

**EFFECTS OF DIVIDEND POLICY ON SHARE PRICES: A CASE OF COMPANIES IN  
NAIROBI SECURITIES EXCHANGE**

**PRESENTED BY**

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## DECLARATION

### STUDENT'S DECLARATION

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

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## **DEDICATION**

This research project is dedicated to my: dear family who have been very supportive and kept on encouraging me when things were beyond my take. For the endless support I received from my supervisor, lecturers and friends. God bless you.

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First of all I would like to thank God almighty who has brought me this far and providing me with strength, knowledge and vitality that has helped me to make this seminar paper a reality.

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# TABLE OF CONTENTS

<b>DECLARATION</b> .....	<b>i</b>
<b>DEDICATION</b> .....	<b>ii</b>
<b>ACKNOWLEDGEMENT</b> .....	<b>iii</b>
<b>TABLE OF CONTENTS</b> .....	<b>iv</b>
<b>ABSTRACT</b> .....	<b>vii</b>
<b>LIST OF ABBREVIATIONS/ACRONYMS</b> .....	<b>viii</b>
<b>CHAPTER ONE: INTRODUCTION</b> .....	<b>1</b>
1.1 Background of the Study.....	1
1.1.1 Historical Background of Nairobi Securities Exchange.....	3
1.2 Statement of the Problem .....	5
1.3 Research Objectives .....	7
1.3.1 General Objective.....	7
1.3.2 Specific Objective .....	7
1.4 Research Questions .....	7
1.5 Justification of the study .....	7
1.6 Scope of the Study.....	8
1.7 Limitations of the Study.....	8
<b>CHAPTER TWO: LITERATURE REVIEW</b> .....	<b>9</b>
2.1 Introduction.....	9
2.2.1 The Tax Incentives.....	9
2.2.2 The Clientele Effect .....	11
2.2.3 Free Cash flow .....	11
2.3 Critique of Existing Literature Relevant to the Study.....	12
2.4 Empirical Studies .....	12



2.6	Summary.....	16
2.7	Conceptual Framework.....	16
<b>CHAPTER THREE: METHODOLOGY OF THE STUDY.....</b>		<b>17</b>
3.1	Introduction.....	17
3.2	Research Design.....	17
3.3	Target Population.....	17
3.4	Data Collection Procedure.....	17
3.5	Pilot Study.....	18
3.5.1	Validity.....	18
3.5.2	Reliability.....	18
3.6	Data Quality and Analysis.....	19
<b>CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION .....</b>		<b>20</b>
4.1	Introduction.....	20
4.1.1	Response Rate.....	20
4.1.2	Reliability Analysis.....	20
4.2	Demographic Information.....	21
4.3	Tax incentives.....	23
4.4	Clientele effect.....	25
4.5	Free cash flow.....	26
4.6	Regression Analysis.....	27
4.7	Dividend policy and share prices.....	30
4.7.1	Market Analysis Of Some Of The Firms Listed In The NSE.....	30

<b>CHAPTER FIVE: SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS .....</b>	<b>35</b>
5.1 Introduction .....	35
5.2 Summary of the Findings .....	35
5.2.1 Tax Incentives .....	35
5.2.2 Clientele Effect.....	35
5.2.3 Free Cash Flow.....	36
5.3 Conclusion.....	36
5.4 Recommendations .....	37
5.5 Recommendations for further studies.....	37
<b>REFERENCES .....</b>	<b>38</b>
<b>APPENDICES .....</b>	<b>43</b>
Appendix I: Work Plan .....	43
Appendix II: Budget Schedule .....	44
<b>Appendix III: Questionnaire .....</b>	<b>45</b>

## **ABSTRACT**

Dividend policy refers to management's long-term decision on how to deploy cash flows from business activities-that is, how much to invest in the business, and how much to return to shareholders. The study was guided by the following objectives: to identify how clientele effect influence share prices of NSE, to determine how tax incentives influenced share prices of NSE and to identify how free cash flows influenced share prices of NSE. Both Primary data and secondary data were utilized for this study. A questionnaire was used to collect data from the respondents. The questionnaire was divided in to two parts in line with the specific objectives. Secondary data was collected from the websites of the various companies, journals and relevant texts. A pilot study was held one week before the commencement of the study in order to check the efficacy of the questionnaire. Data collected was mainly quantitative in nature and were appropriately analysed using descriptive statistics. The findings were presented using tables and charts, percentages, means and other central tendencies. The study concludes 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 also found out that an increase in firms' stocks trading volume affected the share price and investors who wanted current investment income owned shares in high dividend payout firms. 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. The study recommends that companies consider all pertinent issues before issuing dividends. Since the share market is positively responsive to the dividend announcement, companies should always strive to pay divided consistently for their shares to perform well at the stock exchange. Dividend policy have an effect on the share prices of the firms quoted at NSE thus, companies (firms) should pay dividends to maintain high share prices.

