THE EFFECT OF DIVIDEND POLICY ON MARKET CAPITALIZATION FOR FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE

BY

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NOVEMBER, 2014
DECLARATION

This research project is my original work and has not been submitted for examination to any other university.

Signed_________________ Date ______________

KARANJA NAHASHON WAIGANJO

Reg No: D61/79618/2012

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

Signed_________________ Date ______________

DR. JOSIAH ADUDA

DEAN, SCHOOL OF BUSINESS
DEDICATION

This research project is dedicated to the following most important people in my life.

To my Dad Francis Karanja Waiganjo and my Mum Ann Muthoni Karanja who taught me at a tender age, the virtue of hard work and shaped me to be whom I am today. They made me believe in my potential and helped me understand that I can do anything that I purpose to achieve through hard work, determination and belief in the almighty God.

To my brothers Patrick and Joseph, and my sister Tabitha who gave me a lot of encouragement and emotional support.

To my Children Francis Karanja and Claire Muthoni, you mean the world to me.
ACKNOWLEDGEMENT

I wish to express my humble gratitude to God for His abundance grace and for good health throughout my studies and for bringing me this far.

I thank the Lecturers and Support staff in the School Of Business for their tireless and continuous efforts to impart knowledge and skills and especially the department of Finance and Accounting. May God always bless the work of your hands.

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<th>Abbreviation</th>
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<tr>
<td>CDS</td>
<td>Central Depository System</td>
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<td>CDSC</td>
<td>Central Depository Systems Corporation</td>
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<td>CMA</td>
<td>Capital Market Authority</td>
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<td>DIV</td>
<td>Dividend</td>
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<td>DPS</td>
<td>Dividend per share</td>
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<td>FISMS</td>
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<td>IPO</td>
<td>Initial public offer</td>
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<td>MM</td>
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<td>USA</td>
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<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
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<td>NSE</td>
<td>Nairobi Securities Exchange</td>
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<td>POR</td>
<td>Payout ratio</td>
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Dividends are payments to stockholders from firm’s earnings. Dividend policy is the determination of which portion of cash earnings should be retained in the firm for reinvestment and which funds are paid out to investors from either current or accumulated retained earnings. Market capitalization is an estimation of the value of a business that is obtained by multiplying the number of shares outstanding by the current price of a share. The study sought to establish the effect of dividend policy on market capitalization in firms listed in the NSE. This research was conducted through a descriptive survey design. The descriptive survey design was considered appropriate as it enables description of the characteristics of certain groups, estimation of the proportion of people who have certain characteristics and making of predictions. This study collected quantitative data. Secondary data was used in this study. The secondary data sources were obtained from, financial and annual statements of the listed firms over a period of 5 years (2009-2013) and publications were also used. The data was collected based on the information about the variables. Quantitative data was analyzed by descriptive analysis, while qualitative data through content analysis. The study may provide information to policy makers, scholars and academicians and investors on effect of dividend policy on market capitalization in listed firms in the NSE. From the findings, the study concluded that the dividend policy, return on assets and interest rates significantly affected the market capitalization of listed firms. The most significant factor that affected the market capitalization of the listed firms was return on assets followed by dividend policy and interest rate respectively. The study recommends that the management of the listed firms’ should regularly conduct market research to identify emerging future viable investment opportunities that the firms may exploit to achieve growth in their market value hence enhancing their firm’s market capitalization. Further, the management of the listed firms should address or monitor the levels of debt financing utilized by their firms in order to ensure that it does not adversely affect their firm’s market capitalization. The management of the listed firms also should conduct a research on the different dividend policies to identify the one that helps to maximize their firms’ market capitalization.
CHAPTER ONE

INTRODUCTION

1.1 Background of the study

This study sought to determine the effects of dividend policy on the market capitalization of firms listed in the Nairobi Stock Exchange. Dividends according to (Horne, 1997), are payments to stockholders from a firms earnings, According to Knott (2004), they are payments made by a corporation to an equity investor. Moyer, McGuigan & Kretlow (1992) says that dividend is cash payments made to stockholders by the corporation. He further asserted that dividend can be paid either in cash or through bonus issue. A cash dividend involves payments of dividends in monetary form while bonus issue is the distribution of free ordinary share to the existing shareholders in proportion to their current ownership (Horne, 1997). The mode in which dividends are paid depends on the liquidity position of the company and the company’s financial requirements. Bonus issue is used when the company is in liquidity problems (Pandey, 2005).

The amount of dividend paid to the investors depends on the company’s dividend policy (Pandey, 2005). Dividend policy is the determination of which portion of cash earnings should be retained in the firm for reinvestment and which funds are paid out to investors from either current or accumulated retained earnings (Kania & Bacon, 2005). Gitman (1998) says that dividend policy involves the firm’s decision to pay out earnings or retain them for reinvestment purposes. It is an integral part of a firm’s financial decision as the payout ratio determines the amount to be retained in the firm
as a source of internal financing. The dividend policy involves the determination of the appropriate allocation of profit between dividend payments and additions to the firm’s retention (ibid).

Normally investors require a return on their investment. In the recent periods several investors have discovered the variability of investing in the stock exchange in order to earn dividend or capital gains. This has resulted in firms seeking to be listed in the Nairobi Stock Exchange (NSE) so as to raise funds for investment purposes from the general public (Nation Newspaper 11th January 2007).

1.1.1 Dividend Policies

There is controversy as to whether firms should pay dividends or retain earning for investment purposes. The central issue is whether paying larger rather than smaller dividends has a positive, negative or neutral effect on a firm’s stock price. According to Horne (1997), once a company makes a profit, the directors must decide on what to do with those profits. They could continue to retain the profits within the company or they could pay out the profits to the shareholders in the form of dividend. This is often referred to as the “dividend puzzle” (Horne, 1997).

Once the company decides on whether to pay dividends, they may establish a somewhat permanent dividend policy, which may in turn impact on investors and perception of the company in the financial markets. What the managers decide depends on the financial situation of the company now and in the future. It also depends on preferences of investors and potential investors’ as well as their attitude towards risk (Baker, Theodore & Gay, 1990). Risk averse investors may prefer to be
paid dividend now instead of waiting for future capital gain while risk takers may prefer future capital gains instead of small dividend now. The increase in market price per share from the original purchase price result to capital gains (Allen, 2000).

