.

Higgins (1972) investigated the relationship between the dividend decision and shareholder wealth maximization. He started working from the assumption that capital gains are superior to dividends as a source of shareholder income and that the optimal strategy for the shareholder wealth maximization firm is to maximize share price appreciation relative to dividends. This assumption had two critical implications; one, that dividends should be treated as a residual to be distributed only if internal funds and accompanying borrowings are sufficient to finance all the firm's investment needs, and two, the firm's investment decisions should be independent of its dividends. Higgins (1972) found a negative correlation between investments and dividends. He also found dividends to be independent of size.

Farida (1993), in her study where regression analysis was used found that the need for investments was not a conclusive variable\factor in the determination of dividend payout. Researchers like Fama (1977) and Miller (1986) have also brought forward strong evidence suggesting no relationship exists between dividends and investments. Farida (1993) also suggests that further research can be carried out to determine the relationship between dividends and investments, which was inconclusive in her study.

Maina (2001) in his investigation on the empirical relationship between investment and dividend decisions concluded that investment decisions significantly affected a firm's dividend decision.

2.3.2 Effect of Growth Rates in Assets and Revenue

Rozeff (1986) attempted to establish if a relationship existed between the growth rates of the company's revenues over a five year period (1974-1979) and its dividend payouts. His reasoning for the choice of revenue growth rates was that if a company's past growth has been rapid, the generation of increased sales has probably required substantial new investments. Such a company would tend to retain funds in order to avoid external financing; hence the company's payout ratio would be low. Rozeff concluded that higher past and forecast growth rates were strongly associated with lower dividend payout ratios.

Kuria (2001) looked at dividend policies in relation to a company's growth in assets, return on assets and return on equity. He found an inverse relationship between dividend payout ratios and growth in assets concluding that managers used retained earnings as a source of funds to finance company growth. He also concluded that an investor who is especially interested in cash dividends rather than capital gains will be able to distinguish those companies with a high dividend payout ratio from those with high capital gains as reflected by an increase in assets and increase in share prices.

2.3.3 Effect of the Industry

Several studies have examined the relationship between a company's dividend payout and the industry it operates in. Studies by Rozeff (1986) and Higgins (1972) found no relationship between dividends and the industry. Kent, Farelly and Edelman (1985) did a study across three industries; namely utilities, manufacturing and wholesale\retail. They did not find any industry effects to the dividend decision, concluding that cash and a firm's earnings were important determinants of a firm's dividend policy.

On the contrary, studies by Drhymes and Kutz (1967), McCabe (1979) and Michael (1979) provided evidence that a company's industry may be an important determinant of a dividend payout ratio. Drhymes and Kutz found that firms in mining, textile, building and petroleum industries tend to pay higher dividends than firms in electrical appliances, agricultural equipment, beverages and retail industries.

2.3.4 Effect of Liquidity and Cash Flow Position

Karanja (1987) examined the dividend decision in relation to the firm's liquidity and cash flow position. He collected data through the use of a questionnaire on the kind of dividend policies managers of quoted companies pursued and the major determinants of a dividend policy in Kenya. He found three factors to be most critical; the cash and liquidity position, the current and prospective profitability and the company's level of distributable reserves, in that order. He also observed that the foreign controlled companies have more liberal dividend policies than locally controlled companies.

The findings by Karanja (1987) supported the conclusions reached in earlier studies by Weston and Brigham (1981) and Van Horne (1983).

2.3.5 Information Signaling Effect of Dividends

With regard to the signaling effect of dividends, the effect of a firm's dividend policy on the current price of its shares is a matter of considerable importance. Should management consider this effect as a factor in the dividend payout decision? Miller and Modigliani (1961) attempted to explain whether companies with generous distribution policies consistently sell out at a premium over those with low payouts. Assuming an ideal economy characterized by perfect capital markets, rational behaviour and perfect certainty, they found the current value of the firm to be independent of current dividend decision.

Long (1978) carried out a study on a company which had two classes of common stock and which were identical in all respects except dividend payout. One class paid only stock dividends and the other class paid cash dividends of equivalent value to the stock dividends. He concluded that claims to cash dividends have commanded a slight premium in the market over claims to equal amounts of capital gains. This is inconsistent with the hypothesis that investors are indifferent to the form (cash or capital gains) of the after tax returns on their investment portfolios.

Iminza (1997) investigated whether dividend payout does affect stock prices and found that dividends have a significant impact on share prices. She further concluded that the impact is much greater when there is a reduction in dividends paid than where there is increase in dividends.

Bitok (2004) studied the effect of dividend policy on the value of firms quoted at the Nairobi Stock Exchange. He observed a weak positive relationship between payout and the value of quoted firms. He attributed this finding to the information signaling effect theory advanced by Stephen Ross in 1977.

Mbugua (2004) carried out a study on evaluating information content of stock dividend announcements of twenty four quoted companies that had issued stock dividends. The results of her study indicated that stock dividend announcements have an impact on stock prices.

Researchers have yet to agree on several issues. For example, several researchers have found conflicting results as to whether variables like investments, profits and cash flows affect dividends or not. They have not agreed on whether industry effects exist or not.

The area of dividends therefore still needs further research.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

The research design was the survey design. A questionnaire was used to collect the data. Since the study was exploratory in nature, no hypotheses were tested.

3.2 POPULATION

The population comprised all quoted companies in Kenya as at 31 December 2005. The study was limited to quoted companies because of the ready availability of data. These companies' annual reports are readily available at the Nairobi Stock Exchange.

3.3 SAMPLE

The sample was selected from all quoted companies that had maintained a positive average earnings per share (EPS) and had been consistently quoted at the Nairobi Stock Exchange over the past eight years ended 31 December 2005, that is from 1998 to 2005.

Profitability of a company is one of the main criteria used by investors in assessing the worth of an investment, hence the emphasis on companies with positive average EPS. In addition, the decision on whether or not to distribute profits is mainly relevant to profitable companies.

The period of eight years has been used in previous related researches such as by Kent, Farelly and Edelman (1985), Rozeff (1986) and Farida (1993).

3.4 DATA COLLECTION.

Two data collection methods were utilized. These were;

(i) The extraction of data on EPS from the published financial reports of quoted companies which were available at the Nairobi Stock Exchange, and;

(ii) A questionnaire.

The questionnaire was used to obtain the reasoning behind the dividend payout policies of companies in the study. The questionnaire was divided into two sections; A and B. Questions in section A required respondents to specify the industry in which their company operated, the relative size of their company measured in terms of asset levels, and the number of years the company had been in operation.