## **LIST OF ABBREVIATIONS/ACRONYMS**

**CAPM**-Capital Asset Pricing Model (CAPM)

**DPS**-Dividend per Share

**NPV**- Net Present Value, also known as Discounted Cash Flow or DCF

**NSE**-Nairobi Securities Exchange

**WACC**-Weighted Average Cost of Capital

## CHAPTER ONE: INTRODUCTION

### 1.1 Background of the Study

The dividend policy of a company determines what proportion of earnings is distributed to the shareholders by way of dividends, and what proportion is ploughed back for reinvestment purposes. Since the main objective of financial management is to maximize the market value of equity shares, one key area of study is the relationship between the dividend policy and market price of equity shares.

According to Aharony & Swary, (2000) dividend policy entails the division of earnings between shareholders and reinvestment in the firm. Retained earnings are a significant source of funds for financing corporate growth, but dividend constitutes the cash flows that accrue to shareholders. There exist two divergent schools of thought with regards to these, the dividend policy and the retained earning policy.

According to Davis, (2006), Dividend policy connotes to the payout policy, which managers pursue in deciding the size and pattern of cash distribution to shareholders over time. Since managements' primary goal is shareholders' wealth maximization, which translates into maximizing the value of the company as measured by the price of the company's common stock. This goal can be achieved by giving the shareholders a "fair" payment on their investments. However, the impact of firm's dividend policy on shareholders wealth is still unresolved.

Capstaff, Klaeboe, & Marshall, (2004) defines dividend policy under the relevance theory as, “The dividend policy is a practical approach, which treats dividends as an active decision variable and retained earnings as the residue. Dividends are more than just a means of distributing net profit, and that any variation in dividend payout ratio could affect share prices; a firm should therefore endeavor to establish an optimal policy that will maximize shareholder’s wealth.

Dividend policy has been an issue of interest in financial literature since Joint Stock Companies came into existence. Dividend policy suggests a positive attitude for, it is a deliberate policy to maintain or increase dividend at a certain level with the ultimate aim of sustaining the price of the ordinary shares on the stock exchange. This is because capital markets are not perfect, although shareholders are indifferent between dividend and retained earnings due to market imperfections and uncertainty, but they give a higher value to the current year dividend than the future dividend and capital gains.

Dividend policy can be of two types: managed and residual. In residual dividend policy the amount of dividend is simply the cash left after the firm makes desirable investments using NPV rule. If the manager believes dividend policy is important to their investors and it positively influences share price valuation, they will adopt managed dividend policy. Firms generally adopt dividend policies that suit the stage of life cycle they are in.

Dividend policy is one of the most complex aspects in finance. Three decades ago, Black (1976) in his study on dividend wrote, “The harder we look at the dividend picture the more it seems

like a puzzle, with pieces that just don't fit together". Why shareholders like dividends and why they reward managers who pay regular increasing dividends is still unanswered. Dividend policy remains a source of controversy despite years of theoretical and empirical research, including one aspect of dividend policy: the linkage between dividend policy and stock price risk (Allen and Michaely, 2003). Paying large dividends reduces risk, thus influence stock price (Gordon, 1963), and is a proxy for the future earnings (Baskin, 1989). If dividend policy is stable, high dividend stocks will have a shorter duration.

### **1.1.1 Historical Background of Nairobi Securities Exchange**

In the 1920s when Kenya was a British colony, an informal way of dealing in shares and stocks was commenced in Kenya. In 1951, an Estate Agent Francis Drummond established the earliest professional Stock broking firm, and impressed upon the then finance minister of Kenya Sir Ernest Vasey the idea of creating a stock exchange in East Africa. Considering the proposal, which was given by the then finance minister of Kenya Sir Ernest Vasey and Francis Drummond, the London Stock Exchange officials approved to recognize the creation of the Nairobi Securities Exchange as an overseas stock exchange in July, 1953.