Managers therefore must make decisions on whether to pay or not to pay dividends, since this is one of the functions of managers in trying to maximize the shareholders wealth. The management maximizing the wealth of the shareholders can solve the agency problem (conflict of interest) between the shareholders and the management. This can be achieved by determining what the shareholders prefer for example do they prefer capital gain or dividend income (Baker, 2003).

1.1.2 Market capitalization

In addition to diversifying among asset classes, investors may also want to balance the securities in their portfolios according to company size, or market capitalization. While a company's size can be measured in terms of its sales, investors also need to assess its size in terms of market value. Market capitalization, or "market cap," refers to the total value of all of a company's shares of stock. It is calculated by multiplying the price of a stock by its total number of outstanding shares (Barberis, 2003).

Market cap measures not only what a company is worth on the open market, but also the market's perception of its future prospects because it reflects what investors are willing to pay for its stock. All companies are categorized according to their market capitalization as small cap, mid cap, or large cap. Investors need to take these categories into account because companies with different market caps have distinct risk/return characteristics and tend to perform differently depending on market
conditions. However, there are no strict rules defining these categories - and the ceilings for each has, historically, gone up (Capstaff et al., 2004).

Small cap companies usually have a market cap of between $150 million to $500 million, although many investors stretch that definition to include companies with a market cap of as high as $1 billion. Small cap companies are also relatively risky but have experienced rapid growth. Mid cap companies can have market caps ranging anywhere from $500 million to $5 billion (Chhachhi, 2008). These companies tend to have achieved a degree of stability while still experiencing growth on their way to large capitalization. Finally, large cap companies have market caps of $5 billion or more. This category includes the big blue chip companies that are household names to most investors. Although investors in stocks in any market capitalization category incur risk, surprises have traditionally been less likely among these blue chip companies (Chandra, 2007).

While the categories of market capitalization are fluid and changing, most investors would agree that market cap is the most important determinant of a company's size because it reflects market value, and therefore, expectations about a company's future. Companies with tremendous growth potential but relatively small sales numbers may have high market caps as investors bid up the stock price. Understanding and assessing the market capitalization of companies is crucial to making smart investment choices. Because companies with different market caps tend to perform differently over different time periods, diversifying among companies with various market caps can reduce risk and volatility in a portfolio and maximize investment returns over the long haul (DeAngelo et al., 2006).
1.1.3 Dividend policy and Market capitalization

Market capitalization refers to an estimation of the value of a business that is obtained by multiplying the number of shares outstanding by the current price of a share. It is the total dollar market value of all of a company's outstanding shares. Market capitalization is calculated by multiplying a company's shares outstanding by the current market price of one share. The investment community uses this figure to determine a company's size, as opposed to sales or total asset figures (Baker, 2001).

The results show that firm size, growth opportunities, block-holders, and institutional investors positively impact the debt ratio, while liquidity, profitability, and the dividend payout ratio are negatively related. These results suggest the debt ratio of Jordanian firms is significantly affected by the probability of bankruptcy (indicators of healthy firms are large size and high market value), which supports trade off theory. The results show that Jordanian banks are conservative in their lending policy, preferring to provide loans to large firms, while small firms use the equity market or internal funds, as suggested by pecking order theory (Capstaff, 2004). The probability the firm will pay dividends is positively affected by profitability, market to book value, institutional investors, retained earnings/total equity ratio, while it is negatively affected by earnings volatility and block holders. The positive impact of profitability and firms with growth opportunities supports the findings from the previous chapter that healthy firms enjoy better access to relatively low-cost credit. The results also support the life cycle theory, where retained earnings positively impact the payment of dividends, so mature firms are more likely to pay dividends (Bhattacharya, 2009).
The impact of ownership structure on dividend policy shows that block holders prefer firms that do not pay dividends. This supports the agency cost theory, where closely monitored firms use internal cash flow rather than external funds. In addition, block holders may consider their ownership as a long term investment, and reinvest dividends in new projects. In contrast, institutional investors prefer to receive dividends, which is consistent with the view that they regard dividends as indicators of firms’ financial strength. Institutional investors act as short term investors rather than owners of the company, and consequently are looking for current income rather than future earnings. Finally the results show that firms do not have a target dividend ratio. The results also show that the same factors affect the amount of dividends that firms pay (Chhachhi, 2008).

1.1.4 Nairobi Securities/Stock Exchange (NSE)

The stock exchange is a market that deals in the exchanges of securities issued by publicly quoted companies, corporate bodies and the government. According to Knott (2004), a stock market is said to be efficient if it has the following characteristics: information once received is quickly incorporated in the security prices; the transaction cost such as the commissions paid to brokers should be minimal so that it does not discourage investor from buying and selling the securities, there is continuous trading of securities; and there should be no insider trading. The Kenya capital market is divided into four independent market segments; the Main Investment Market Segment (MIMS), the Alternative Investments Market Segment (AIMS), Fixed Income Securities Market segment (FISMS), and at a later stage Futures and Option market Segment (FOMS) (Knott 2004).
The MIMS is the main quotation market with stringent listing requirement they are Companies currently listed at the NSE, which satisfy the requirement. They include: Agricultural e.g. Kakuzi Ltd ,Commercial and services e.g. Kenya Airways Ltd, Finance and Investment e.g. Barclays Bank Ltd and Industrial and allied e.g. Bamburi Cement Ltd etc. AIMS were necessitated by the need to provide access to the capital market to younger innovative companies with a high growth potential. Companies in AIMS include Standard Newspaper group, City Trust Ltd etc (Karanja, 1987). FISMS provides a separate independent market for fixed income securities such as debenture stocks, preference shares, treasury bonds and corporate bonds. Companies in the FISMS that offer preference shares include: Kenya Power and Lighting Company Ltd. FOMS will provide a mechanism to market participants to hedge against the risk associated with market volatility (Njiru, 2003).

