DECLARATION

This project is my original work and has not been presented in any other University for the award of any degree.

Signature.................................................. Date...........................................

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D53/CTY/PT/12086/2009

SUPERVISORS APPROVAL

The project has been submitted for consideration with my approval as the University supervisor.

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This work has been submitted for Consideration with my approval as the chairman.

Signature.................................................. Date...........................................

MR. F.W. NDEDE
Chairman: Department of Accounting and Finance
DEDICATION

This project is dedicated to my husband, Daniel Kurauka and our sons Bravia Munene and Prince Muriithi whose tireless efforts to support me and continual goodwill has enabled me to reach this far. May God bless you.
ACKNOWLEDGEMENT

First and foremost, my humble gratitude and appreciation to Almighty God, Most Gracious and Most Merciful, for enabling me to reach this far.

I am greatly indebted to my supervisors Mr. J.M Theuri and Mr. A. K Thuo who have made a significance contribution until the completion of this project and deserves special thanks for their kindness, patient, generosity and guidance when supervising my work. My thanks also to Dr. Abrose Jagongo lecturer Kenyatta University for his advices, criticisms, assistance and guidance in order to make this research project more meaningful.

Finally, I thank my entire family members for their Support and love throughout my academic work. I particularly want to say thank to my husband Daniel, sons Bravia and Prince, my father Charles, my mother Peninah and my sister Fridah your invaluable support is highly appreciated.
ABSTRACT

The objective of the study was to establish the relationship between ownership structures and dividend policy, with particular reference to oil companies in Nairobi Kenya, since most of these oil companies operate in Nairobi. The ownership structure within the oil marketing companies in Kenya varies from Private/Family, Public, State/Government, Managerial to Institutional ownership. The study of the relationship between ownership structures and dividend policy is important since it will enable decision makers to understand the basis of their decisions. Oil marketing companies were chosen due to the good availability of ownership information and also because oil is the major source of energy which is a major stimulant of a country's economic growth. The general objective of the study was to establish the relationship between ownership structures and dividend policy in oil marketing industry in Kenya. To meet this broad objective, the study derived data from secondary data of the companies’ audited financial statements and reports for 5 years (2006 to 2010). The study design that was adopted was descriptive research design. The target population of the study was all the 38 oil marketing companies in Nairobi registered by Petroleum Institute of East Africa as at December 2008. The study further used census to collect the information where by all the 38 oil companies were studied. The study employed quantitative data analysis techniques; univariate, descriptive statistics, chi square test respectively were done using SPSS software. Results of data analysis were interpreted in line with the research objectives and findings recommendations and conclusions reported. The findings of the study showed that state ownership, private ownership and public ownership were positively related with dividend policy, whereas the institutional and managerial ownership structures were found to be negatively related. The findings also provide partial evidence that the ownership structure does not influence dividend payout policy uniformly. The impact changes over the change in size of the holdings as well as their identity.
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OPERATIONAL DEFINITION OF TERMS

Dividend policy: Refers to making decision regarding paying stable, constant, residual or increased dividends to the shareholders of the company.

Ownership structure Defined by the distribution of equity with regard to votes and capital but also by the identity of the equity owners.

State/government ownership This is the ownership structure where the government is the main shareholder.

Public ownership are This is ownership structure where the shareholders are Individuals who are not related or not members of the same family

Private/Family Ownership This is ownership structure where the owners or shareholders are members of the same family

Shareholders Refers to owners of the company

State/Government Ownership This is the ownership structure where the Government is the main shareholder.
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CHAPTER ONE

1.0: INTRODUCTION

1.1: Background of the study

1.1.1: Dividend Policy

Dividend policy is concerned with making a decision regarding paying stable dividend in the present or paying an increased dividend at a later stage. The firm could also pay dividend in the form of stock dividends which unlike cash dividends do not provide liquidity to the investors; however, it ensures capital gains to the stockholders. The expectations of dividends by shareholders helps them determine the share value, therefore, dividend policy is a significant decision taken by the board of directors of any company. The board of directors suggests the dividends to shareholders at an annual meeting (Pike and Neale, 2009). The main aim is to suggest acceptance and secure a fair dividend for shareholders consistent with the rate of dividend decided by the company's management. Therefore, in preparing dividend distribution, managers not only look at the current year profit but also at expected future earnings and hence the ability of the company to maintain a stable rate of dividend, taking into consideration the systematic growth of this ratio. On their part, investors are aware of this truth, and they look for a profit increase in a positive vision expecting throughout a stability of future dividends. If a company achieves high profits for a particular year and do not expect the same level of profit in the following years, they will make a normal dividend and give an additional dividend so as not to disappoint the investors' hopes in the future. The profits are then divided into two dividends, a normal and an incremental dividend, to notify investors that this type of dividend is unexpected and would not continue in the future (De Angelo et al., 1996). There are several alternative for the profits dividend may be distributed. The company may distribute profits in the form of either
cash dividends or it may distribute profits in the form of shares dividends to shareholders. However, both forms may be distributed at the same time. Moreover, shareholders can also obtain profits when the company repurchases its shares, and considers the regular cash dividend as something quite common (Broyles, 2003). The percentage of the profits distributed by a company is governed by several considerations. In addition to the law which prohibits distribution of profits unless the company achieves a profit after deducting reserves, the contracts of the bonds, in cases where the company issues bonds, often prevents companies from increasing the proportion of cash dividend beyond a certain level in order to secure the rights of bondholders (Black and Cox, 1976). Thus, the general dividend policy may be seen as the basis of differentiating between cash dividends and shares dividend through the capitalization of profits, or through buying back the company’s shares. This is due to the fact that the investment policy is fixed. The company will thus detain profits in order to finance capital spending on growth and expansion or debt repayment, or extinguish the bonds if any, and distribute the remaining cash as a cash dividend, and also to finance any deficit in capital spending by issuing new shares or through outside borrowing. The company could detain the necessary funds to finance capital expenditure and buy back shares issued and distribute the remaining as a cash dividend.

1.1.2: Ownership Structure

The connection between ownership structure and dividend policy has been the subject of an important and ongoing debate in the corporate finance literature of late. Carter et al. (2003) argues that the ownership structure of a corporation should be thought of as an endogenous outcome of decisions that reflect the influence of shareholders and a trading on the market for shares. When owners of a privately held company decide to sell shares and shareholders of a
publicly held corporation agree to a new secondary distribution, they are, in effect, deciding to alter the ownership structure of their firms and, with high probability, to make that structure more diffuse. Subsequent trading of shares will reflect the desire of potential and existing owners to change their ownership stakes in the firm. The case of a corporate takeover who would be owners have a direct and dominating influence on the firm’s ownership structure. In these ways, a firm’s ownership structures reflect decisions made by those who own or who would own shares. The ownership structure that emerges, whether concentrated or diffuse, ought to be influenced by wealth maximization interests of shareholders, so that as a result, there should be no systematic relation between variations in ownership structure and variations in firm performance. Given the severity of the overinvestment problem, relationship between ownership structures and dividend policy may be conditioned on the existence of growth opportunities. This research examined how ownership structure relates with dividend policy in oil marketing companies in Kenya.