In 1954, the Nairobi Securities Exchange was comprised as a voluntary organization of stockbrokers enrolled under the Societies Act. The business of shares trading was restricted only to the resident European community though Africans and Asians were not permitted to deal in securities until in 1963 when Kenya became independent. In the first three years of independence the economic development was stable, market confidence was regenerated and the exchange operated several highly oversubscribed public issues. In 1972, development was discontinued and share prices were depressed, when the oil crisis brought in inflationary pressures in the

economy. A 35% capital gains tax was launched in 1975, imposing foster losses to the exchange and simultaneously the exchange lost its regional character following the nationalizations, exchange controls and other inter-territorial restrictions initiated in adjacent Tanzania and Uganda. In 1980, The Kenyan Government understood the requirement of design and implement policy transformation to promote the sustainability of economic growth with an efficient and steady financial system.

In 1984, A Central Bank of Kenya study, "Development of Money and Capital Markets in Kenya" was known as a blueprint for structural reforms in the financial markets which helped the creation of a regulatory body 'The Capital Markets Authority' (CMA) in 1989. Notably, in 1994 the NSE 20-Share Index recorded an all-record high of 5030 points on Feb. 18, 1994. The NSE was rated by the International Finance Corporation (IFC) as the best performing market in the world with a return of 179% in dollar terms In December 1995, the entire Exchange Control Act was revoked. With the privatization of Kenya Airways in 1996, the largest share issue in the history of NSE, and the Kenya Airways Privatization team is rewarded the World Bank Award for Excellence for 1996.

In February 2001, basic reformation of the capital market of Kenya took place and divided the market into four independent market segments: the Main Investments Market Segment (MIMS), the Alternative Investments Market Segment (AIMS), the Fixed Income Securities Market Segment (FISMS) and later Futures and Options Market Segment (FOMS). In the 2001/2002 budget, the Government offered the extra incentives to capital markets investments. On 17th April 2002, the CMA declared the sanction of the new NSE trading and settlement rules with

amendments. On 26th July 2002, with the introducing of a New Foreign Investor Regulations, there are three categories of investor on the capital markets; local, East African and foreign.

On 5th August 2002, the Nairobi Securities Exchange, the Capital Markets Authority of Kenya, the Association of Kenya Stockbrokers, the CMA Investor Compensation Fund, and 9 institutional investors through the Capital Markets Challenge Fund have signed a Shareholder Agreement for establishment of the Central Depository and Settlement Corporation (CDSC). On Monday, 11 September 2006 live trading on the automated trading systems of the NSE was implemented.

## **1.2 Statement of the Problem**

The empirical studies which have mainly focused on developed economies show that there is a relationship between the dividend payments and stock prices (Zhou and Ruland, 2006; Pandey, 2004). Current dividend payments reduce investor's uncertainty, causing investors to discount the firm's earnings at lower rate of return while dividend reduction increases investors' uncertainty raising the required rate of return.

According to Nairobi Securities Exchange publication (2010), shows that CMC Holdings limited increased their payout ratio from 27.49% in 2009 to 28.28% in 2010 thus impacting positively on the stock prices from Kshs 15.35 in 2008 to Kshs 18.85 in 2009. It also shows that CFC Stanbic Bank limited changed their payout ratio from 32.05% in 2009 to 16.16% in 2010 thus impacting negatively on the stock prices from Kshs 129.00 in 2007 to Kshs 60.00 in 2008. This shows that dividend policy has impact on the share prices of NSE thus triggering the research to be undertaken.

Kenya National Bureau of Statistics figures show that the five biggest contributors to the Kenyan economy in recent times have been the agriculture, wholesale and trade, transport and communication, manufacturing and education industries. In 2009, these industries collectively contributed about 59.9 % of the country's GDP. Of these, the agriculture sector is the biggest and its contribution to GDP averaged about 23 % between 2006 and 2009. The sector contributes more than 60 % of export earnings and directly influences overall economic performance through its contribution to GDP. Periods of high economic growth rates have been synonymous with increased agricultural growth. (Kenya National Bureau of Statistics, (2011).