The Central Depository System (CDS) was introduced in the NSE in November 2004. CDS automated the delivery and settlement of securities. This system replaced the share certificate as proof of ownership. The CDS account is where all documents owned by an investor are deposited (Ibid). Automated Trading System is a system that electronically matches buyers with sellers. The CDS and ATS were introduced in the NSE, thus removing the human elements in the market of buyers and sellers. When an investor gives an order to “sell” or “buy” to a broker, the broker just needs to enter it into the system and will automatically be executed. The ATS creates an environment of efficiency and transparency because it has complete audit rate and has alert functions capable of detecting any kind of price manipulations. The impact of the new trading system is evident. According to NSE officials, the volume of trade has
increased nearly ten times and the number of transactions is in the rise (Kania, and Bacon, 2005).

1.2 Problem Statement

Dividends, together with capital gain, is a reward to investors holding shares of a company. It is a fraction of a firm’s profit that is paid to shareholders proportionally to the shares they own. Retained earnings are diminished by the payment of dividends. This may affect a firm’s ability to reinvest, thus negatively impacting future growth prospects. Consequently, potential capital gain is reduced by dividends income. The simultaneous payment of dividends and issuance of equity generate transaction costs that will likely deteriorate the global firm’s value. Additionally, income from dividends is immediately taxed in most countries while capital gain taxation can be delayed. This tax difference between dividends and capital gains will vary from jurisdiction to jurisdiction, but in general capital gains have a clear tax advantage (Mancinelli and Ozkan, 2006).

According to catering theory, proposed by Baker and Powel (2001), the manager’s decision to pay dividends is motivated by the market need for dividend-paying stocks. They employ dividend premium as a proxy to capture investors’ desire for dividends. In this context, dividend premium can be understood as the difference between the average market-to-book ratio of dividend payers and non-payers.

There are studies that have been done in Kenya on dividend practices and the determinants of dividend policies (Njiru, 2003; Tirinongo, 2004; and Ocholla, 2005). Karanja (1987) and Tirinongo, (2004) studied the dividend practices of publicly
quoted companies in Kenya and established that the main determinants were profitability, profit levels, size, taxation, dividend premiums and capital structure. According to Ocholla, (2005) and Njiru (2003) found that growth opportunity, capital structure and agency cost were the main determinants of dividend payments. None of the studies researched on the effect of dividend policy on market capitalization. Thus, this study sought to find out what is effect of dividend policy on market capitalization in firms listed in the Nairobi Securities Exchange?

1.3 Objectives of the study

The objective of the study was to investigate the effect of dividend policy on market capitalization for firms listed in the Nairobi Securities Exchange.

1.4 Value of the Study

This study is important to the shareholders of the companies, for the study makes it plain to them what drive the companies into paying dividends. This would enlighten the shareholders view and make them understand why at times they can’t receive dividend and when they receive high dividends.

The research would also be valuable to the management of companies, for the study highlights on why dividends should be paid, the determinants behind it and their effect on the market capitalization in firms. As so the management would know when to pay and when not to.
The study would be of importance to the academicians for the study would form a good base upon which further research would be based and empirical and secondary materials got.

Government agencies and policy makers would also use the results to formulate positive national policies on a framework that is relevant and sensitive to the effect of dividend policy on market capitalization in firms listed in the Nairobi Securities Exchange.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents review of theoretical and empirical review on literature on dividend policy and its implication on market capitalization.

2.2 Review of theories

The study was based on the residual theory of dividend policy, dividend irrelevancy theory and the bird-in-the-hand theory.

2.2.1 Residual Theory of dividend policy

The essence of the residual theory of dividend policy 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. Retained earnings are the most important source for financing for most companies. A residual approach to the dividend policy, as the first claim on retained earnings will be the financing of the investment projects. With the residual dividend policy, the primary focus of the firm’s management is indeed on investment, not dividends. Dividend policy becomes irrelevant, it is treated as a passive rather than an active, decision variables (Chandra, 2007).

The view of management in this case is that the value of firm and the wealth of its shareholders would be maximized by investing the earnings in the appropriate
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 would only be paid when retained earnings exceed the funds required to finance the suitable investment projects. Conversely when the total investment funds required exceed retained earnings, no dividend will be paid.

The motives for a residual policy, or high retentions, dividend policy commonly include: a high retention policy reduces the need to raise fresh capital, (debt or equity), thus saving on associated issues and floatation costs. A fresh equity issue may dilute existing ownership control. This may be avoided, if retentions are consistently high. A high retention policy may enable a company to finance a more rapid and higher rate of growth.

When the effective rate of tax on dividend income is higher than the tax on capital gains, some shareholders, because of their personal tax positions, may prefer a high retention/low payout policy.

2.2.2 Dividend Irrelevancy Theory

Dividend irrelevancy theory asserts that a firm’s dividend policy has no effect on its market value or its cost of capital. The theory of dividend irrelevancy was perhaps most elegantly argued by its chief proponents, Modigliani and Miller (usually referred to as M&M) in their seminar paper in 1961. They argued that dividend policy is a “passive residual” which is determined by a firm’s need for investment funds.
According to M&M’s irrelevancy theory, it therefore does not matter how a firm divides its earnings between dividend payments to shareholders and internal retentions. In the M&M view the dividend decision is one over which managers need not agonies, trying to find the optimal dividend policy, because an optimal dividend policy does not exist. M&M built their dividend irrelevancy theory on a range of key assumptions, similar to those on which they based their theory of capital structure irrelevancy. For example they assumed:

Perfect Capital markets, that is there are no taxes, (corporate or personal), no transaction costs on securities, investors are rational, information is symmetrical – all investors have access to the same information and share the same expectations about the firm’s future as its managers. The firm’s investment policy is fixed and is independent of its dividend policy.