Section B required the respondents to identify the factors which influenced the dividend decision of their company. These factors were grouped in four categories, as shown below.

- Factors relating to the company's internal circumstances.
- Factors relating to the nature of shareholders and potential investors.
- Factors relating to the industry and economy.
- Any other factors not specified above.

The questionnaires were filled by the Finance Directors of the companies under study. The response rate was satisfactory as 32 out of 43 companies (74 %) under study responded. The other 11 companies (26 %) failed to respond. The reason for non response by these companies included outright refusal, lack of time to fill the questionnaire and the need for the companies to maintain their corporate confidentiality.

3.5 DATA ANALYSIS

Factor analysis was used to rank factors considered in order of importance. Responses to the questionnaires were coded and presented by way of tables and graphs for interpretation purposes. The responses have been attached in appendix 4.

Descriptive statistics in particular means and standard deviations were used to interpret responses to the questionnaires.

CHAPTER FOUR

4.0 ANALYSIS OF THE DATA, INTERPRETATION AND DISCUSION

4.1 RESPONSE RATE

Questionnaires were administered to 43 companies which had maintained a positive EPS and had been consistently quoted at the NSE over the eight year period commencing 1998 to 31 December 2005. Responses were received from 32 companies which represented a response rate of 74%.

The companies in the sample were categorized into four industries; Agriculture, Commercial and Services, Finance and Investment and Industrial and Allied. The responses on the basis of industry are categorized in the table below.

Table 4.1: Response Rate.

Industry	Distribution	Response	% Response
Agriculture	8	7	88%
Commercial and Services	8	7	88%
Financial and Investments	11	8	73%
Industrial and Allied	16	10	63%
Total	**43**	**32**	**74%**

Source:Research Data

The response rate and the coded questionnaire are in appendix 4.

4.2 DETERMINANTS OF DIVIDEND PAYOUT

The main objective of this study was to identify the factors that companies consider in determining the amount of dividends to be distributed to shareholders. The factors were categorized as follows:

- Factors relating to the company circumstances.
- Factors relating to the nature of shareholders and potential investors.
- Factors relating to the industry and economy.

The factors were graded as "very important" (5), "important" (4), "fairly important" (3), "less important" (2) and "not important" (1).Responses were coded (see appendix 4) and tables and charts/graphs designed to facilitate data analysis.

4.2.1 Overall Factor Rankings

The table below gives a summary of the factors considered relevant in the dividend payout decision and their relative importance. Since the total number of respondents were 32, and the maximum point for a factor was 5 (very important), then the maximum score was supposed to be 160. The table was constituted from the coded data in appendix 4.

Table 4.2.1: Dividend Payout Determinants and their Importance

Factor	Score	Max score	% score	Mean	Std Dev	Rank
1. Financial needs	131	160	82%	4	1	3
2. Cash flow	136	160	85%	4	1	2
3. Access to finance	104	160	65%	3	1	5
4 Shareholder ctrl	82	160	51%	3	1	10
5 Loan terms	64	160	40%	2	1	12
6 Investments	117	160	73%	4	1	4
7 Profitability	160	160	100%	5	0.	1
8 Target payout	72	160	45%	2	1	11
9 Mgt. preferences	42	160	26%	1	1	14
10 Investor interp.	103	160	64%	3	1	7
11.Tax on dividend	57	160	36%	2	1	13
12.Other Payouts	83	160	52%	3	1	9
13.Inflation rate	92	160	58%	3	1	8
14.Economic growth	104	160	65%	3	1	5

Source: Research Data.

From the table above, companies first and foremost consider the current and expected future profits in assessing the amount of dividends to distribute. This factor was rated as very important since it had a mean of 5. This was closely followed by the cash flow position of a company and the financial needs of the company, in that order. Other factors considered to significantly affect dividend payout were the availability of profitable investments, the company's ability to access external finance and the general economic growth rate.

Companies consider restrictions in loan contracts regarding dividend payout, and the withholding tax rate on dividend income as less important in influencing payouts. The personal inclinations and preferences of management was ranked as not important with the lowest mean score of 1.

All the factors except profitability had a standard deviation of 1 meaning that the companies were not significantly diverse in their opinions and that they were not indifferent when it came to these factors. Profitability had a standard deviation of 1 implying that all companies were consistent in the ranking of this factor without any diversity of opinion.

The figures below further show the importance of the factors based on whether they relate to the company circumstances, nature of shareholders and potential investors, and industrial and economic factors. Factor No 1 to 9 in the table above relate to the company circumstances, Factor No 10 and 11 relate to the nature of shareholders and potential investors while Factor 12,13 and 14 relate to the industry and economy.

Figure 4.2.1a:Importance of factors relating to company circumstances.

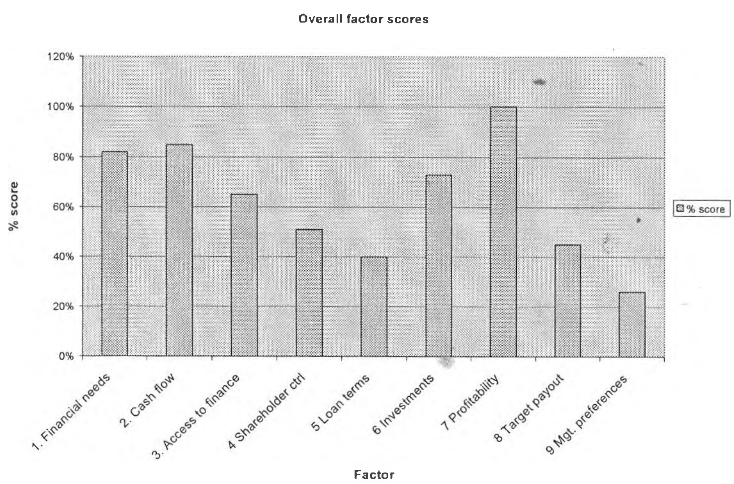


Figure 4.2.1b: Importance of factors relating to the nature of shareholders and potential investors.