Ross, Westerfield and Jaffe (2005) suggest that different dividend policies followed by the firm have different effects on the value of a share and the investment policies of the firm. Theories and discussions on dividend suggests relevance of dividend policy as far as market price per share (MPS) is concerned, however no model or theory has been developed to show how a particular dividend payout policy affects share's value.

Locally studies that have been done on dividend policies include: Maina (2000) carried out a study to establish whether there exists a relationship between dividend and investment decisions since both compete for internally sourced funds and given that funds obtained by debt are very expensive and not available to all firms. Njoroge (2001) examined relationship between dividend payout and some financial ratios such as return on assets. The purpose of this study was to unfold the relationship between dividend policy and share prices with the aim of helping management to re-sketch their dividend policies and to either validate or disprove the academic explanation of the practice of paying dividends.

## **1.3 Research Objectives**

### **1.3.1 General Objective**

This study sought to establish the effect of dividend policy on share prices especially for companies listed at Nairobi Securities Exchange.

### **1.3.2 Specific Objective**

1. To identify how clientele effect influence share prices of NSE
2. To determine how tax incentives influence share prices of NSE
3. To identify how free cash flows influence share prices of NSE

## **1.4 Research Questions**

1. How does clientele effect influence share prices of NSE?
2. How does tax incentives influence share prices of NSE?
3. How does free cash flows influence share prices of NSE?

## **1.5 Justification of the study**

During the past ten years, business trends have been moving toward globalization and the number of multinational corporations continues to grow. Newly developed information technology allows investors around the world to trade stocks in other countries without physically crossing borders. Cross-national investors become cross-national shareholders via internet. Their decisions to trade depend merely upon information announced to the public.

Dividends are one of the key factors that influence the prices of shares. The relevance of dividend policy on stock price is a matter of considerable importance to the management who sets the policy to the investors who invest in shares, and to the financial economists who endeavor to understand and appraise the functions of the capital markets. Over the half last

century, the clash of ideas whether dividend policy is relevant or irrelevant has been the focus of a great deal of attention and continues to be a controversial topic among financial scholars around the world. Therefore, it is important to have an understanding of whether dividend policy is important or not in Kenya. The topic of this study was to discern the effect of dividend policy on share prices of Nairobi Securities Exchange.

### **1.6 Scope of the Study**

The study was limited to a survey of companies listed in the Nairobi Securities Exchange. Against the backdrop of improving share prices of NSE, the main purpose of the research was to examine and analyze dividend payments by companies listed in the Nairobi Securities Exchange. This was to establish whether dividend policies have an effect on the share prices of NSE.

### **1.7 Limitations of the Study**

During this study, the researcher was faced with some challenges especially when collecting both primary and secondary data. During data collection, it was difficult to access the suitable materials from some libraries and listed firms. The use of phone interview proved to be a challenge since some respondent give inaccurate or even outdated information, leading to biasness in the research.

## CHAPTER TWO: LITERATURE REVIEW

### **2.1 Introduction**

This chapter gives an overview of the literature related to the study. It is specifically concerned with the concept of effect of dividend policy on share price mainly to the listed companies at the Nairobi Securities Exchange.

#### **2.2.1 The Tax Incentives**

Brennan (1970) developed an after-tax version of the capital asset pricing model (CAPM) to test the relationship between tax risk-adjusted returns and dividend yield. Brennan's model maintains that a stock's pre-tax returns should be positively and linearly related to its dividend yield and to its systematic risk. Higher pre-tax risk adjusted returns are associated with higher dividend yield stocks to compensate investors for the tax disadvantages of these returns. This suggests that, *ceteris paribus*, a stock with higher dividend yield will sell at lower prices because of the disadvantage of higher taxes associated with dividend income.

Pettit (1977) provided empirical evidence for the existence of a clientele effect by examining the portfolio positions of 914 individual investors. He found a significant positive relationship between investors' ages and their portfolios' dividend yield, and a negative relationship between investors' incomes and dividend yield. Pettit suggested that elderly low-income investors tend to rely more on their portfolios to finance their current consumption, and avoid the transaction costs associated with selling stocks. Consequently, they have more of a tendency to invest in high-dividend stocks. Pettit also showed that investors whose portfolios have low systematic risk prefer high-payout stocks, and he found evidence for tax-induced clientele effect.

