THE RELATIONSHIP BETWEEN DIVIDEND ANNOUNCEMENTS AND RETURN ON INVESTMENTS: A CASE OF COMPANIES QUOTED AT THE NAIROBI STOCK EXCHANGE.

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NOVEMBER 2011
DECLARATION

I hereby declare that this management research project is my original work and has not been presented to any other University.

__________________________  ______________________
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The research has been submitted for examination with my approval as the university supervisor.

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And above all, to the Almighty God for His continued guidance and protection.
DEDICATION

This work is dedicated to my parents, Mr and Mrs Kihara, and to my siblings: Medy, Kinuthia and Henry, without whose caring support it would not have been possible to complete the project.
ABSTRACT

This study investigates abnormalities in the changes of the price of the shares during the dividend announcement periods relative to the non event periods. The paper seeks to establish whether dividends play an important role in conveying information on the level of earnings management by companies; that the firm will have available cash flows to be able to release these cash flows to the shareholders in terms of dividends.

The study seeks to establish that the return on investment for the shareholders will not only increase due to the current dividend payout and the increase in price after the particular announcement but also the likely future dividend payouts and consequently, increase in prices on these dividend paying firms.

The findings indicate that there is no strong evidence that stock price reacts significantly on the announcement of dividend. Consequently the announcements of dividends do not carry any new information to the market. In addition, the study established that there is a positive correlation between the cash flows and earnings and can be explained that whenever a company has cash, then it is in a position to pay out dividends. This agrees with the signalling theory where management can use costly dividend to signal expected cash flows.
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