1.1.3: The Structure of Oil Marketing Companies in Kenya

Oil marketing companies in Kenya is one of most powerful industry in Kenya. Oil marketing companies are among the high profit making companies in Kenya in addition to generating high revenues to the country inform of taxes. They are under the institutional structure of petroleum industry comprising of the Ministry of Energy, the Energy Regulatory Commission (ERC), Kenya Pipeline Company (KPC), Kenya Petroleum Refineries Limited (KPRL) and Multinational Independent Oil Marketing Companies that include a State Oil Company, the National Oil Corporation of Kenya (NOCK). The Ministry of Energy provides the policy leadership, while ERC provides regulatory stewardship of the sub-sector. Ownership structure in
Kenya oil marketing companies varies from family/private, public to state ownership, with public and private ownership being the majority. Mwindi (2003), on oil industry in Kenya, states that major oil companies account for 75% control of the oil market in Kenya. This is further confirmed in the attached market share data whereby the top 6 oil companies controlled 74% of the total market share in 2011 while the remaining 15 companies only managed a mere 26% of the market share. See Appendix VI

1.2: Statement Of The Problem

According to Pike and Neale, 2009, and Carter et al. (2003), reviewed in background of this study, dividend policy has been viewed as an issue of interest in the financial literature and one of the most controversial topics in finance. Despite a large body of literature on dividends and payout policy, researchers are yet to reach a consensus on why firms pay dividends and what determines the payout ratio. The reviewed literature also provides that company’s dividend payout policy may depend among other things on its ownership and control structure. A study by Mat Nor and Sulong (2007) examined the relationship between ownership structure and dividends in Malaysia. The study looked at three types of ownership structures, namely ownership concentration, foreign ownership and managerial ownership. Their findings show a lower explanatory power (between 0.118 and 0.124). On the other hand, a study in UK by Short, Zhang and Keasey (2002) that examined the link between corporate dividend policy and the ownership of shares by institutional investors and managers, using four models of dividend policy, found a very high explanatory power (between 0.843 and 0.993). This study used a well-established dividend payout models to examine the potential association between ownership structures and dividend policy but only in the UK. In this study the researcher will use
government, private public managerial and institutional types of ownership structures in Kenya in order to determine whether the presence of the specific classes of investors in the ownership structure affect the process of determination of the level of the earnings that are being distributed. This study therefore investigated the relationship between ownership structure and dividend policy in the oil marketing companies in Kenya.

1.3: Study Objectives

1.3.1: General Objectives

To investigate the relationship between ownership structures and dividend policy in oil marketing industry in Kenya.

1.3.2: Specific Objectives.

The specific objectives of the study are:

i. To establish the relationship between government ownership and dividend policy among oil marketing companies in Kenya.

ii. To establish the relationship between private ownership and dividend policy among oil marketing companies in Kenya.

iii. To determine the relationship between public ownership and dividend policy among oil marketing companies in Kenya.

iv. To determine the relationship between managerial ownership and dividend policy among oil marketing companies in Kenya.

v. To establish the relationship between institutional ownership and dividend policy among oil marketing companies in Kenya.
1.4: Research Questions

i. Is there a relationship between government ownership and dividend policy among oil marketing companies in Kenya?

ii. Is there a relationship between private/family ownership and dividend policy among oil marketing companies in Kenya?

iii. What is the relationship between public ownership and dividend policy among oil marketing companies in Kenya?

iv. What is the relationship between managerial ownership and dividend policy among oil marketing companies in Kenya?

v. What is the relationship between institutional ownership and dividend policy among oil marketing companies in Kenya?

1.5: Significance Of The Study

The purpose of this study was to examine the relationship between ownership structure and dividend policy. The study is predicted on the following significance:

Policy Makers

Understanding of the relationship between ownership structures on dividend policy will enable policy makers understand the basis of their decision when making dividend policies. The study is believed to increase on understanding of relationship between ownership structures on dividend policies.
Potential Investors

The study will help potential investors in the oil companies identify which ownership structure will suit their investment needs.

Future researchers

Finally academician will use it as basis for further research in related areas, including relationship between ownership structures on divided policy in non-oil marketing companies.

1.6: Scope of the Study

This study will be carried out in Kenya with focus on oil marketing companies registered by Petroleum Institute of East Africa as at December 2008. Oil marketing companies are chosen due to the good availability of ownership information and also because oil is the major source of energy which is a major stimulant of a country’s economic growth. The study will focus on the period between 2006 and 2010. During this period economic growth was recovered and the gross Domestic Product grew from 5.8 percent to 7 percent in 2007, however the GDP declined to less than 2 percent 2009 (GoK 2009).

1.7: Limitations of the Study

The study was carried out in only 35 oil marketing companies in Nairobi hence the generalization of findings to other oil marketing companies due to lack of financial resources to cater for research exhaustively. Again, due to time limitations of the secondary data that was used was only for 5 years from 2006 to 2010, this cannot represent a long duration time period. Hence the results may be different if data are selected from some other time period. Another area of limitations for this study is that although empirical studies have shown that a number of
factors affects dividend policy, the study seeks to investigate the relationship between ownership structure on dividend policy, while Need for funds, Legal, size of firm, and a host of other factors which may influence dividend policy of companies will not be considered.
CHAPTER TWO

LITERATURE REVIEW

2.0: Introduction

This chapter gives an in depth analysis of the dividend policy theories. It also reviews literature on the types of dividends, Empirical Review on Dividend policies and Ownership structure. Finally the chapter outlines the conceptual framework and provides the gap on literature.

2.1: Theoretical Review on the Dividend Policy

This section reviews pioneering theories and underlying determinants of dividend policy. In this section, Residual Theory of Dividend Policy (Merton Miller and Franco Modigliani 1958), Dividend Irrelevancy Theory (Franco Modigliani and Marton Miller 1961), ‘The Bird in hand’ Theory (Litner 1962 and Gordon 1963), Tax preference theory (Litzenberger and Ramaswamy 1979), Clientele Effect Theory (Miller and Modigliani, 1961), Agency theory (Jensen and Meckling 1976), and Dividend signalling theory/information (Miller and Modigliani 1961) form the framework of the study.

2.1.1: Residual Theory of Dividend Policy

Merton Miller and Franco Modigliani (1958) 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. With the residual dividend policy, the primary focus of the firm’s management is indeed on investment, not
dividends. Dividend policy becomes irrelevant, if it is treated as a passive rather than an active, decision variables. The value of 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.

Dividends will 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.

2.1.2: Irrelevant theory of Dividend Policy

A pioneering article on dividend policy was written by Miller and Modigliani (1961). They developed a model that describes the impact of dividend payments on the valuation of shares, famously called the dividend irrelevance theorem. According to their model, pay-out policy does not matter. Investors are indifferent between receiving dividends and getting a higher stock value. Underlying their model, they made some important assumptions. They assume a perfect capital market, rational investors and absence of taxes and other frictions. Most importantly, they assume the Free Cash Flow to be fully distributed. This could be a really important flaw in their methods, because retention of cash in the firm might just influence stock price as well. For example, DeAngelo and DeAngelo (2006) argue that when Miller and Modigliani’s assumptions are relaxed, dividend policy matters in the same way as investment policy does. Black (1976) also finds dividend policy puzzling. He argues that private investors will always be worse off in
case dividends are paid out, because of the higher personal tax on dividend income than on capital gains. Therefore, investors should always prefer not to receive dividends.

2.1.3: ‘The Bird in hand’ Theory of Dividend Policy

This theory was advanced by Litner (1962) and Gordon (1963). The theory proposes that ‘a bird in hand is worth two in the bush’. Dividends are considered to be more certain and immediate compared to capital gain which can only be realized in future when prices increase.

Given that investors prefer less uncertainty, they would prefer dividends to capital gains. Therefore a company paying high dividends will attract more investors, increase the demand for its shares and MPS and thus the increase in value of the firm. Therefore the higher the dividends, the higher the value of the firm and vice versa.