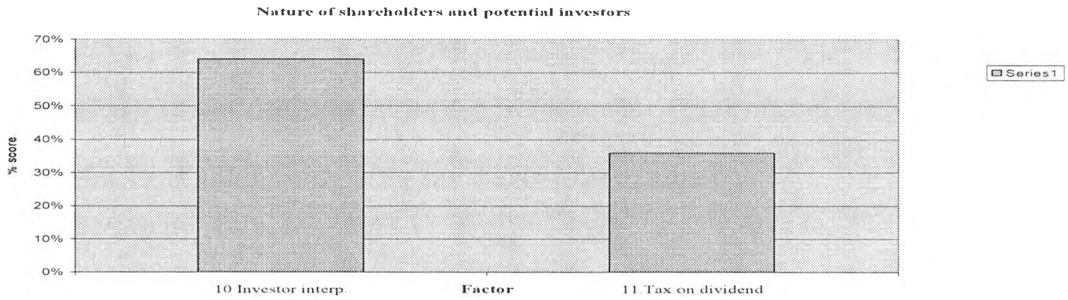
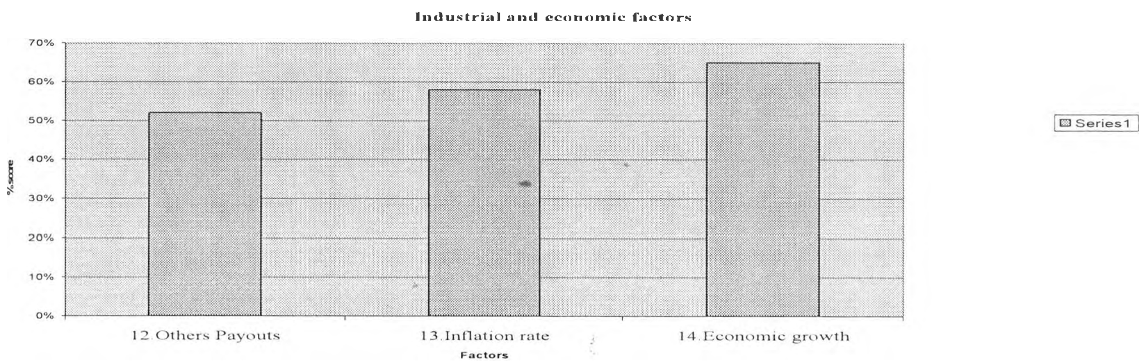


Figure 4. 2 1c: Importance of factors relating to the industry and economy.



4.2.2 Effect of the Industry on Dividend Payout Policy

The responses received were also analyzed to determine whether the importance attached to a factor depends on the nature of industry in which the company operates. The tables below analyze the importance attached to each factor in each industry. These rankings are then grouped together in order to compare the importance attached to each factor and hence identify any variations in rankings based on industry.

There were 7 companies in the Agriculture industry (maximum score for a factor 35), 7 companies in the Commercial and Services industry (maximum score 35), 8 in Finance and Investment (maximum score 40) and 10 companies in the Industrial and Allied sector (maximum score 50).

Table 4.2.2a: Factor ranking in the Agriculture Industry.

Factor	Score	% Score	Mean	Rank
1.Financial needs	32	91%	5	3
2.Cash flow	33	94%	5	2
3.Access to finance	24	69%	3	5
4.Shareholder ctrl	22	63%	3	7
5.Loan terms	11	31%	2	12
6.Investments	18	51%	3	10
7 Profitability	35	100%	5	1
8 Target payout	21	60%	3	8
9.Mgt. preferences	8	23%	1	13
10 Investor interp.	25	71%	4	4
11Tax on dividend	13	37%	2	11
12 Others Payouts	24	69%	3	5
13.Inflation rate	10	29%	1	14
14.Economic growth	**20**	**57%**	**3**	**9**

Source: Research Data

Table 4.2.2b Factor rankings in the Commercial and Services industry.

Factor	Score	% Score	Mean	Rank
1.Financial needs	32	91%	5	3
2.Cash flow	33	94%	5	2
3.Access to finance	25	71%	4	4
4.Shareholder ctrl	22	63%	3	8
5.Loan terms	14	40%	2	13
6.Investments	24	69%	3	5
7 Profitability	35	100%	5	1
8 Target payout	17	49%	3	10
9.Mgt. preferences	10	29%	1	14
10 Investor interp.	23	65%	4	7
11Tax on dividend	17	49%	2	10
12 Others Payouts	16	46%	3	12
13.Inflation rate	21	60%	1	9
14.Economic growth	23	66%	3	6

Source: Research Data

Table 4.2.2c Factor rankings in the Finance and Investment Industry.

Factor	Score	% Score	Mean	Rank
1.Financial needs	27	68%	3	7
2.Cash flow	29	73%	4	4
3.Access to finance	23	58%	3	9
4.Shareholder ctrl	18	45%	2	10
5.Loan terms	11	28%	1	13
6.Investments	34	85%	4	2
7 Profitability	40	100%	5	1
8 Target payout	15	38%	2	11
9.Mgt. preferences	11	28%	1	13
10 Investor interp.	29	73%	4	4
11Tax on dividend	12	30%	2	12
12 Others Payouts	23	58%	3	8
13.Inflation rate	30	75%	4	3
14.Economic growth	28	70%	4	6

Source: Research Data

Table 4.2.2d Factor rankings in the Industrial and Allied Industry

Factor	Score	% Score	Mean	Rank
1.Financial needs	40	80%	4	4
2.Cash flow	41	82%	4	2
3.Access to finance	32	64%	3	6
4.Shareholder ctrl	20	40%	2	10
5.Loan terms	28	56%	3	8
6.Investments	41	82%	4	2
7 Profitability	50	100%	5	1
8 Target payout	19	38%	2	12
9.Mgt. preferences	13	26%	1	14
10 Investor interp.	26	52%	3	9
11Tax on dividend	15	30%	2	13
12 Others Payouts	20	40%	2	10
13.Inflation rate	31	62%	3	7
14.Economic growth	33	66%	3	5

Source: Research Data

The tables and figure above show that the industry has a fairly significant effect on the importance attached to the various determinants of dividend payout. However, the importance attached to certain factors is universal across industries. Profitability is considered the most important factor and was ranked "very important". Withholding tax rate on dividend income was ranked "less important" while the personal preferences and inclinations of management was ranked "not important" across all industries.

Financial needs of the company is considered a very important determinant of dividend payout in two industries; Agriculture industry and Commercial and Services industry. The factor was ranked "important" in the Industrial and Allied sector and as "fairly important" in the Finance and Investment industry.

Cash flow position of a company was ranked as a “very important” factor in the agriculture and in the commercial and services industries. The factor was considered “important” in the finance and investment and industrial and allied sectors.

A company’s ability to access external finance was considered “important’’ in the commercial and services industry and as “fairly important” in the agriculture, finance and investment and industrial and allied sectors.

The need to maintain current shareholders control was ranked as “fairly important” in the agriculture commercial and services industries. This factor was considered as “less important” in the finance and investment and industrial and allied sectors.