2.2.3 The Bird-In-The-Hand Theory

The essence of the bird-in-the-hand theory of dividend policy (advanced by John Litner in 1962 and Myron Gordon in 1963) is that shareholders are risk-averse and prefer to receive dividend payments rather than future capital gains. Shareholders consider dividend payments to be more certain that future capital gains – thus a “bird in the hand is worth more than two in the bush”. Gorden contended that the payment of current dividends “resolves investor uncertainty”. Investors have a preference for a certain level of income now rather that the prospect of a higher, but less certain, income at some time in the future. The key implication, as argued by Litner and Gordon, is that because of the less risky nature dividends, shareholders and investors
will discount the firm’s dividend stream at a lower rate of return, “r”, thus increasing
the value of the firm’s share. According to the constant growth dividend valuation (or
Gordon’s growth) model, the value of an ordinary share, SV0 is given by:

\[ SV0 = \frac{D1}{r-g} \]

Where the constant dividend growth rate is denoted by g, r is the investor’s required
rate of return, and D1, represents the next dividend payments. Thus the lower r is in
relation to the value of the dividend payment D1, the greater the share’s value. In the
investor’s view, according to Linter and Gordon, r, the return from the dividend, is
less risky than the future growth rate g.

M&M argued against this and referred to it as the bird-in-the-hand fallacy. In their
irrelevancy model, M&M assume that the required rate of return or cost of capital, r,
is independent of dividend policy. They maintain that a firm’s risk (which influences
the investor’s required rate of return, r) is a function of its investment and financing
decisions, not its dividend policy. M&M contend that investors are indifferent
between dividends and capital gains – that is, they are indifferent between r and g is
the dividend valuation model. The reason for this indifference, according to M&M, is
that shareholders simply reinvest their dividends in share of the same or similar risk
companies.
2.3 Determinants of firm market capitalization

Market capitalization, or "market cap," refers to the total value of all of a company's shares of stock. It is calculated by multiplying the price of a stock by its total number of outstanding shares (Baker et al, 2001).

Market cap measures not only what a company is worth on the open market, but also the market's perception of its future prospects because it reflects what investors are willing to pay for its stock. All companies are categorized according to their market capitalization as small cap, mid cap, or large cap. Investors need to take these categories into account because companies with different market caps have distinct risk/return characteristics and tend to perform differently depending on market conditions. However, there are no strict rules defining these categories - and the ceilings for each has, historically, gone up (Bhattacharya, 2009).

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2.4 Review of Empirical Studies

Karathanassis and Chrysanthopoulou (2005), conducted a study based on the Athens stock exchange, established that a strong presence of institutional portfolios and the high degree of concentration of managerial ownership has a statistically significant and inverse relationship with the dividend change between the two most recent time periods.

Chen et al. (2005) however find that there is a significant negative relationship between dividend payouts and family ownership (of up to 10%) and a positive relationship between family ownership (of 10 -35%) and dividend policy for small firms. They further conclude that the composition of the board of directors has little
impact on firm performance and dividend policy, particularly for small market capitalization firms.

Renneboog & Trajanowski (2005) examined the payout policy of UK firms listed on the London Stock Exchange during the 1990s and found a strong relationship between the presence of block holders and the choice of the payout channel. They conclude that firms with concentrated ownership tend to opt for dividends rather than share repurchases, irrespective of the identity of the controlling shareholder.

Most empirical analyses find evidence that points to a positive relationship between dividend announcements and stock-price movements: increasing (decreasing) dividends cause stock prices to move in the same direction. Frankfurter and Wood (2006) provide a detailed overview of these empirical studies. For the German stock market, earlier contribution on dividend announcement effects by Amihud and Murgia were published in 1997. Their results are mostly in line with those from other markets; however, neither study pays any attention to the effects of dividend announcements on trading volume or return volatility. This is probably due to the present absence of a consistent theory with respect to trading volume.

Karpoff (2007) stresses that the increase in trading volume caused by public announcements may either be a consequence of different interpretations of the news by investors, or market participants’ interpretations are identical, but they start from diverse prior beliefs. Kim and Verrechia (2009) assume that investors are diversely informed and typically differ in terms of the precision of their private prior information. Consequently, their responses to the announced news differ and this
leads to an increase in trading volume. Abnormal trading volume, in conjunction with price reactions, may also be caused by noise-traders who revise their portfolios on the basis of recent price changes rather than new information.

Thiga (2003) did a study on the relationship between dividend changes and subsequent period earning changes of Saccos in Kenya. The study concluded that there is a positive relationship between dividend changes and subsequent period earnings change in the dividend payment year and previous years but only a significant though modest relationship between dividend change and subsequent year’s earnings. The study also concludes that managers only incorporate their expectation of earnings in relatively shorter time when changing dividend payment.

Waithaka et al., (2012) examined Effects of dividend policy on share prices: A case of companies in Nairobi Securities Exchange. The study concluded that higher pre-tax risk adjusted returns associated with higher dividend yield stocks to compensate investors for the tax disadvantages of returns affected tax incentives and that investors whose portfolios had low systematic risk preferred high-pay-out stocks. The study further concludes that free cash flow caused conflict between management and shareholders which in turn affected the share price and that the executive option plan persuaded management to reduce corporate dividends by an amount that was equal to the option plan.

Ogutu (2012), conducted a study on the relationship between firm’s value obtained using modigliani and miller, dividend valuation, earnings valuation and that given by market capitalization model. The findings were that the market capitalization values
were compared with the Modigliani & Miller values and regressed to bring out any relationship if there and it resulted in an r2 of 0.074 within a confidence level of 97%. The market capitalization when compared with Earnings valuation model resulted in r2 of 0.081 and when compared with the dividend valuation model it resulted into r2 of 0.115 being better than the other two models. Its therefore concluded that the test of significance carried out to determine whether there was significant relationship between market capitalization model and the other three valuation models, with the P-values of 0.657 for Modigliani & Miller show that the difference was significant hence not a good indicator of Market Capitalization Model. Dividend Valuation Model had P-value of 0.643 showing that it is not a good indicator of Market Capitalization Model, and Earnings Valuation Model too had a P-value of 0.576 showing the difference were significant hence not a good indicator of Market Capitalization Model.