2.1.4: Tax treatment theory of Dividend Policy

Taxes play an important role in dividend policy for investors. Depending on the tax regime, investors might prefer dividends over capital gains, or vice versa. Dividend policy might even be irrelevant, as Black (1976) argued in his famous “dividend puzzle” article. He states that when pay-out taxes are introduced in an otherwise frictionless market, investors are always better off when cash is retained. According to the Miller and Modigliani (1961) model which assumes a constant level of investment and a full distribution of Free Cash Flow, the existence of pay-out taxes makes no difference. Firms will try to minimise pay-outs, but they still need to distribute 100% of the FCF. Obviously, a critical assumption flaws the Miller and Modigliani theorem; the full distribution of Free Cash Flow. When this assumption is relaxed, one would expect taxes to have an influence on dividend policy. Grinblatt and Titman (2002) note that dividends have
always been disadvantaged compared to repurchases. However, before the 1980’s hardly any repurchases took place due to stricter regulation. In 1982 and 1986 tax law changed, significantly decreasing the tax disadvantage of dividends. Moreover, the percentage of institutional, tax-exempt shareholders grew significantly. Both changes should have a positive impact on dividend distributions. Still though, share repurchases became, and are still becoming, increasingly popular. Poterba and Summers (1984) perform several empirical tests on the British market on security returns, pay-out behaviour and investment decisions. They find that dividend payments certainly have adverse tax consequences and that when dividend taxes were lower, firms’ cost of capital would decrease and dividend pay-out and corporate investment would increase.

After comparing British to US tax law, they argue that these results are also applicable to the US market. In 2003, the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) was adopted in the US. This measure meant that the maximum federal tax rate for both dividends and capital gains was decreased to 15% (from 35% and 20% respectively). Poterba (2004) investigated the effect of this measure. He shows that after the introduction of the act, investor preferences for dividends over capital gains increased. Chetty and Saez (2005) observed that for non-financial, non-utility public corporations, dividends paid increased by 20% in the first 6 quarters following the tax reform. This is a strong proof of the tax effect on dividend policy, though they cannot yet present data on longer-term effects. Brav et al (2008) surveyed 328 financial executives in order to find out what the impact of the 2003 tax cut was. They find evidence that the propensity to initiate dividends increased. However, they find that long-time dividend payers were hardly affected by the tax reform. Furthermore, they show that aggregate repurchases have increased more than dividends. From the surveys it appears that financial executives attach more
importance to other facts when setting dividend policy, such as stability of future cash flows, cash holdings and the historic level of dividends. All in all, they conclude that the tax cut was of second-order importance in dividend decisions.

2.1.5: Clientele/catering Theories of Dividend Policy

In line with the tax explanations of dividend policy, are those that incorporate clienteles. These theories hold that there are different sub-groups of investors, each with different preferences about the type of shares to invest in. These preferences are determined by tax regime, transaction costs and government regulations. For example, Shefrin and Statman (1984) suggest that investors might prefer dividend paying stocks due to self-control reasons, the desire to segregate or regret avoidance. Allen, Bernardo and Welch (2000) present a theory that provides an explanation for the preference of firms for dividends over repurchases and for the fact that firms smooth dividends. In their model, they assume two clienteles; untaxed institutions and taxed individuals. The second assumption they make is that dividends are a way of attracting institutions, because of the institutional charter and prudent man regulation. They find that dividend paying firms attract low-tax institutional investors.

The presence of many institutional shareholders increases monitoring, which in line boosts equity value to a higher level than that of none (or less) dividend paying firms. Baker and Wurgler (2004) use an approach that relaxes the market efficiency assumption of standard dividend models. This way, they try to find a clientele/catering explanation for dividends. The main idea of their theory is that managers try to cater investor preferences with dividend pay-outs. Dividends are initiated when dividend payers are priced high, and omitted when they are
priced low. Baker and Wurgler test whether the dividend premium (difference in stock price between payers and non-payers) is the determinant of dividend initiations and omissions. They use four proxies for the dividend premium and find positive results for all of them. Their results indicate that catering incentives play a role in initiation and omission of dividends, and thus in the total number of dividend payers. However, nothing can be said about dividend increases and decreases. All in all, they conclude that catering theory influences dividend policy alongside other factors.

2.1.6: Agency Theory of Dividend Policy

In a famous paper, Jensen and Meckling (1976) developed the agency theory. Their theory describes the ownership structure of the firm, where agents (managers) act on behalf of the principals (shareholders and other stakeholders). Different incentives between agents and principals can cause problems. Managers might want to realize short term profits to increase their own wealth, whereas the owners of the firm will prefer sustainable long term growth. Intuitively, dividends can play a role in this process as well. Managers could satisfy the needs of the owners of the firm by paying out dividends. Easterbrook (1984) comes up with two agency-cost based explanations for dividends. To keep debt and equity holders of the firm both satisfied, the debt-equity ratio should not fluctuate too much. A higher debt ratio means higher risk, so the chance a debt holder is paid back in full in case of bankruptcy decreases. Because of this, managers might want to choose for a dividend pay-out when they could also have (partially) financed a new project internally. Another explanation Easterbrook provides is the fact that shareholders are well-diversified investors and managers are not. Managers often have their capital invested in the firm, so they will not invest in risky projects. Shareholders just want risky
projects, because they have diversified away their systematic risk. This difference in risk preference may be solved by setting up monitoring devices, though this is costly. Another way for management could be paying out dividends, hereby compensating shareholders for not operating at their desired risk level. Jensen (1986) describes a theory in which debt can be a substitute for dividends. By issuing new debt, managers commit to pay out future cash flows to debt holders. The agency problem of managers spending the firm’s cash flow for their own benefit is hereby decreased. This could also be achieved by paying out more dividends, though the power of that signal is less because dividends can easily be cut in the future. La Porta et al (2000) test the influence of agency problems on dividend policy by setting the quality of investor protection as a proxy for lower agency costs. Accordingly, they set up two hypotheses:

- Dividends are an outcome of legal protection of shareholders
- Dividends are a substitute of legal protection of shareholders

Obviously, one would expect higher dividends in legal regimes where shareholder protection is stronger under the first hypothesis. Under the second hypothesis one would expect the opposite; the lack of legal protection of shareholders is compensated for by higher dividends. La Porta et al find significant results for the agency approach of dividends. Especially for the outcome argument, findings are positive. This means that firms in countries with better investor protection pay higher dividends. Further, they prove that fast growth firms pay lower dividends than slow growth firms. This is consistent with e.g. Linter (1956). The intuition behind this, in the context of La Porta et al, is that when investment opportunities are good, legally protected shareholders have no problem waiting for dividend payments.
2.1.7: Signaling theories of Dividend Policy

The existence of asymmetric information between insiders and outsiders has been a source of inspiration for many researchers to try and explain dividend policy. As insiders could know more about the state of a firm, any announcements made by the firm can convey information about future earnings potential. This then will be reflected into the stock price of the firm. According to Miller and Modigliani (1961) stock price cannot react to dividend announcements because payout policy is irrelevant. However, their explanation for this is that stock price reacts to future earnings information reflected in the dividend policy change. Linter (1956) was among the first to point out that dividend policy is driven by current, past, but also future earnings. This indicates that there is an informational content in a dividend announcement. Later on, academics agreed on the existence of this informational content, but there was no empirical evidence. Pettit (1972) investigated whether the market takes into account dividend change announcements in valuing securities. He concludes that markets are fairly efficient in reflecting dividend announcements in securities prices. Due to this ability of the market, managers delay dividend increases until they feel certain enough about the level of future cash flows. Watts (1973) tested whether dividends have the potential to convey information to the market. He tests this by regressing future earnings on current and past dividends. He also regressed future earnings on current and past earnings to see which relation is stronger. The dividend measure he used was the difference between the management’s desired dividend and last year’s actual dividend. Watts did find a positive effect of dividends on future earnings, though very small. If you were to have monopolistic possession of the information content, the return generated from that does not even exceed transaction costs. Because of this, Watts concludes that the information content of dividend is trivial, thereby contradicting the work of Pettit.
Gonedes (1978) also investigated the possibility of a relation between dividend announcements and future income. He agrees with arguments in favor of signaling, stating that managerial information unknown to the public could be conveyed in dividend changes. However, like Watts, he could not find significant results. John and Williams (1985) develop a signalling equilibrium model with taxable dividends. This model shows that even with a tax disadvantage for dividends, it can still be optimal for firms to distribute cash through dividends.