Restrictions in loan contracts concerning dividend payout was considered as “fairly important” in the industrial and allied sector. Companies in the agriculture and commercial and services sectors considered this factor to be “less important”. The factor was considered as “not important’’ to companies in the finance and investment sector.

Availability of profitable investments was considered an important determinant of dividend payout in the finance and investment and industrial and allied sectors. It was ranked as “fairly important” in the agriculture and industrial and allied industries.

Target payout ratio is a fairly important factor to the agriculture sector and commercial and services sector. It is considered “less important” in the other two industries.

Investor interpretation of a dividend payout was considered an “important” determinant of payout in all the industries except in the industrial and allied sector where it was ranked “fairly important”. Similarly, the effect of other companies payouts was considered “less important” in the industrial and allied sector” and as “fairly important” in all the other sectors.

Notably, the rate of inflation and the economic growth rate are only important to the finance and investment sector as dividend payout determinants. Other sectors rated this factor lower.

It is evident that industrial influence is most significant in the ranking of three factors; the financial needs of the company, inflation and restrictions in loan contrats.This is especially so in the finance and investment sector whose rankings of the three factors significantly varies from that of the other three industries. This is illustrated in the figures below.

Figure 4.2.2a: Industrial influence on the ranking of a company’s financial needs.

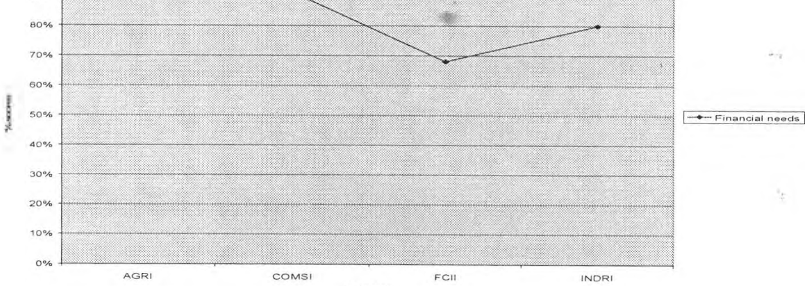


Figure 4.2.2b. Industrial influence on the ranking of inflation

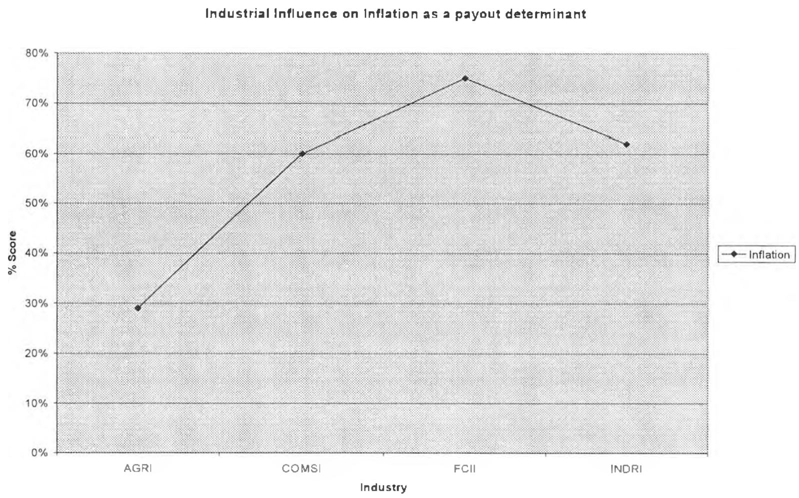
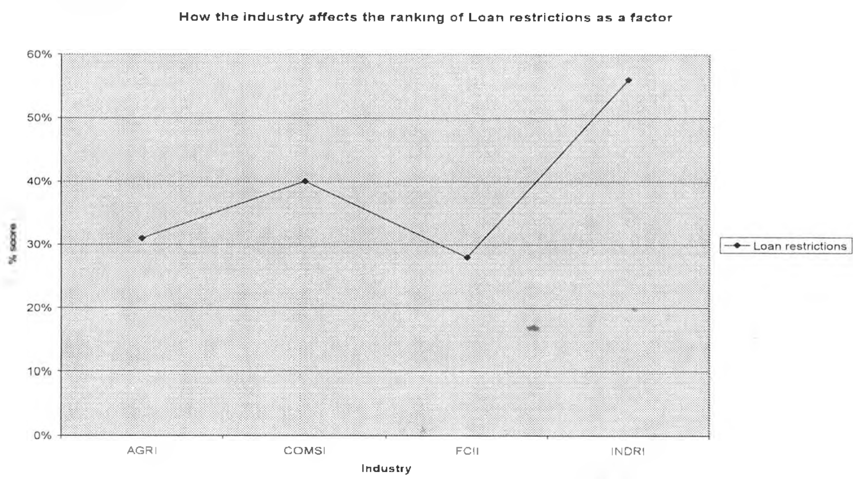


Figure 4.2.2c: Industrial influence on the ranking of restrictions in loan contracts.



4.2.3 Effect of Size of Company on Dividend Payout Policy.

The study was also aimed at ascertaining whether the importance attached to the various factors varies with the size of the company. Companies were categorized as either big, average or small on the basis of market share.

The Percentage scores, mean score and rank for each factor are presented below according to company size.

Table 4.2.3a: Effect of Size on factor rankings: Big Companies

Factor	Score	Max score	% score	Mean	Std Dev	Rank
1.Financial needs	66	80	83%	4	1	2
2.Cash flow	66	80	83%	4	1	2
3.Access to finance	46	80	58%	3	1	7
4.Shareholder ctrl	32	80	40%	2	1	12
5.Loan terms	35	80	44%	2	1	11
6.Investments	63	80	79%	4	1	4
7 Profitability	80	80	100%	5	0	1
8 Target payout	37	80	47%	2	1	10
9.Mgt. preferences	20	80	25%	1	1	14
10 Investor interp.	50	80	63%	3	1	6
11Tax on dividend	26	80	33%	2	1	13
12 Others Payouts	41	80	52%	3	1	9
13.Inflation rate	46	80	58%	3	1	7
14.Economic growth	57	80	72%	4	1	5

Source: Research Data.