Aroni et al (2014) studied the influence of dividend payout on investment in shares a survey of retail investors in Kenya. The results revealed that dividend payout had a significant influence on decisions to invest in shares with p-value .000 (p<0.05). In view of the findings, the researchers recommend that policy makers steadfast to enhance securities market activity should purposely structure strategies aimed to increase profitability and consequently guarantee dividend payout to bolster investor confidence. This will support to stimulate development of the financial markets to mobilize long term capital for economic development. The study findings are incongruent to MM the dividend irrelevance theory.
2.5 Conclusion

While many studies have been done on dividend policies very few have sought to establish how they affect market capitalization of listed companies (Ongiri, 2002, Pradhan, 2003 and Chawla, Deepak and Srinivasan, 1987). However, many of the study only concentrated on the effect of dividend announcement on market share prices with very few concentrating dividend policies adopted by the companies. Fama, Fisher, Jensen and Roll (1969) were the first to study the effect of dividend news/announcement and events by using event methodology to analyze the effect of news and events occurring in the company during the year and found strong relationship both for positive and negative news and events on stock prices. This study acknowledged the existing knowledge gap on the effect of dividend policies on market capitalization of listed companies.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter is a blueprint of the methodology that was used by the researcher in conducting the study. In this chapter the research methodology has been presented in the following order; research design, population, samples, data collection and finally the data analysis.

3.2 Research Design

This study adopted a descriptive survey design which according to Churchill (1991) is appropriate where the study seeks to describe the characteristics of certain groups, estimate the proportion of people who have certain characteristics and make predictions. The primary purpose of the study was to determine the effect of dividend policy on market capitalization in firms listed in the Nairobi Securities Exchange.

3.3 Population

The study population was sixty firms that had been listed consistently from 2009 to 2013. All the 60 companies listed in the NSE constituted the target population of this study. The accessible population was all the firms listed in the NSE as at 31st December 2013 and had operated an uninterrupted period of not less than five years (that is, from January 1st 2009 to 31st December 2013).
3.4 Sample

The sample design of this study was mainly based on Kothari’s (2004) hypotheses. According to Kothari (2004) a sample of 30% of the target population is usually representative and generalizable. Therefore, the sample size for the study was 18 firms. The study area was stratified into four sampling sectors namely: agricultural sector, commercial and services sector, finance and investment sector and industrial and allied sector. Therefore, the study used stratified random sampling technique to obtain a sample size of 18 firms from the accessible population of 60 firms. The study then used simple random sampling technique across strata. According to Mugenda and Mugenda (2003), stratified sampling technique is useful for heterogeneous samples such as firms listed at NSE that will be grouped into sectors while random sampling technique accords each element in a sample an equal probability of being sampled hence eliminating representative biasness.

3.5 Data collection

The study used secondary data. The secondary data was collected to investigate the policies used by the target population, factors considered by the target population when paying dividends to their shareholders and whether the dividend policies used by the firms affected their market capitalization. Secondary data was obtained on dividend policies in place together with the share values of each firm selected. While share prices were directly available at NSE, dividend policies were quantified by the dividend payout ratios of the firms.
3.6 Data analysis

From the secondary data sources, the dividend policies were summarized for each firm in table form to facilitate data analysis. In line with the objective, the study used multiple linear regression model. The multiple linear regression model sought at establishing the relationship between dividend policy and the market capitalization.

The linear regression model was: \( MPS = \beta_0 + \beta_1 \text{DPR} + \beta_2 \text{ROA} + \beta_3 \text{IR} + e \), Where,

\( MPS = \text{market capitalization} = \text{stock price} \times \text{total number of shares outstanding} \)

\( \text{DPR} = \text{dividend policy} = \text{dividend payout ratio} \)

\( \text{ROA} = \text{return on assets} = \frac{\text{Net income}}{\text{Average total assets}} \)

\( \text{IR} = \text{interest rate} = \left( \frac{A}{P} \right)^{1/t} - 1 \)

\( \beta_0 = \text{constant or intercept}, \beta_1 = \text{the regression coefficients} \)

\( e = \text{error term of the model (significance level of the model)} \).

Divided policy was measured by using dividend payout ratio. The study also used chi test to test the significance between dividend policy and market capitalization. The test was done at 5\% level of significance and 95\% level of confidence.
CHAPTER FOUR

DATA ANALYSIS, INTERPRETATION AND PRESENTATION

4.1 Introduction

This chapter presents data analysis and interpretation. The objective of the study was to determine the effect of dividend policy on market capitalization for firms listed at the Nairobi Securities Exchange. Data was collected from 18 firms that had been listed consistently in NSE from 2009 to 2013. The data sources included financial statements, annual statements for a period of 5 years (2009-2013) as well as other publications. Data was collected based on the variables of the study, that is, market price per share (MPS) depicted by dividend policy, interest rate and return on assets.

4.2 Descriptive Statistics

4.2.1 Market capitalization

According to Barberis (2003), market capitalization is the total value of all of a company's shares of stock given by multiplying the price of a stock by its total number of outstanding shares. The findings on the market capitalization for the 18 listed firms under study are as presented in the figure 4.1 below.
The findings as shown in Figure 4.1 above show the trend of market capitalization values over a period of 5 years. The lowest value for MPS was a mean of 2.34 million in year 2009 while the highest was a mean of 4.58 in year 2013. On the other hand, high scores of standard deviation indicate variation in market capitalization for the various listed firms statistically. Nonetheless a steady rise in market capitalization values over the 5 year period indicates that the listed firms’ market capitalization has been on the increase over the last 5 years.

### 4.2.2 Dividend Policy

According to Horne (1997), the central issue is whether paying larger rather than smaller dividends has a positive, negative or neutral effect on a firm’s stock price.
The dividend policy of a firm stipulates the portion of the firm’s retained earnings to be paid out to the firm’s equity holders. The findings on the dividend payout ratios are as presented in the figure 4.2 below.

**Figure 4.2: Dividend Policy**

![Dividend Policy Chart]

From the findings, the means for the dividend payout ratio for the listed firms as extracted from the financial and annual statements of the listed firms reflect an upward increase over the 5 year period, with the lowest being a mean of 2.52 in year 2009 while the highest being a mean of 3.45 in year 2013. In addition, the standard deviation depict a variation in the dividends paid out by the different listed firms in NSE. The steady increase in dividend payout ratio values over the 5 year period indicates that the listed firms’ adopted an enhanced dividend policy over that period.
4.2.3 Return on Assets

Retained earnings are diminished by the payment of dividends. This may affect a firm’s ability to reinvest, thus negatively impacting future growth prospects. Bhattacharya (2009) noted that the positive impact of profitability and firms with growth opportunities supports the findings that healthy firms enjoy better access to relatively low-cost credit. The study analyzed the return on assets of the listed firms for a period between 2009 and 2013. The findings are as shown in figure 4.3 below.