Miller and Rock (1985) develop a financial decision model that incorporates asymmetric information between managers and outsiders. In their model, a signaling equilibrium is obtained where dividends are used as signals.

Obviously, there is enough theoretical support for the signaling theories of dividend policy.

However, can this be observed empirically as well? This is an issue that Benartzi, Michaely and Thaler (1997) addressed. They remark that until that time, no significant evidence has been found for increased future earnings after a dividend increase announcement. They find that dividend announcements are not a predictor for future earnings. However, there is a past and concurrent link between dividends and earnings. It turns out firms that increase dividends have had increasing earnings in years -1 and 0. This means that firms increase dividends if they have performed well in the prior period. Furthermore, they find that firms that cut dividends have future earnings increases, which remarkably is a result contradicting theoretical predictions. Another result they obtained is that dividend-increasing firms are less likely to experience decreasing earnings as opposed to firms that do not change their dividends. All in all, it seems the belief in signaling motives behind dividend policy is not backed by observations of the market. Models that show signaling equilibriums like the ones of John and Williams, and Miller
and Rock, do not work in reality. It seems that Linter's insights still are unmatched. That is, dividends indicate us what has happened to the firm, not what future prospects are. Dividends are set after a company has reached a new sustainable earnings level.

2.2: Empirical Review On Dividend Policy And Ownership Structure

Relationship between ownership structure and Dividend policy is an area that has been the subject of extensive empirical research. Salwani (2011) carried a study to investigate whether there is an effect of government ownership on dividend in Malaysia, the Tobin model was used in the study and the result suggested that the government ownership does not significantly affects the dividend policy of companies. This could be due to different investment objectives and financial needs of the government. However, the insignificant results only hold when dividend per share (DPS) is used as dependent variable. Bradford, Chen and Tsinghua (2006) found that controlling or ultimate shareholders may influence managerial decision on cash dividends. They further, found that the level of cash dividends is higher for companies ultimately controlled by non-state entities than for those ultimately controlled by state; during their study on ownership structure, control chains, and cash dividend policy in china.

Aristotelis and Wu (2004) research results indicated that the sensitivity of managerial and institutional ownership to dividend payouts depends on growth opportunities. Managerial ownership and institutional ownership appears to have a very pronounced effect on dividend payout for low-growth firms, while there is no apparent link for high-growth firms. The impact of managerial ownership on dividend yield is found to be positive particularly for the low growth firms. This is inconsistent with the view that the managerial ownership reduces the need for the
dividend mechanism, but consistent with White (1996) and Fenn and Liang (2001). The free cash flow theory is relevant to an understanding of corporate dividend policy in Japan, during their study on the impact of ownership structure on the dividend policy of Japanese firms with free cash flow problem. Maury and Pajuste (2002) examine the relationship between controlling shareholders and dividend policy for Finnish listed firms. They report that dividend payout ratio is negatively related to the control stake of the controlling shareholder. They interpret this result as evidence for the existence of private benefits of control by strong block holders. Moreover, their results also indicate that different owner type in control influence dividend policy differently. They find that if the CEO is among the three largest shareholders firms pay lower dividends. Short et al. (2002) dealt with the link between dividend policy and institutional ownership in the UK. Their analysis was based on a sample of 211 firms that are listed on the London Stock Exchange and uses data from 1988 to 1992. The methodology of that paper uses four different dividend models, namely the Full Adjustment Model, the Partial Adjustment Model (Lintner, 1956), the Waud Model (1966) and the Earnings Trend Model (Fama and Babiak, 1968). For all these models they found strong evidence of a positive association between dividend payout policy and institutional ownership. In line with these studies the variables chosen as independent variables together with intervening variables for this study are reviewed below.

2.2.1: Government/State Ownership and Dividend Policies

Al-kuwari (2009) looks at the determinants of dividend policies for firms listed on gulf co-operation council (GCC) by using random effects Tobin model and found that the main characteristics of dividend payout policy and dividend payments are strongly and directly related
to government ownership. One explanation for the positive association between the dividend payout ratio and government ownership is that firms in which the government own a percentage of their shares are able to pay higher dividends, because government ownership itself can attract external funds more easily. Consequently, they have less difficulty raising external funds to finance investments. In contrast, firms with low, or no, government ownership is more likely to experience difficulty raising funds and are, therefore, likely to depend on retained earnings for investment purposes, thus reducing the dividend payout (Gul, 1999). This result shows that there is a positive association between the dividend payout ratio and government ownership in which government ownership itself can attract externally. Gul (1999) suggested that firms with low or no government ownership are more likely to experience difficulty raising funds, therefore they are more likely to depend on retained earnings for their investment purposes, thus reducing the dividend payout. He concludes that government ownership is found to have a significant effect in influencing higher dividend payouts since government-owned companies could attract external funds more easily.

2.2.2: Public Ownership

In public companies, there exist a number of designed, at least in part, to protect the interests of outside or minority shareholders. For example, all exchanges in the UK (as well as in the US) impose strict disclosure requirements on listed firms above and beyond the reporting requirements under the Companies Act. Boards of directors of public firms also “face increased accountability for key management decisions and actions and must ensure that they run the company in the interests of shareholders. Outside of institutional protection, the market for corporate control also affords shareholders of public firms the ability to potentially remove
inefficient management through proxy fights and takeover contests (Becht, Bolton, and Roell (2003). Michaely and Roberts (2007) compared the dividend policies of publicly traded and privately held firms to identify the forces shaping their respective dividend decisions. They reports that public firms engage in dividend smoothing. Moreover, public firms appear to be relatively averse to large dividend increases. Public firms are less likely to alter their dividend payments via increases, decreases, omissions, or initiations than private firms. Similarly, public firms’ dividend policies are less sensitive to transitory earnings shocks relative to private firms. These findings are consistent with the view that like security of public equity markets appears to induce managers to follow more conservative dividends coupled with a reluctance to reduce dividends. Fama and French (2001) report that since 1978 publicly traded firms in the United States have increasingly exhibited the characteristics of firms that have concentrated ownership.