Table 4.2.3b: Effect of Size on factor rankings: Average-size Companies

Factor	Score	Max score	% score	Mean	Std Dev	Rank
1.Financial needs	42	50	84%	4	1	3
2.Cash flow	45	50	90%	5	1	2
3 Access to finance	34	50	68%	3	1	4
4.Shareholder ctrl	29	50	58%	3	1	8
5.Loan terms	19	50	38%	2	1	12
6.Investments	34	50	68%	3	1	4
7 Profitability	50	50	100%	5	0	1
8 Target payout	22	50	44%	2	1	11
9.Mgt. preferences	14	50	28%	1	1	13
10 Investor interp.	32	50	64%	3	1	6
11Tax on dividend	15	50	30%	2	1	14
12 Others Payouts	26	50	52%	3	1	9
13 Inflation rate	26	50	52%	3	1	9
14.Economic growth	30	50	60%	3	1	7

Source: Research Data.

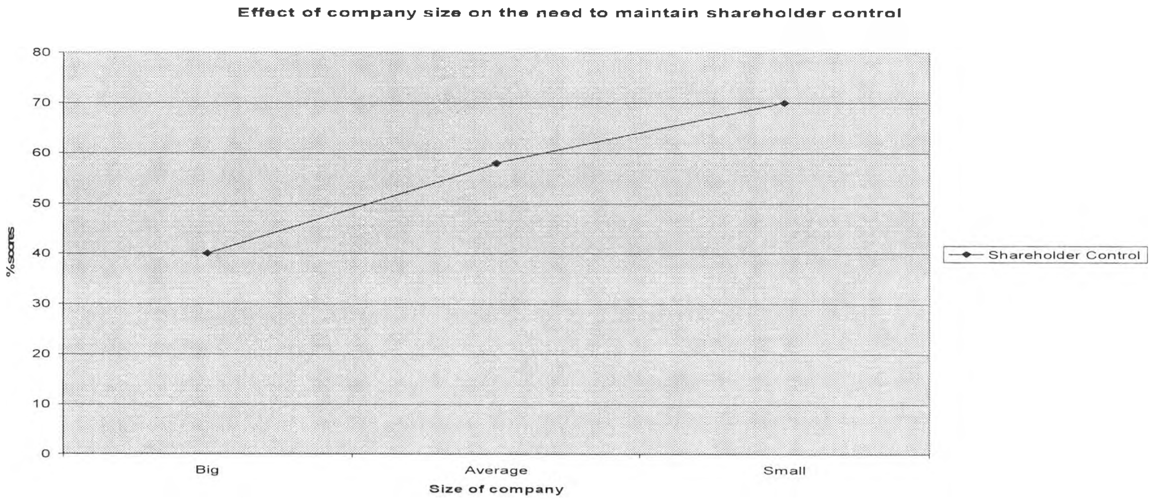
Table 4.2.3c: Effect of Size on factor rankings: Small Companies

Factor	Score	Max score	% score	Mean	Std Dev	Rank
1.Financial needs	23	30	77%	4	1	4
2.Cash flow	25	30	83%	4	1	2
3.Access to finance	24	30	80%	4	1	3
4.Shareholder ctrl	21	30	70%	4	1	5
5.Loan terms	10	30	33%	2	1	13
6.Investments	20	30	67%	3	1	7
7 Profitability	30	30	100%	5	0	1
8 Target payout	13	30	43%	2	1	12
9.Mgt. preferences	8	30	27%	1	1	14
10 Investor interp.	21	30	70%	4	1	5
11Tax on dividend	16	30	53%	3	1	10
12 Others Payouts	16	30	53%	3	1	10
13.Inflation rate	20	30	67%	3	1	7
14.Economic growth	17	30	57%	3	1	9

Source: Research Data.

The tables above reveal that only the ranking of one factor is significantly dependent on the size of a company. This is the need to maintain shareholder control whose importance is inversely related to company size. This factor was ranked "important" by small companies, "fairly important" by average size companies and "less important" by big companies. This difference in factor rankings is further illustrated in the figure below.

Figure 4.2.3: Effect on size on the need to maintain shareholder control.



Thus, the size of the company cannot be considered to significantly affect the dividend payout policy of a company since it has a minimal impact on factor rankings.

Across all company sizes, profitability was ranked "very important", financial needs of the company was considered "important", dividend payout of other companies and inflation rate were ranked "fairly important", restrictions in loan contracts and the existence of a target payout were considered "less important". In addition, all companies were unanimous in their rankings that the personal preferences of management were "not important" determinants of payout policy.

Therefore, profitability, cash flow and the financial needs of the company are still the most important determinants of dividend policy regardless of company size. On the other hand, personal preferences of management and loan contract restrictions are the least important.

4.2.4: Effect of the Age of a Company on Dividend Payout Policy.

The study also aimed at determining whether the age of a company plays a role in determining the ranking of the various factors and hence in dividend policy formulation. The age of a company was measured in terms of the years of operation. Companies were categorized as either over 20 years old (mature), between 10 and 20 years old (middle aged) and below 10 years (young).

No company responded to be less than 10 years hence this age bracket was eliminated from the analysis.

The following tables summarize the scoring and ranking of the factors separately for companies over 20 years old and those between 10 and 20 years old.

Table 4.2.4a: Effect of age on rankings: Companies over 20 years old

Factor	Score	Max score	% score	Mean	Std Dev	Rank
1.Financial needs	116	140	83%	4	1	3
2.Cash flow	119	140	85%	4	1	2
3.Access to finance	89	140	64%	3	1	6
4.Shareholder ctrl	69	140	49%	3	1	10
5.Loan terms	56	140	40%	2	1	12
6.Investments	103	140	74%	4	1	4
7 Profitability	140	140	100%	5	0	1
8 Target payout	63	140	45%	2	1	11
9.Mgt. preferences	38	140	27%	1	1	14
10 Investor interp.	90	140	64%	3	1	6
11Tax on dividend	48	140	34%	2	1	13
12 Others Payouts	73	140	52%	3	1	9
13.Inflation rate	80	140	57%	3	1	8
14.Economic growth	93	140	66%	3	1	5

Source: Research Data

Table 4.2.4b: Effect of age on rankings: Companies 10-20 years old

Factor	Score	Max score	% score	Mean	Std Dev	Rank
1.Financial needs	15	20	75%	4	1	3
2.Cash flow	17	20	85%	4	1	2
3.Access to finance	15	20	75%	4	1	3
4.Shareholder ctrl	13	20	65%	3	1	6
5.Loan terms	8	20	40%	2	1	13
6.Investments	14	20	70%	4	1	5
7 Profitability	20	20	100%	5	0	1
8 Target payout	9	20	45%	2	1	12
9.Mgt. preferences	4	20	20%	1	0	14
10 Investor interp.	13	20	65%	3	1	6
11Tax on dividend	9	20	45%	2	1	11
12 Others Payouts	10	20	50%	3	1	10
13.Inflation rate	12	20	60%	3	1	8
14.Economic growth	11	20	55%	3	1	9

Source: Research Data

The tables reveal that the age of a company is not significant in describing the importance attached to the various factors and hence in dividend policy formulation. However, age plays a role in determining the extent to which a company will consider its ability to access finance and the need to maintain shareholder control.