**Figure 4.3: Return on Assets**

![Pie chart showing return on assets for 2009 to 2013]

Figure 4.3 above indicates that the listed firms witnessed increased market capitalization based on the return on asset. The ROA increased from 1.59 in year 2009 to 3.87 in year 2013. This was a 2.28 change (increase) in ROA.

This shows that the firm’s return on assets significantly enhanced market capitalization.
4.2.4 Interest rate

Financial theory states that movements in interest rates affect both the firm’s expectations about future corporate cash flows and the discount rate employed to value these cash flows and hence, the value of the firm. The study analyzed the interest rate levels of the listed firms for a period between 2009 and 2013 and the findings are as shown in Table 4.1 below.

### Table 4.1: Interest rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Interest rates</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Std. Dev.</td>
</tr>
<tr>
<td>2009</td>
<td>3.04</td>
<td>0.513</td>
</tr>
<tr>
<td>2010</td>
<td>4.71</td>
<td>0.142</td>
</tr>
<tr>
<td>2011</td>
<td>5.72</td>
<td>0.497</td>
</tr>
<tr>
<td>2012</td>
<td>7.21</td>
<td>0.685</td>
</tr>
<tr>
<td>2013</td>
<td>8.72</td>
<td>0.315</td>
</tr>
</tbody>
</table>

From the findings, the means for the interest rates for the listed firms as extracted from the financial and annual statements of the listed firms reflect an upward increase over the 5 year period, with the lowest being a mean of 3.04 in year 2009 while the highest being a mean of 8.72 in year 2013. In addition, the standard deviation depict a variation in the interest rates incurred by the different listed firms in NSE. The huge
increase in interest rate values over the 5 year period indicates that the listed firms’ utilized debt financing to a great extent which in turn lead to increased interest rate expense reducing amounts available for dividend payment and thereby affecting the firm’s market capitalization.

4.3 Inferential statistics

In determining the effect of dividend policy on market capitalization for firms listed at the NSE, the study conducted a multiple regression analysis to determine the nature of relationship between the variables. The regression model specification was as follows;

\[ Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon. \]

Where; \( Y \) = market capitalization

\( X_1 \) = dividend policy, \( X_2 \) = return on assets and \( X_3 \) = interest rate

\( \alpha \) = constant,

\( \epsilon \) = error term,

\( \beta \) = coefficient.

This section presents a discussion of the results of the multiple regression analysis. The study conducted a multiple regression analysis to determine the relative importance of each of the variables with respect to market capitalization of the listed firms at NSE. The study applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study. Findings are presented in the following tables;
Table 4.2 Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.896a</td>
<td>.8028</td>
<td>.788</td>
<td>0.0122</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), dividend policy, return on assets and interest rates

b. Dependent Variable: market capitalization

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (market capitalization) that is explained by all the three independent variables (dividend policy, return on assets and interest rates).

The three independent variables that were studied, explain 80.28% of variance in market capitalization as represented by the $R^2$. This therefore means that other factors not studied in this research contribute 19.72% of variance in the dependent variable. Therefore, further research should be conducted to investigate the other factors that affect market capitalization of listed firms.
Table 4.3 ANOVA (Analysis of Variance)

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>1.424</td>
<td>4</td>
<td>.202</td>
<td>10.36</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>5.375</td>
<td>14</td>
<td>.246</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>6.799</td>
<td>18</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), dividend policy, return on assets and interest rates

b. Dependent Variable: market capitalization

Analysis of Variance (ANOVA) consists of calculations that provide information about levels of variability within a regression model and form a basis for tests of significance. The "F" column provides a statistic for testing the hypothesis that all $\beta \neq 0$ against the null hypothesis that $\beta = 0$ (Weisberg, 2005). From the findings the significance value is .002 which is less than 0.05 thus the model is statistically significant in predicting how dividend policy, return on assets and interest rates affect market capitalization of listed firms. The F critical at 5% level of significance was 3.23. Since F calculated is greater than the F critical (value = 10.36), this shows that the overall model was significant.
Table 4.4 Multiple Regression Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td>B</td>
</tr>
<tr>
<td>(Constant)</td>
<td>3.474</td>
<td>.826</td>
<td>3.61</td>
<td>.002</td>
</tr>
<tr>
<td>Dividend policy</td>
<td>0.721</td>
<td>.0312</td>
<td>0.218</td>
<td>1.81</td>
</tr>
<tr>
<td>Return on assets</td>
<td>0.835</td>
<td>.864</td>
<td>0.359</td>
<td>8.41</td>
</tr>
<tr>
<td>Interest rates</td>
<td>0.661</td>
<td>.68</td>
<td>0.142</td>
<td>4.56</td>
</tr>
</tbody>
</table>

From the regression findings, the substitution of the equation

\( Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \)

becomes:

\[ Y = 3.474 + 0.721 X_1 + 0.835 X_2 + 0.661 X_3 + \varepsilon \]

Where \( Y \) is the dependent variable (market capitalization), \( X_1 \) is the dividend policy variable, \( X_2 \) is the return on assets variable, \( X_3 \) is the interest rate variable.

According to the equation, taking all factors (dividend policy, return on assets and interest rates) constant at zero, market capitalization will be 3.474. The data findings also show that a unit increase in dividend policy will lead to a 0.721 increase in market capitalization; a unit increase in return on assets will lead to a 0.835 increase...
in market capitalization while a unit increase in interest rates will lead to a 0.661 increase in market capitalization. This means that the most significant factor is return on assets followed by dividend policy. At 5% level of significance and 95% level of confidence, dividend policy had a 0.0014 level of significance; return on assets had a 0.0011 level of significance while interest rates had a 0.024 level of significance, implying that the most significant factor is return on assets followed by dividend policy and then interest rates.