2.2.3: Family/Private Ownership

Faccio et al., (2002), and Claessens et al., (2000). Nenova (2003) and Dyck and Zingales (2004) document evidence that private control benefit in market with poor investor protection is substantial suggesting that weak protection rights for minorities drive a high control premium. These studies suggest that with weak investor protection rights, a controlling family can generate a large private control benefit which fuels the incentive to adopt control enhancing mechanisms that secure control over group firms. Chen et al. (2005) analysed a sample of 412 publicly listed Hong Kong firms during the period of 1995–1998 in order to answer the questions on whether concentrated family ownership affect firm dividend policy. The results did not show a positive relationship between family ownership and dividend policy. However, only for small firms there is a significant negative relationship between dividend payouts and family ownership up to 10%
of the company's stock and a positive relationship for family ownership between 10% and 35%. Da Silva et al. (2004:129) also comment on the dividend payout ratios for firms that are family controlled in Germany. They find those firms to have the largest dividend payout ratio (24.22 percent) compared to company-controlled (18.50 percent), bank-controlled (16.60 percent) and widely-held firms (19.03 percent). Interestingly, though, their analysis reveals that control by families does not seem to have an impact on dividend policy. Gugler (2003) finds contradictory evidence regarding the target payout ratios of family-controlled firms in Austria, i.e. that those firms choose significantly lower target payout ratios (25.00 percent) when compared to bank-controlled firms (34.40 percent).

2.2.4: Managerial Ownership

Several researches argued differently about a manager's role in ownership. The ownership hat being on the heads of managers may help in elimination of free cash flow problem and may better support the mutual interest of management and shareholders. Thus it results in high payout ratio keeping more shares with the managers (Lang 2001). Researchers have suggested dividend payment as an apparatus to control the management compass as the inside ownership provide direct opportunity to use internal funds on unprofitable projects. This approach anticipates negative relationship between insider ownership and dividend payout (Short, Zhang, and Keasey, 2002), observed the negative relationship among agency cost and market risk with dividends payment. Farinha (2003) documented the U-shaped relationship between insider ownership and dividend payout in the UK. He argues that it stems from the effects of managerial entrenchment. Mahadwartha (2002); Mahadwartha and Hartono (2002) investigate interdependency of leverage and dividend policy with managerial ownership, and find significant result that support agency
theory. The two previous papers used different approach but came with the same conclusion about managerial ownership.

2.2.5: Institutional Ownership

Institutional investors play an effective role at monitoring management than the individual investors. Because of their investment size and the resources at their disposal, Institutional investors have better incentive and capabilities to collect and evaluate information pertaining to their investments. They also possess the clout to discipline management and even bring about the changes when management performs inadequately (Stouraitis and Wu, 2004). Mitton (2005) showed that firms with higher concentrated institutional ownership pay higher dividends. Kouki and Guizani (2009) also realized that with more ownership concentration in the hands of institutions, dividend distribution would be greater. In contrast, Gugler and Yutoglu (2003) showed that firms with high ownership concentration tend to pay lower dividends. Also, Maury and Pajuste (2002) found a significant negative relationship between concentrated institutional ownership and dividend payments among Finland companies. Short, Zang and Keasy (2002) perform a study on the role of institutional ownership of UK firms on dividend policy. They note that UK firms generally have larger institutional ownership, due to legal restrictions and the tax systems. They test the influence of institutional and managerial ownership on dividend policy by adding dummies to existing models’ regressions. The models they test are the Full Adjustment Model, the Partial Adjustment Model, the Waud Model and the Earnings Trend Model. They find strong support for a positive relation between institutional ownership and dividend pay-out policy. Furthermore, they found some evidence of a negative relationship between managerial ownership and dividend pay-out policy.
2.3.1: Economic Environment

The firm has to operate in a bounded economic environment where taxes are imposed, corporate laws are enforced and market dynamics dominate, no matter how big, wealthy and well organised the firm is. The firm has to adjust its corporate dividend policy according to economic environment. An implementation of a new tax on dividends affects the payout policy of the firm since the income of the shareholders is affected too. The high importance of the economic environment is obvious in case of high inflation. As prices increase the volume of the firm, sales, the net earnings, are increased too; consequently the dividend payments have to be adjusted too in order to keep the shareholder’s income in the same level. Brav et al (2008) surveyed 328 financial executives in order to find out what is the impact of the tax cut. They found that long-time dividend payers were hardly affected by the tax reform. Furthermore, they show that aggregate repurchases have increased more than dividends. From the surveys it appears that financial executives attach more importance to other facts when setting dividend policy, such as stability of future cash flows, cash holdings and the historic level of dividends. All in all, they conclude that the tax cut was of second-order importance in dividend decisions. Hardiyanti, Nurul (2011) conducted an Empirical Study of Tax and Inflation Effects Towards Dividend Policy in Indonesian Listed Companies the study applied the Ordinary Least Squares (OLS) method to measure the effects. The findings revealed that both tax and inflation do not significantly affect the dividend policy of all sampled Indonesian firms. However, the result came up differently when those firms were classified into their respective industry sectors. This study documents the evidence that four industry sectors are positively affected by tax, namely Agriculture industry, Consumer Goods industry, Miscellaneous industry, and Property, Real Estate and Building Construction industry. The Mining industry, on the other hand, is negatively
affected by tax. Only three industry sectors that were found to be positively affected by inflation, which are Agriculture industry and Basic Industry and Chemical industry.

2.3.2: Board Composition

Corporate boards play an important role in monitoring and disciplining management. Independent directors are desirable because of their breadth of knowledge and experience, as well as their independence from corporate management (Farinha, 2003). Fama (1980) argues that the viability of the board might be enhanced by the inclusion of outside directors (Ghosh, 2006) and the separation between the roles of chairman and CEO. Rozeff (1982) argues that dividend policy is a mechanism to reduce agency costs. In the absence of any other monitoring, shareholders would need the agency monitoring element of dividend policy. On the other hand, independent non-executive directors may act as a monitoring device on the firm’s managers, thus dampening in principle, the need for higher dividend payouts. If independent directors are an effective monitoring device, then board independence and dividend policy should be substitutes in the monitoring of agency problems. However, if the monitoring of outside directors is insufficient, it is possible that NEDs may influence higher dividend payouts by a company, to enhance managerial monitoring by external capital markets (Farinha, 2003). There are two competing views in the literature about the effect of board size. One view is that large boards allow directors to specialise. Greater specialisation can lead to more effective monitoring (Klein, 2002), and hence lower dividends are needed for the monitoring role. The other view is that large boards are less effective than small boards due to the difficulties of coordinating large groups (Jensen, 1993). Further studies by Mohammed (2010) on the effect of ownership structure and board of directors’ composition on dividend policies in Saudi Arabia, using pooled cross-
sectional observations from the listed Saudi firms for three years between 2006 and 2008 found that there is a significant positive association between institutional ownership, board size, firm performance, and both dividend decision and payout ratio. The results confirm that firms with higher earnings per share and a higher institutional ownership distribute higher levels of dividend. No significant association was found between other board composition factors and dividend decisions or ratios.