The companies' ability to access finance was ranked "very important" by middle aged companies (10-20 years old) and "important" by companies in their maturity stage (beyond 20 years old). The need to maintain shareholder control was considered "fairly important" by middle aged companies and "less important" by companies in maturity stage. These variations in factor rankings due to the age of the company are further illustrated in the figures below;

Figure 4.2.4a. Effect of Company Age on the ranking of accessibility to finance.

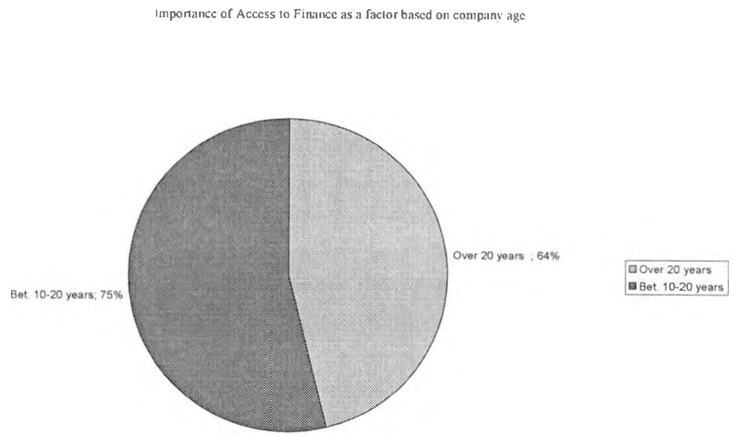
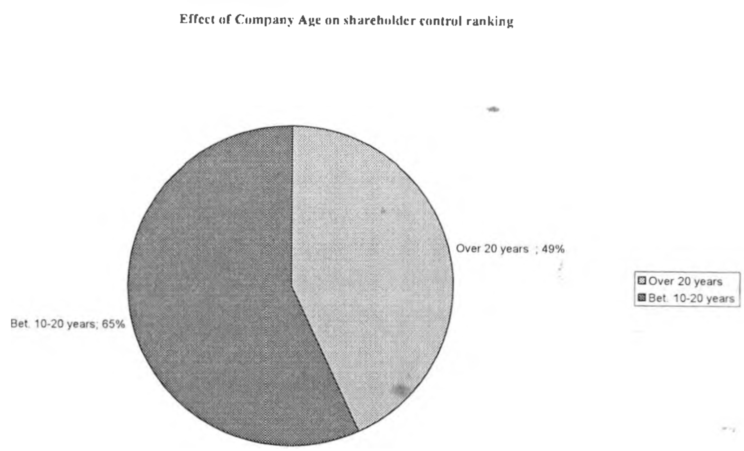


Figure 4.2.4b. Effect of Age on the ranking of shareholder control



Consistent with industry and size analysis of companies, profitability is the most important determinant of dividend policy regardless of the age of a company. The financial needs of the company, cash flow and the availability of profitable investments are the second most important determinants.

The tables also reveal that restrictions in loan contracts, target payout ratios and the tax rate on dividend income are considered as “less important” determinants of dividend policy regardless of the age of a company. Respondent companies in this analysis stated that the personal preferences and inclinations of management have completely no influence on their dividend policy.

CHAPTER FIVE

5.0 SUMMARY AND CONCLUSIONS, LIMITATIONS, RECOMMENDATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

5.1 SUMMARY OF FINDINGS

The research findings have identified the important factors that quoted companies consider in determining their dividend policies. The findings have also identified the extent of the relevance of the industry, size and age of a company in determining the importance to which a company attaches to certain factors. The findings are summarized below.

5.1.1 Factors Determining Dividend Payout Policy.

The most important factor in dividend policy formulation is the company's current and future profitability. Companies avoid setting a distribution pattern which cannot be maintained by future profitability.

Other factors also considered as important are the cash flow position, the immediate financial needs and the availability of profitable investments. These factors focus on the need to balance shareholders short term needs of dividends with their long term wealth maximization goals.

Certain other factors are given some fair consideration during the payout formulation process. These are the company's ability to access external finance, the need to maintain current shareholder control, investor interpretation of a dividend payout, inflation and economic growth rates and the dividend payout of other companies in the industry.

5.1.2 Effect of the Industry on Dividend Payout Policy formulation.

The industry in which a company operates does not have a significant effect on dividend policy. Companies in different industries provided similar or nearly similar rankings to various factors including profitability, withholding tax rate on dividend income, cash flow, management preferences and inclinations and inflation.

However, companies in the finance and investment industry appeared diverse from other industries in the importance attached to inflation, financial needs of a company and cash flow position. These companies considered inflation more important that in other industries. On the other hand, companies in these sector considered financial needs and cash flow as relatively less important than in other industries.

5.1.3 Effect of Size of Company on Dividend Payout Policy Formulation

The size of a company is only significant in the importance attached to shareholders' control. The need to maintain current shareholder control was considered important by small companies. The importance of this factor decreased with the increase in size of the company. Thus, average companies only considered this factor to be fairly important while big companies ranked it as less important.

5.1.4 Effect of Age of a Company on dividend Payout Policy formulation.

The age of a company is only significant in the importance attached to three factors; the need to maintain shareholder control , the dividend payout of other companies and ability to access finance.

The need to maintain shareholder control was ranked higher by companies in the 10 to 20 years bracket than companies in the over 20 years bracket. This was also the case for the dividend payout of other companies which was given more importance by companies in the 10 to 20 years bracket.

The ability to access finance was considered a more important factor by companies over 20 years old than by companies in the 10 to 20 years bracket.

5.2 CONCLUSIONS

The dividend payout decision requires utmost attention before it can be implemented. This decision affects the investment and financing decisions of the firm. A proper balance has to be achieved between the short term and long term interests of the company, shareholders and other investors. This balance can only be achieved by giving consideration to all the critical factors before a dividend policy is set.

Profitability, cash flow position, financial needs of the company and the availability of profitable investments are the key factors whose specific attention can assist a company to attain the desired balance in stakeholders' interests.

The importance of the aforementioned factors transcends across all industries, company sizes and the years that a company has been in operation.