4.4 Summary And Interpretation Of Findings

The objective of the study was to determine the effect of dividend policy on market capitalization for firms listed at the Nairobi Securities Exchange. The objective was assessed by use of secondary data and the subsequent analyses based on the variables of the study.

From the findings, market capitalization of the 18 listed firms under study increased over the 5 year period. The mean increase in the market capitalization from 2.34 in year 2009 to 4.58 in 2013 indicate a growth in the listed firms’ market value over that period. Thus, majority of the listed firms at NSE are mid cap companies experiencing relative stability and growth. These findings are consistent with previous studies done by Chhachhi (2008) who observed that mid cap companies can have market caps ranging anywhere from $500 million to $5 billion and these companies tend to have achieved a degree of stability while still experiencing growth on their way to large capitalization.
The study findings revealed that the listed firms’ averages for dividend payout ratio rose from 2.52 in year 2009 to 3.45 in year 2013. The steady increase in dividend payout ratio values over the 5 year period indicates that the listed firms’ adopted an enhanced dividend policy over that period. In addition, the standard deviation depict a variation in the dividends paid out by the different listed firms in NSE.

These findings are consistent with previous studies done by Horne (1997) who noted that what the managers decide to pay as dividends depend on the financial situation of the company now and in the future. Baker, Theodore & Gay (1990) observed that risk averse investors may prefer to be paid dividend now instead of waiting for future capital gain while risk takers may prefer future capital gains instead of small dividend now. The increase in market price per share from the original purchase price result to capital gains (Allen, 2000).

The findings on return on assets depicted a significant increase over the 5 year period. The average return on assets was 1.59 in year 2009 and rose to 3.87 in year 2013. This variation is also depicted by the standard deviation. This presents an opportunity for the listed firms to grow their market capitalization through investing in future viable investments. Thus, a firm’s return on assets significantly enhances its market capitalization. The findings are collaborated by Chandra (2007) who noted that the value of the firm and the wealth of its shareholders will be maximized by investing the earnings in the appropriate 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.
The findings on interest rates depicted a significant increase over the 5 year period. The average interest rate was 3.04 in 2009 and rose to 8.72 in 2013. The significant increase in interest rate values over the 5 year period indicates that the listed firms’ utilized debt financing to a great extent which in turn lead to increased interest rate expense reducing amounts available for dividend payment and thereby affecting the firm’s market capitalization. This variation is also depicted by the standard deviation. Thus for the listed firms to grow their market capitalization they would have to manage their debt levels effectively. Thus, a firm’s interest rate expense adversely influences its market capitalization. The findings are collaborated by Gitman (1998) who noted that the financial theory states that movements in interest rates affect both the firm’s expectations about future corporate cash flows and the discount rate employed to value these cash flows and hence, the value of the firm. Thus, managers of the listed firms must be conscious of the debt levels of their companies as high debt levels eat on a firm’s retained earnings reducing the amounts available for re-investment which in turn adversely affects a firm’s market capitalization.
CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The study established that market capitalization for the 18 listed firms at NSE steadily increased over the 5 year period from a mean of 2.34 in 2009 to a mean of 4.58 in 2013. Thus, the listed firms’ market capitalization increased over the 5 year period.

The study found that the dividend policy as represented by the dividend payout ratio for the listed firms increased over the 5 year period, from a mean of 2.52 in year 2009 to a mean of 3.45 in year 2013. Therefore, the listed firms’ adopted an enhanced dividend policy over that period. This could be as a result of increased earnings among the listed firms which indicate increased market value of the listed firms.

The study established that the listed firms witnessed increased market capitalization based on the return on asset. The ROA changed from 1.59 in year 2009 to 3.87 in year 2013. Therefore, an increase in the return on assets of the listed firms enhanced their market capitalization.

The study found that there was a significant increase in the interest rates of the listed firms at NSE as reflected by the increase in mean values from 3.04 in year 2009 to 8.72 in year 2013. The significant increase in interest rate values over the 5 year period indicates that the listed firms’ utilized debt financing to a great extent which in turn lead to increased interest rate expense reducing amounts available for dividend payment and thereby affecting the firm’s market capitalization.
5.2 Conclusion

The study concludes that market capitalization of the 18 listed firms at the NSE increased over the 5 year period (mean=2.34 in 2009 to 4.58 in 2013). Therefore, the listed firm’s market value had increased over the 5 year period.

Based on the summary of the major findings the study concluded that the dividend policy of the listed firms influenced their market capitalization. Therefore, the dividend policy of a firm is an important factor in its market capitalization.

Given that the return on assets of the 18 listed firms significantly increased over the 5 year period, the study concludes that return on assets of the listed firms is a strong indicator of the firm’s market capitalization. Thus, increase in the return on assets enhances a firm’s market capitalization.

The study further concluded that the listed firms’ interest rates levels increased over the 5 year period. Therefore, the listed firms’ utilized debt financing to a great extent which in turn lead to increased interest rate expense reducing amounts available for dividend payment and thereby affecting the firm’s market capitalization.

From the multiple regression analysis, the study concludes that the most significant factor that enhanced the market capitalization of the listed firms at NSE was return on assets followed by dividend policy and interest rates, respectively.

5.3 Recommendations for Policy and Practice

From the regression analysis, the study established that interest rate was the least significant factor that affected market capitalization. Therefore the study recommends
that the management of the listed firms should address or monitor the levels of debt financing utilized by their firms in order to ensure that it does not adversely affect their firm’s market capitalization.

The study revealed that return on assets significantly enhanced the listed firms’ market capitalization. The study recommends that the management of the listed firms’ should regularly conduct market research to identify emerging future viable investment opportunities that the firms may exploit in order to achieve growth in their investment returns hence enhancing their firm’s market capitalization.

From the findings, the study revealed that the dividend policy adopted by the listed firms affected their market capitalization. The study therefore recommends that the management of the listed firms should conduct a research on the different dividend policies to identify the one that would help to maximize their firms’ market capitalization.

The study further recommends that the management of the listed firms should monitor the financial leverage position of their firms in order to ensure a sound financial status that would guarantee a stable dividend policy and hence an enhanced market capitalization.