2.3.3: Legal and Financial Constraint

Legal constraints such as the capital impairment rule which prohibits payment of dividends if such payment will result in impairment of capital. The insolvency rule prohibits the payment of cash dividends if a firm is considered insolvent. The undue retention of earnings rule prohibits the retention of earnings in excess of the present and future investment needs of the firm. Financial constraints such as the financial condition and ability to borrow, access to capital markets, restrictions in loan agreements as well as inflation may affect the firms dividend policy. La porta et al. (2000) posit that a country’s legal environment and shareholder activism, which may affect the dividend payments. Therefore, examining a firm’s dividend policy in the context of a country’s legal environment depends on both the content of law countries generally provide the best legal protection to minority shareholders whereas civil law countries grant the weakest protection to minority shareholders. La porta et al. (2000) offer two competing views in predicting the relationship between a firm’s dividend policy and the strength of the legal protection.
2.4: CONCEPTUAL FRAMEWORK

Figure 2: Model of the relationship between ownership structure and dividend policy

Ownership structure
- State/government ownership
- Family/private ownership
- Public ownership
- Managerial ownership
- Institutional ownership

Affects

Dividend policy

Dependent Variables

Independent Variable
- Economic conditions/leverage
- Legal and financial constraints
- Board composition

Intervening Variables

Source: Researcher (2012)
CHAPTER THREE
RESEARCH METHODOLOGY

3.1: Introduction
This study is a replica of a study that was done in UK by Short, Zang and Keasy (2002). They tested the influence of institutional and managerial ownership on dividend policy by adding dummies to existing models’ regressions. The models they test are the Full Adjustment Model, the Partial Adjustment Model, the Waud Model and the Earnings Trend Model. They found strong support for a positive relation between institutional ownership and dividend pay-out policy. However this study differs slightly with their study in that it tested the influence of public, private, state and managerial ownership in addition to institutional ownership on dividend policy in oil marketing companies in Kenya. Moreover this chapter covers the following which differs with Short, Zang and Keasy(2002) study; study model, target population, sample design, sample size, data collection, data analysis and data presentation.

3.2: The Research Design
The study used was descriptive research design. The design fitted well in this study as it helped the researcher to adequately describe phenomena, situations and events (Kothari 2004).

3.3: Target Population
A population is the aggregate of all cases that conform to some designated set of specifications (Nachmias and Nachmias, 1996). The target population for this study is all the 38 oil marketing companies in Kenya registered with Petroleum Institute of East Africa as at December 2008 see
appendix V and VI. The study will be carried out in Nairobi since all these oil companies operate in Nairobi.

3.4: Sample Design
A sample refers to a set of people or objects chosen from a larger or greater or lesser extent (mason, et al., 2003). The size of sample and the way in which it is selected will definitely have implications for the confidence you can have in your data and the extent to which you can generalise (Saunders, et al., 2009). In this study, the researcher will adopt census a complete enumeration of all items in the population. Therefore all the 38 oil marketing companies registered by the institute of east Africa as at December 2008 will be studied so as to enhance highest accuracy and to ensure that no element of chance is left.

3.5: Data Collection Procedure
Secondary data sources were used for this study. Zikmund (1998) defines secondary sources of data as data that have been previously collected for some project other than the one at hand. Kothari, (2004) noted that by way of caution, the researcher, before using secondary data, must see that they possess the following qualities; reliability, suitability adequacy and authenticity, without these qualities he noted it is very risky to use already available data because it is just possible that the data may be inadequate in the context of the study, then it will not be economical to spend time and energy in field survey for collecting information. For this research, data will be sourced from annual reports and audited financial statements of oil marketing companies registered by the Petroleum Institute of East Africa as at December 2008. The annual audited financial statements are authentic, reliable and suitable for this study because the preparation of these statements are in compliance with international reporting standards (IFRS). For each of the sampled firms, the relevant data that will be extracted for the five year period,
from the annual reports will include the following; profit after tax, dividend payout ratio, proposed dividend per share, interim dividend paid per share and final dividend paid per share.

3.6: Validity And Reliability

Validity is the accuracy and meaningfulness of inferences which are based on the research results (Kothari 2004). A measuring instrument is reliable if it provides consistent results (Mugenda and Mugenda, 2003). In ensuring validity reliability for this work the researcher conducted pilot study where by some companies were selected from the study population and research was conducted and the findings were compared against earlier research on the same topic so as to ascertain whether the results are consistent with the earlier findings.

3.7: Data Analysis

The data to be collected was coded and summarized using quantitative techniques (Creswell, 1994). Quantitative research focuses on examining a problem based on testing a theory and analyzing it using statistical techniques. The following section described the key characteristics and terms of measurement for each variable. Dependent and independent variables were grouped into components; namely, independent variables which consisted of State ownership, family/private ownership, Institutional ownership, public ownership and Managerial ownership structure and dependent variables which consisted of dividend policy which is expressed in terms of ROA. Various descriptive statistics including the mean, standard deviation, cross tabulation and Pearson Chi-Square test were worked out using statistical package for social science (SPSS).
3.8: Study Model

The general study model for testing the relationship between ownership structure (as measured by, state ownership, private/family ownership and public ownership) and the dividend policy which are: stable, constant, residue and hybrid dividend policy is the regression model shown below:

\[ \text{ROA (DPP)}_i = B_0 + B_1 (S/G)_it + B_2 (F/P)_it + B_3 (Pub)_it + B_4 (Mgr)_it + B_5 (Inst)_it \]

Where:

\[ \text{ROA} = \frac{\text{EBIT}}{\text{TA}} \]

\[ \text{EBIT} = \text{Earnings before Tax and TA = Total Assets} \]

\[ S/G_it = \text{Government or State Ownership structure of firm i in time t} \]

\[ B_1 = \text{regression coefficient of government Ownership Structure} \]

\[ F/P_it = \text{Family or Private ownership structure of firm i in time t} \]

\[ B_3 = \text{regression coefficient of public ownership structure} \]

\[ Mgr_it = \text{managerial ownership structure of firm i in time t} \]

\[ B_4 = \text{regression coefficient of Managerial Ownership structure} \]

\[ Inst_it = \text{Institution Ownership structure of firm i in time t} \]

\[ B_5 = \text{regression coefficient of Institution Ownership structure} \]
CHAPTER FOUR DATA
ANALYSIS, PRESENTATION AND INTERPRETATION

4.1: Introduction

This chapter presents the results of the study together with a discussion of the findings. The main objective of the study was to find out the relationship between ownership structure and dividend policy. The chapter first presents the response rate, after which data on each of the four research objectives is presented.

4.2: Response Rate

The study targeted 38 oil marketing companies registered with Petroleum Institute of East Africa. Data was collected covered a period between 2006 to 2010, summarised using averages where applicable. However, four companies were dropped from the study due to unavailability of data on key variables. Thus, 34 oil companies were used, representing a response rate of 89.5% as shown in the figure below.

Figure 4.1 Ownership of the Oil Company

Source (Research data, 2012)
According to the above figure, 35.3% of companies were privately owned, 32.4% public while 23.5% were institutionally owned, 5.9% government and 2.9% had management ownership structure. This therefore implies that most of the oil companies in Kenya have either private or public ownership structure.

4.3: Total Assets Of The Oil Company

The study also thought to know the annual average total assets of the oil companies as shown in table 4.1 below.

Table 4.1 Annual Average Total Assets

<table>
<thead>
<tr>
<th>Annual Average Total Assets</th>
<th>Frequency</th>
<th>Valid Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 150,000</td>
<td>10</td>
<td>29.4</td>
</tr>
<tr>
<td>150,001 - 300,000</td>
<td>15</td>
<td>44.1</td>
</tr>
<tr>
<td>Over 750,000</td>
<td>9</td>
<td>26.5</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source (Research data, 2012)

The results in the above table indicate that 44.1% of the oil companies had annual average total assets ranging from 150,001 to 300,000. Another 29.4% of the companies ranged from 0 to 150,000 annual average total assets while 26.5% of companies had over 750,000. These results indicated that on average most of the oil companies in Kenya are small with annual average total assets of 300,000 and below.
4.4: Earnings Before Interest and Tax (EBIT)

Annual average Earnings Before Interest and Tax was also considered in the study as shown in table 4.2 below.