5.3 LIMITATIONS OF THE STUDY

5.3.1 Suspicion

Some of the respondents were suspicious about the study and declined to fill and return the questionnaires despite promising to do so. These respondents feared that the confidentiality of certain information about their companies may be exposed to competitors and other parties. This fear was in spite of the respondents not being required to necessarily disclose the identities of their companies. In addition, each questionnaire was attached with an assurance letter to the respondents that their responses would be used purely for academic purposes.

5.3.2 Time

The time available for the study was limited especially on collecting data from companies which were based outside Nairobi. Some respondents requested for more time than was available. Given more time, additional efforts would have been made on those potential respondents who never filled the questionnaire.

5.3.3 Cost

Constant follow-ups were made to ensure that the respondents filled the questionnaire. This made the study more expensive than was planned for. At times, several visits were made to one data source without response.

5.3.4 Lack of adequate local literature material

Researches on the subject of dividends policy and especially on the influence of the industry, size and age of a company in relation to the Kenyan situation are few. Much of the literature review for this research was obtained from researches conducted in the developed countries whose economic circumstances are different from those existing in Kenya.

5.3.5 Personal versus Company views.

It was difficult to assess whether the company officers filing the questionnaires were expressing their personal opinions on the importance of the factors or they were expressing the company policy. In some companies, it was not possible to ascertain who determines the dividend payout proposal to be submitted to the board of directors.

5.4 RECOMMENDATIONS.

5.4.1 Enhance availability of literature review material.

The University of Nairobi should undertake efforts to provide additional financial literature through, for example, acquisition of latest journals of finance and economics, periodicals and books on the subject of finance. This will greatly assist future researches in finance and related disciplines.

5.4.2 Provision of a fair competitive market in the industry.

The findings revealed that most companies were suspicious of each other due to what they perceived as unfair advantages enjoyed by their competitors either from the government in terms of policy or from other regulatory agencies and authorities. This situation resulted in some companies feeling reluctant to disclose information about their policies.

5.4.3 Sensitization to companies and the public on research importance

A concerted effort should be made by universities, the government, the private sector and other interested parties to sensitize employers, companies and the general public on the importance of research and the need to cooperate with researchers especially during data collection. This would greatly increase response rate and the accuracy of research findings.

5.4.4 Research sponsorship.

Due to the ever increasing cost of conducting research, universities should consider allocating or increasing the funds allocated to research students. This would enable more extensive research to be conducted and thus more conclusive findings.

5.5 SUGGESTIONS FOR FURTHER RESEARCH

The research mainly focused on factors that listed companies in Kenya consider in determining their dividend payout policy. Based on this, the following are the recommended areas for further research.

1. A study can be conducted on private companies to determine their key determinants of dividend policy.
2. A study can be conducted in the other East African countries whose policies are similar to those of Kenya but with unique policies such as in taxation.

3. A study can be conducted on multi-national corporations with interests in Africa to assess the factors they consider in determining dividend payout to their African shareholders.
4. Since this study focused on how companies perceive investors' interpretation of a dividend as an important determinant of dividend policy, a reverse study can be conducted this time on in the investors to assess the interpretation they give to various dividend policies adopted by companies.
5. Further research can be conducted on the extent to which management attitude, for example in relation to risk, affects a company's dividend policy.

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APPENDIX 1

LETTER TO THE RESPONDENT

Dear Sir/ Madam.

RE: RESEARCH PROJECT

I am a post-graduate student at the Faculty of Commerce, University of Nairobi. In fulfillment of the requirement for the award of the degree of the Master of Business Administration (MBA), I am currently undertaking a study on THE FACTORS INFLUENCING THE DIVIDEND PAYOUT DECISION IN LISTED COMPANIES. I request for your assistance by filling the questionnaire attached to the best of your ability.

The information provided will be used solely for academic purpose and at no instance will the name of your company be named in the report. The information will be treated in absolute confidence.

Yours faithfully;
Isaac Muchiri Njuguna
MBA Student No. D61/P/7316/03

Supervising Lecturer: Mr. Luther Otieno.
Lecturer, Department of Accounting, University of Nairobi

APPENDIX 2

QUESTIONNAIRE.

SECTION A. General information about your company.

(i) Name of company (optional) ------------------------

(ii) In which industry is your company? (please tick as appropriate)

Agriculture ☐

Commercial and Services ☐

Finance and Investment ☐

Industrial and Allied ☐

Other (please specify) ☐

(iii) What is the relative size of your company in the industry (based on market share)?

Big ☐ Average ☐ Small ☐

(iv) How long has your company been in operation in years?

Over 20	10-20	Below 10
☐	☐	☐

SECTION B. Factors influencing the dividend decision.

The dividend payout decision is based on various factors. Please rate the importance of the following factors to your company's dividend payout decision, using the key below.

Key:

5) Very important
4) Important
3) Fairly important
2) Less important
1) Not important

I . Factors relating to the company circumstances

	Rank (tick as appropriate)				
	5	**4**	**3**	**2**	**1**
i) Financial needs of the company.	☐	☐	☐	☐	☐
(ii) Present and future expected cash flows.	☐	☐	☐	☐	☐
(iii) Company's ability to access external finance.	☐	☐	☐	☐	☐

	5	4	3	2	1
(iv) Need to maintain current shareholders' control (avoid need to issue additional share capital due to lack of finance after dividend payments).	☐	☐	☐	☐	☐
(v) Restrictions on loan contracts regarding dividend payouts.	☐	☐	☐	☐	☐
(vi) Availability of profitable investments.	☐	☐	☐	☐	☐
(vii) Current and expected future profit.	☐	☐	☐	☐	☐
(viii) Target payout ratio.	☐	☐	☐	☐	☐
(ix) Personal inclinations and preferences of management.	☐	☐	☐	☐	☐
(x) Other factors (please specify)	☐	☐	☐	☐	☐
	☐	☐	☐	☐	☐
	☐	☐	☐	☐	☐

B. Factors relating to the nature of shareholders and potential investors.

	5	4	3	2	1
(i) Investors' interpretation of dividend payout (to portray management confidence on the company prospects).	☐	☐	☐	☐	☐
(ii) Tax rate on dividend income (If dividends taxed highly, investors may prefer profits be retained for reinvestment by the company for future capital gains)	☐	☐	☐	☐	☐
(iii) Other factors (please specify)	☐	☐	☐	☐	☐
	☐	☐	☐	☐	☐
	☐	☐	☐	☐	☐

C. Factors relating to the industry and economy.

(i) Dividend payout of other companies in the industry	☐	☐	☐	☐	☐
(ii) Inflation rate and its impact on company operations.	☐	☐	☐	☐	☐
(iii)General economic growth rate.	☐	☐	☐	☐	☐

	5	4	3	2	1
(iv) Others.(Please specify)	☐	☐	☐	☐	☐
	☐	☐	☐	☐	☐

D. Other factors. (Please indicate and rank any other factors considered by your company in the dividend payout decision.)