5.4 Limitations of the Study

The scope of the study focused on firms listed at the NSE and hence the findings of this study may not be representative of other firms outside this scope. In addition, the study did not go into the lengths of classifying the sampled listed firms into small cap, mid cap and large cap firms owing to a lack of strict criteria for such a classification.
The study sampled 18 listed firms out of the 60 listed firms in the NSE. The study findings and conclusions are therefore based on the information from the 18 sampled listed firms which are taken to be representative of all the other listed firms. There is therefore the possibility that the findings and consequently the conclusions may vary where a census study on all the listed firms is conducted.

Time allocated for the study was insufficient while holding a full time job and studying part time. This was encountered during the collection of material as well as the data to ensure the study’s success. However the researcher tried to conduct the study within the time frame as specified.

Another limitation of the study was in developing a model which would enable the researcher to study the relationship between the dependent and independent variables. When developing this model, there was a great need to define the dependent variables and independent variables. If the model was not correct, the process of analysis may not have given the right results. In this case, multiple linear regression was used since there were multiple variables which required to be studied.

5.5 Suggestions for Further Research

Since this study explored the effect of dividend policy on market capitalization in firms listed in the Nairobi Securities Exchange, the study recommends that; similar study should be done in other securities exchange in Africa and beyond for comparison purposes and to allow for generalization of findings on the effect of dividend policy on market capitalization.
Since this study explored the effect of dividend policy on market capitalization in firms listed in the Nairobi Securities Exchange, the study recommends that; a study on the relationship between firm profitability and the firm’s dividend policy should be done and how this affects the future market value of the firm.

The study further recommends that studies should be done to identify and understand other factors that may influence the market capitalization of quoted firms. Of interest would be the effect of product and market diversification on a firm’s market capitalization. Therefore a study on the effects of product and market diversification on market capitalization in listed firms at NSE is recommended.

The study also recommends that studies should be done to investigate other factors that influence the dividend policy of a company and how this would affect the company’s market capitalization. Of interest would be the effect of ownership structure, age and size of the company on the company’s dividend policy and hence its market value.
REFERENCES


Ogutu Z. A. (2012), the relationship between firm’s value obtained using modigliani and miller, dividend valuation, earnings valuation and that given by market capitalization model. *Published MBA project UoN*


Appendix i: Letter of introduction

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

DATE: 28/07/2014

TO WHOM IT MAY CONCERN

The bearer of this letter

KARMAWA NATASHA W. M. K.

Registration No. 261/796/2012

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

UNIVERSITY OF NAIROBI
P.O. Box 30197, Nairobi, Kenya
Appendix ii: List of listed companies in NSE

AGRICULTURAL
1. Eaagads Ltd Ord 1.25
2. Kapchorua Tea Co. Ltd Ord Ord 5.00
3. Kakuzi Ord. 5.00
4. Limuru Tea Co. Ltd Ord 20.00
5. Rea Vipingo Plantations Ltd Ord 5.00
6. Sasini Ltd Ord 1.00
7. Williamson Tea Kenya Ltd Ord 5.00

COMMERCIAL AND SERVICES
8. Express Ltd Ord 5.00
9. Kenya Airways Ltd Ord 5.00
10. Nation Media Group Ord. 2.50
11. Standard Group Ltd Ord 5.00
12. TPS Eastern Africa (Serena) Ltd Ord 1.00
13. Scangroup Ltd Ord 1.00
14. Uchumi Supermarket Ltd Ord 5.00
15. Hutchings Biemer Ltd Ord 5.00
16. Longhorn Kenya Ltd

TELECOMMUNICATION AND TECHNOLOGY
17. AccessKenya Group Ltd Ord. 1.00
18. Safaricom Ltd Ord 0.05

AUTOMOBILES AND ACCESSORIES
19. Car and General (K) Ltd Ord 5.00
20. CMC Holdings Ltd Ord 0.50
21. Sameer Africa Ltd Ord 5.00
22. Marshalls (E.A.) Ltd Ord 5.00

BANKING
23. Barclays Bank Ltd Ord 2.00
24. CFC Stanbic Holdings Ltd ord.5.00
25. Diamond Trust Bank Kenya Ltd Ord 4.00
26. Housing Finance Co Ltd Ord 5.00
27. Kenya Commercial Bank Ltd Ord 1.00
28. National Bank of Kenya Ltd Ord 5.00
29. NIC Bank Ltd Ord 5.00

30. Standard Chartered Bank Ltd Ord 5.00
31. Equity Bank Ltd Ord 0.50

47
32. The Co-operative Bank of Kenya Ltd Ord 1.00

INSURANCE
33. Jubilee Holdings Ltd Ord 5.00
34. Pan Africa Insurance Holdings Ltd Ord 5.00
35. Kenya Re-Insurance Corporation Ltd Ord 2.50
36. CFC Insurance Holdings
37. British-American Investments Company (Kenya) Ltd Ord 0.10
38. CIC Insurance Group Ltd Ord 1.00

INVESTMENT
39. City Trust Ltd Ord 5.00
40. Olympia Capital Holdings Ltd Ord 5.00
41. Centum Investment Co Ltd Ord 0.50
42. Trans-Century Ltd

MANUFACTURING AND ALLIED
43. B.O.C Kenya Ltd Ord 5.00
44. British American Tobacco Kenya Ltd Ord 10.00
45. Carbacid Investments Ltd Ord 5.00
46. East African Breweries Ltd Ord 2.00
47. Mumias Sugar Co. Ltd Ord 2.00
48. Unga Group Ltd Ord 5.00
49. Eveready East Africa Ltd Ord 1.00
50. Kenya Orchards Ltd Ord 5.00
51. A.Baumann CO Ltd Ord 5.00

CONSTRUCTION AND ALLIED
52. Athi River Mining Ord 5.00
53. Bamburi Cement Ltd Ord 5.00
54. Crown Berger Ltd Ord 5.00
55. E.A.Cables Ltd Ord 0.50
56. E.A.Portland Cement Ltd Ord 5.00

ENERGY AND PETROLEUM
57. KenolKobil Ltd Ord 0.05
58. Total Kenya Ltd Ord 5.00
59. KenGen Ltd Ord. 2.50
60. Kenya Power & Lighting Co Ltd

Source: www.nse.co.ke