<table>
<thead>
<tr>
<th>Annual Average EBIT</th>
<th>Frequency</th>
<th>Valid Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 150,000</td>
<td>10</td>
<td>29.4</td>
</tr>
<tr>
<td>150,001 - 300,000</td>
<td>5</td>
<td>14.7</td>
</tr>
<tr>
<td>600,001 - 750,000</td>
<td>16</td>
<td>47.1</td>
</tr>
<tr>
<td>Over 750,000</td>
<td>3</td>
<td>8.8</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source (Researcher, 2012)

According to table 4.2 above, a majority (47.1%) of the oil companies in Kenya had annual average EBIT of between 600,000 and 750,000. However, 29.4% had 150,000 and below while 14.7% had between 150,000 and 300,000 and only 8.8% of companies had annual average EBIT of over 750,000. These results demonstrate that a majority of oil firms in Kenya annually report average EBIT of about 750,000.

4.5: Return on Assets (ROA)

Return on assets is a ratio of earnings before interest and tax to total assets there researcher used it as a measure for determining dividend policy. For this study, the findings on ROA are illustrated in the table below.
Table 4.3 Annual Average ROA

<table>
<thead>
<tr>
<th>Annual Average ROA</th>
<th>Frequency</th>
<th>Valid Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.01 - 0.1</td>
<td>13</td>
<td>38.2</td>
</tr>
<tr>
<td>0.21 - 0.30</td>
<td>9</td>
<td>26.5</td>
</tr>
<tr>
<td>0.41 - 0.50</td>
<td>3</td>
<td>8.8</td>
</tr>
<tr>
<td>Over 0.50</td>
<td>9</td>
<td>26.5</td>
</tr>
</tbody>
</table>

Source (Researcher, 2012)

The results in table 4.3 above illustrate that ROA for most (38.2%) oil companies is low; ranging from 0.01 to 0.1. However, oil companies that report annual average ROA of over 0.5 are 26.5% compared to 26.5% that reported annual average ROA of between 0.21 and 0.30, and 8.8% reported annual average ROA of between 0.4 and 0.5. These results imply that a majority of oil companies in Kenya report low ROA that in turn affects the dividend pay-outs for their companies.

4.6: Descriptive Analysis for Dependent Variables Results

The descriptive statistics were used to determine the mean and standard deviations for the dependent variables under investigation as shown in the table next page:
Table 4.4 Descriptive Results

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership of the oil company</td>
<td>34</td>
<td>1.00</td>
<td>5.00</td>
<td>2.5294</td>
<td>1.58086</td>
</tr>
<tr>
<td>Total Assets of the oil company</td>
<td>34</td>
<td>1.00</td>
<td>6.00</td>
<td>2.7647</td>
<td>2.01598</td>
</tr>
<tr>
<td>Earnings Before Interest and Tax</td>
<td>34</td>
<td>1.00</td>
<td>6.00</td>
<td>3.4706</td>
<td>1.97308</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>34</td>
<td>1.00</td>
<td>6.00</td>
<td>3.2059</td>
<td>2.08573</td>
</tr>
<tr>
<td>Valid N (list wise)</td>
<td>34</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source (Researcher, 2012)

As it can be seen in the table above, on average companies distribute 3.21 as dividend using ROA (dividend payout policy) as a proxy for dependent payout policy with a minimum of 1.00 and a maximum of 6.00. The standard deviation of ROA (dividend pay-out policy) is 2.08573 shows that there is low variation between companies in paying dividend for their shareholders.

4.7: Relationship between Ownership and ROA

The results in table 4.5 below illustrate the relationship between ownership structure of oil companies in Kenya and Return on Assets (ROA) as a proxy for dependent pay-out policy.
Table 4.5: Relationship between Ownership Structure and ROA

<table>
<thead>
<tr>
<th>Ownership of the oil company</th>
<th>Return on Assets – Independent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.01 - 0.1</td>
</tr>
<tr>
<td>Public Count</td>
<td>3</td>
</tr>
<tr>
<td>% within Ownership of the oil company</td>
<td>27.3%</td>
</tr>
<tr>
<td>Private Count</td>
<td>0</td>
</tr>
<tr>
<td>% within Ownership of the oil company</td>
<td>.0%</td>
</tr>
<tr>
<td>Management Count</td>
<td>0</td>
</tr>
<tr>
<td>% within Ownership of the oil company</td>
<td>.0%</td>
</tr>
<tr>
<td>Government Count</td>
<td>1</td>
</tr>
<tr>
<td>% within Ownership of the oil company</td>
<td>30%</td>
</tr>
<tr>
<td>Institutional Count</td>
<td>8</td>
</tr>
<tr>
<td>% within Ownership of the oil company</td>
<td>100.0%</td>
</tr>
<tr>
<td>Total Count</td>
<td>13</td>
</tr>
<tr>
<td>% within Ownership of the oil company</td>
<td>38.2%</td>
</tr>
</tbody>
</table>

Source (Researcher, 2012)
The above results demonstrate that for both Government, public and private owned oil companies, dividend pay-out either increases or remains constant with increase in ROA, and for management and institutionally owned oil companies, the dividend pay-out is constant or sometimes non-existent with increase in ROA thus indicating that there is no relationship between managerial ownership and ROA as a measure of dividend policy. The result agrees with the researches of Abdelsalam & et al (2008) and does not accord with researches of Kumar (2003) & Stouraitis & Wu (2004). The results further suggest that there is a relationship between government, private and public structure of ownership with dividend pay-out policy of oil companies. These results are consistent with Gulger (2003) and Wei et al. (2003) previous studies findings.

To determine if the relationship between the dependent and independent variables is significant, a chi-square test shown in the table below was conducted.

Table 4.6: Chi-Square Test

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>Df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>44.263a</td>
<td>12</td>
<td>.000</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>50.440</td>
<td>12</td>
<td>.000</td>
</tr>
<tr>
<td>Linear-by-Linear Association</td>
<td>9.936</td>
<td>1</td>
<td>.002</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>34</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. 20 cells (100.0%) have expected count less than 5. The minimum expected count is .09.

Source (Researcher, 2012)
Table 4.6 presents the results of the Pearson Chi-Square test provide. From the results it is clear that the level of significance is very small; below 0.05. This implies that there exists a relationship between the ownership structure of the oil companies and the dividends pay-out policy based on ROA.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1: Introduction

This chapter presents a summary of the study, conclusions and recommendations arrived at. These were arrived at as a result of the responses and findings in chapter 4 with contributions of this study discussed. The chapter also presents suggestions for further studies.

5.2: Summary Of The Study

This study was aimed at determining the relationship between ownership structure and dividend policy. The study specifically investigated whether the following variables of ownership structure affect dividend policy: Government, Family/Private, Institutional public and managerial ownership. Data for the study was collected from 34 companies listed in the Petroleum Institute of East Africa. Given below is a summary of the main research findings which implied that not all the five variables discussed are affecting the dividend policy firms. This was as a result of the data collected from the firms which were included in the survey and findings discussed in chapter 4.

5.2.1: Government ownership

The study established that state/government ownership do relate with dividend policy of a company. The findings of this study are consistent with Al-kuwari (2009) study on the determinants of dividend policies for firms listed on gulf co-operation council (GCC) where he found that dividend payments are strongly and directly related to government ownership.
5.2.2: Family/ Private ownership

The Results of univariate analysis results in table 4.5 indicates that there is a relationship between dividend policy and private ownership. The results indicate that in privately owned oil marketing companies, pay-out either increases or remains constants with increase in ROA. The findings of this study are consistent with Gugler (2003) findings regarding the target payout ratios of family-controlled firms in Austria. The possible explanation may be that the remuneration of the private owners is linked to the amount of dividend.