Rank

☐	☐	☐	☐	☐
☐	☐	☐	☐	☐
☐	☐	☐	☐	☐

Thank you very much for your cooperation.

APPENDIX 3

LIST OF QUOTED COMPANIES, THEIR INDUSRY SECTOR AND 8-YEAR AVERAGE EPS AS AT 31 DECEMBER 2005.

SECTOR& COMPANY	AVERAGE EPS (in shillings).
Agricultural Sector	
Unilever Tea	2.7
Kakuzi	5.0
Rea Vipingo	0.3
Sasini	2.4
Williamson	15.0
Kapchorua Tea	7.8
Eaagads	2.0
Limuru Tea	46.44
Commercial and Services Sector	
Uchumi	3.3
CMC Holdings	7.5
Standard Group	1.5
A. Baumann	**-2.0**
Marshalls	**-4.5**
Kenya Airways	2.7
Nation Media Group	9.1
TPS Serena	1.9
Express Kenya	0.3
Hutchings Biemer	Not available
Car and General	0.7
Finance and Investment	
Barclays	15.3
NIC Bank	4.3
Stanchart	8.8
KCB	0.1
HFCK	1.5
CFC Bank	2.0
Diamond Trust	0.6
Jubilee Insurance	3.8
Pan Africa Insurance	1.8
ICDC	4.2

National Bank	**-5.5**
City Trust	3.1
Industrial and Allied	
East African Cables	1.4
Unga Group	0.3
Total Kenya	4.2
Crown Berger	1.1
BAT Ltd	11
EABL	9.2
Bamburi	2.1
Sameer Group	1.8
Kenya Oil	28.8
Athi River Mining	0.4
BOC Kenya	6.1
Dunlop	7.4
Kenya Power	2.8
E.A. Portland	2.8
Kenya Orchads	0.8
Carbacid	7.7
Olympia Capital Holdings	Not available

APPENDIX 4

CODED QUESTIONNAIRE

Overall Response

Resp.	IND	Sz	YOP	FNC	PFCF	AAEF	CSC	RLC
1	AGRI	Bg	>20	5	4	3	2	2
2	AGRI	Bg	>20	5	5	2	2	1
3	AGRI	Bg	>20	4	5	3	3	2
4	AGRI	Avg	>20	4	4	4	4	1
5	AGRI	Avg	>20	5	5	4	4	2
6	AGRI	Avg	>20	5	5	4	3	2
7	AGRI	Sml	Bet 10-20	4	5	4	4	1
8	COMSI	Bg	>20	5	5	2	3	2
9	COMSI	Bg	>20	5	5	3	2	3
10	COMSI	Bg	>20	4	4	3	2	2
11	COMSI	Avg	>20	5	5	4	3	2
12	COMSI	Avg	>20	4	5	4	4	1
13	COMSI	Sml	Bet 10-20	4	4	4	4	2
14	COMSI	Sml	>20	5	5	5	4	2
15	FCII	Bg	>20	3	4	3	2	1
16	FCII	Bg	>20	4	4	3	2	1
17	FCII	Bg	>20	4	3	3	1	2
18	FCII	Bg	>20	3	3	2	2	1
19	FCII	Avg	>20	3	4	2	2	1
20	FCII	Avg	>20	3	4	3	3	2
21	FCII	Sml	>20	3	4	3	3	2
22	FCII	Sml	>20	4	3	4	3	1
23	INDRI	Bg	Bet 10-20	4	4	3	2	3
24	INDRI	Bg	>20	4	5	3	1	3
25	INDRI	Bg	>20	5	4	3	1	4
26	INDRI	Bg	>20	4	4	4	2	3
27	INDRI	Bg	>20	4	3	3	2	3
28	INDRI	Bg	>20	3	4	3	3	2

29	INDRI	Avg	>20	4	4	2	1	3
30	INDRI	Avg	>20	5	5	3	2	2
31	INDRI	Avg	>20	4	4	4	3	3
32	INDRI	Sml	Bet 10-20	3	4	4	3	2
	Sum			**131**	**136**	**104**	**82**	**64**
	Mean			**4.09375**	**4.25**	**3.25**	**2.5625**	**2**
	StdDev			**0.73438**	**0.67202**	**0.762**	**0.94826**	**0.80322**

Overall response continued

API	CEFP	TPR	PIPM	IIDP	TRDI	DPOC	Infl.	Econ. Gr
3	5	3	1	4	2	3	2	3
3	5	4	1	4	2	3	1	3
2	5	3	1	3	1	4	1	3
2	5	3	2	3	1	3	2	2
2	5	2	1	4	2	4	1	3
4	5	3	1	4	2	3	1	3
2	5	3	1	3	3	4	2	3
4	5	3	1	3	3	2	3	4
3	5	3	1	3	2	2	3	3
4	5	2	2	4	2	3	2	4
3	5	2	2	3	2	3	3	4
3	5	2	1	4	1	2	3	3
4	5	3	1	3	3	2	4	2
3	5	2	2	3	4	2	3	3
4	5	2	2	4	2	3	4	4
5	5	2	1	3	1	3	3	4
4	5	2	2	3	1	3	4	4
4	5	1	1	4	1	3	4	4
4	5	2	1	4	1	3	4	3
5	5	2	1	3	2	2	3	3
4	5	2	1	4	2	3	4	4
4	5	2	2	4	2	3	4	2
5	5	2	1	3	1	2	3	3
4	5	3	1	2	2	2	3	4
4	5	2	1	2	1	3	3	4
5	5	2	2	2	1	2	4	3
4	5	2	1	3	2	2	3	3
5	5	1	1	3	2	1	3	4
4	5	1	1	2	1	2	2	2

4	5	3	2	2	2	3	3	3
3	5	2	2	3	1	1	4	4
3	5	1	1	4	2	2	3	3
117	**160**	**72**	**42**	**103**	**57**	**83**	**92**	**104**
3.65625	**5**	**2.25**	**1.3125**	**3.21875**	**1.78125**	**2.59375**	**2.875**	**3.25**
0.9019468	**0**	**0.7184212**	**0.4709291**	**0.7063936**	**0.7506717**	**0.7560242**	**0.9755065**	**0.6720215**