5.2.3: Public ownership

Based on the findings of the study, positive relationship between public ownership structure and dividend payout policy was found. The results of univariate analysis indicate that there is a significant relationship between public ownership and ROA. The results can be explained as while conflicts of interest between controlling and minority shareholders work to lessen dividend payments in many managerial owned firms, governance mechanisms present in public firms mitigate these conflicts and lead to substantially higher dividend streams. The findings the further suggest that public ownership is likely to influence dividend payout policies.

5.2.4: Managerial ownership

The results of Univariate Analysis does not find any relationship between managerial ownership and dividend policy. The findings reveal the fact that corporate managers try to accumulate funds under their control at the expense of low payouts because managerial practices are not strictly
monitored and investors’ rights are not strongly protected, which seems to be the main reason of disappearing dividends in managerial owned companies.

5.2.5: Institutional ownership

The study results indicate that there is no relationship between institutional ownership structure and dividend policy. The result showed the increase or decrease in institutional ownership, dividend pay-out is constant or sometimes non-existent with increase in ROA. This result is in line with Jain (2007), Barclay et al. (2006) and Mat Nor and Sulong (2007) findings. However the findings of this study are inconstant with Zhang and Keasey (2002) study results which found positive relationship between institution ownership and dividend payout policy.

5.3: Conclusion

The objective of this study was to examine the relationship between ownership structure and dividend payout policy of Oil Marketing Companies registered with Petroleum Institute of East Africa for period 2006-2010. The empirical results reveal that there is no relation between institutional ownership and managerial ownership structure and the dividends payout policy measured by ROA. However, the results show positive and significant relation between state ownership, private ownership and public ownership and dividend payout policy. chi square test run using ROA as proxy for dividend payout policy indicate that that there exists a relationship between the ownership structure of the oil companies and the dividends pay-out policy based on ROA.
5.4: Recommendations

The following recommendations should be considered based on the findings of the study as seen on the tables in chapter 4, which represents the results after analyzing the collected data and the findings discussed on the same chapter:

5.4.1: Government ownership and public ownership

For these investors who would like to invest in a firm where the owners have influence on dividend payout policies based on the findings of this study, companies with state ownership structure and public ownership structure will enable them to meet their investment need.

5.4.2: Family/private ownership structure

Based on the results, it is suggested that for the private companies to pay better dividend to the shareholders there is need to peg their salaries and earnings to dividend.

5.4.3: Managerial ownership structure

The results show that the companies in which high proportion of shares are held by managers and individual are more reluctant of pay high dividends as compared with the companies in which managerial and individual ownership is low. Therefore for investors who would prefer investing in companies where they ownership structure influence dividend policy, companies with managerial ownership would not meet their investment needs.
5.4.4: Institutional ownership

Dividend payment can have an effect of reducing agency cost by forcing the firm to be exposed to the discipline of the capital market. When institutional owners are effective in monitoring management, firms with a high degree of institutional ownership must be relatively less concerned about agency cost, and hence would pay less dividends nor influence dividend policy.

5.5: Suggestions For Further Research

There are a rich possible number of variables that can be used to examine the determinants of dividend policy. Nevertheless, this research concentrates on the ownership structure among the companies oil marketing companies registered with petroleum Institute of East Africa and focuses on the five major variables that were repeatedly used by prior researchers. However, there might be other ownership variables that can be incorporated to explain the link between dividends and ownership structure. Thus, it would be beneficial if further research would be able to include other variables such as board of directors’ ownership, foreign ownership and many others.

Future researchers on this topic may also use survey and interview methods to gauge top management and investor perspectives on this issue. In addition, future research may also increase the observation by incorporating companies listed in other sectors that are not included in this study as well as Second Board listed companies. Besides that, the longer period of study may also enhance the predictability model of the research. The findings will provide an interesting comparison to the findings from this study.
REFERENCES


Margaret piel (2nd Ed. 1995); social science research methods a hand book for Africa, East Africa.


Siti, S. A., (2011), effects of government ownership and state ownership on dividend, research Paper.


Ntoiti Rahab
Kenyatta University
P.O Box 43844-00100
Nairobi.
August, 2012.

RE: REQUEST TO PROVIDE AUDITED FINANCIAL STATEMENTS FOR RESEARCH

The researcher Ntoiti Rahab is postgraduate student in the MBA programme of Kenyatta University. As part of course requirement, the researcher is carrying out a research on “Relationship between ownership structures and dividend policy in oil marketing companies in Kenya”.

In order to complete the above research paper the researcher would kindly request you to facilitate data collection by providing her with the audited annual report of your companies. The information provided will be used purely for academic purpose and will be treated with utmost confidentiality.

I thank you in advance for your cooperation and participation in this academic effort. Thank you.

Yours Sincerely,

Rahab Ntoiti
MBA student Kenyatta University
APPENDIX II: SECONDARY DATA COLLECTION INSTRUMENT

<table>
<thead>
<tr>
<th>ITEM</th>
<th>Year 2006</th>
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<th>Year 2008</th>
<th>Year 2009</th>
<th>Year 2010</th>
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<td>Ownership structure</td>
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<tr>
<td>Equity shares</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>% equity shares</td>
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<td>Total Assets</td>
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<td>Profit After tax</td>
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Source: Researcher 2012
**APPENDIX III: OIL MARKETING COMPANIES**

Table 1: Oil Industry Market share data.

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>% MARKET SHARE</th>
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<td>KENOLKOBIL</td>
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<td>NATIONAL OIL</td>
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<tr>
<td>GAPCO</td>
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<td>GULF ENERGY</td>
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<tr>
<td>HASS PETROLEUM</td>
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<tr>
<td>BAKRI</td>
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<td>GALANA OIL</td>
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<tr>
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<td><strong>TOTAL</strong></td>
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*Source: Ministry of Energy: Industry market share data 2nd Quarter 2011*
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<tr>
<th>NAME OF THE COMPANY</th>
<th>POST OFFICE NO.</th>
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<tr>
<td>1. BOC GASES</td>
<td>P.O BOX 18010 NAIROBI</td>
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<td>2. CYN ENERGY COMPANY LIMITED</td>
<td>P.O BOX 39646-00623 NAIROBI</td>
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<tr>
<td>3. DALBIT PETROLEUM LIMITED</td>
<td>P.O BOX 1931-00100 NAIROBI</td>
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<tr>
<td>4. GLOBAL PETROLEUM LIMITED</td>
<td>P.O BOX 30621-00100 NAIROBI</td>
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<tr>
<td>5. HUNKAR TRADING CO.LTD</td>
<td>P.O BOX 64445-00619 NAIROBI</td>
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<tr>
<td>6. INTOIL LIMITED</td>
<td>P. O BOX 70701-00400 NAIROBI</td>
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<tr>
<td>7. PETROL OIL KENYA</td>
<td>P.O BOX 10633-00100 NAIROBI</td>
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<tr>
<td>8. RANWAY TRADERS LIMITED</td>
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<tr>
<td>9. TOSHA PETROLIUM KENYA LIMITED</td>
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<td>10. BURHANI ENGINEERS LTD</td>
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<td>P.O BOX 6487-00300</td>
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<td>12. LUBESOL KENYA LTD</td>
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<td>13. PAN AFRICAN PETROLEUM LTD</td>
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<td>14. PREMIER AGENCIES</td>
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<tr>
<td>15. PRIME FUELS KENYA LIMITED</td>
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SOURCE: Petroleum Institute of East Africa 2008