Litzenberger and Ramaswamy (1979) concluded that, “for every dollar increase in return in the form of dividends, investors require an additional 23 cents in before tax returns”. Of interest, the dividend coefficient obtained by Litzenberger and Ramaswamy is consistent in magnitude with that reported by Black and Scholes (1974). The implication of Litzenberger and Ramaswamy’s findings is that firms could increase their share prices by reducing dividends. Poterba (2004), employ economy-wide data over long time-series to test for the effects of dividend taxes on payout policies while more recent studies – including Blouin, Raedy and Shackelford (2003), Brown, Liang and Weisbenner (2007) and Chetty and Saez (2005) – all examine how firms responded to the 2003 dividend tax cuts. These studies typically employ managerial shareholdings and institutional shareholdings to sharpen their hypothesis tests of the effects of the recent dividend tax cut.

More recently, Dhaliwal, Erickson and Trezevant (1999) examined institutional shareholding changes following dividend initiations. Based on the theory of tax-induced clienteles, Dhaliwal et al. expected an increase in institutional ownership subsequent to dividend initiations. Using a sample of 133 dividend initiators from the 1982 to 1995 period, the results obtained are consistent with their prediction. They reported that 80 percent of their sample firms experience an increase in institutional shareholders following dividend initiation. Dhaliwal et al. found that this increase was statistically and economically significant. They concluded that the dividend/tax-clientele effect is “strong enough” to influence investors’ decisions. Seida (2001) provided evidence consistent with Dhaliwal et al.’s (1999) findings.

### **2.2.2 The Clientele Effect**

Richardson, Sefcik and Thompson (1986) tested a sample of 192 US firms that initiated dividends for the first time during the period of 1969 through 1982. They attempted to investigate whether the observed (post-dividend-initiations) increase in firms' stocks trading volume is due to the signaling effect or was a product of investors in various tax clienteles adjusting their portfolios. They found that the increased trading volume associated with dividend policy changes was mainly related to the information contained in the dividend announcement, and only a small part was related to clientele adjustment. Richardson et al. concluded that "...the evidence supporting the existence of clientele trading is somewhat weak"

Earlier research by Bajaj and Vijh (1990), Ang, Blackwell and Megginson (1991), and Denis, Denis and Sarin (1994) provided empirical support for the existence of the dividend clientele hypothesis. Therefore, investors who want current investment income should own shares in high dividend payout firms, while investors who do not require dividend distributions should own shares in low dividend payout firms.

### **2.2.3 Free Cash flow**

Lambert, Larcker and Larcker (1989) found out that where firms adopted executive share options plans, the dividend policy selected by management could be influenced by these plans. They concluded that an executive option plan will persuade management to reduce corporate dividends by an amount that is equal to the option plan. They arrived at this conclusion because the payment of dividends will reduce the expected value of share option to a manager. According to Lease et al (2002) these results are consistent with self-serving management behavior since management will avoid the dilution of their options by paying large dividends.

In Easterbrook's (1984) analysis, the monitoring role of dividends mitigates agency conflicts between managers and shareholders. The agency problem in Jensen's (1986) analysis arises from managers' incentives to consume private benefits, e.g., building their empires by investing free cash flows in negative net present value projects or spending cash on perquisites. Thus, dividends alleviate this problem by reducing free cash flows available to managers.

### ***2.3 Critique of Existing Literature Relevant to the Study***

Certainly, there are many serious factors and complications of market imperfection that influence on the issue of dividend policy for instance supply effect, diversification effect, uncertainty effect, clientele effect, the issues of institutional factors such as differential taxes on income and capital gains, differential costs of personal and corporate sale of stock, and trust instruments.

Because of the limited focus of many studies, more researches, equipped with enhanced statistical techniques, are needed to perform including an investigation of other factors.

Despite many empirical studies on dividend and stock price behavior for example few of them from Linter (1956), Miller and Modigliani (1961) among others there is still considerable controversy concerning the relation between dividend and stock price.

### ***2.4 Empirical Studies***

Several studies have been done on the information content of dividend announcements on the price of common shares. For example, a number of studies have analyzed the share price reaction to the announcement of changes in regular paid dividends (Ghosh and Woolridge, 2008 and Capstaff et al., 2004). Other studies have examined the market reaction to dividend initiations (the distributions that firms pay for the first time in their corporate history or after a long hiatus)

and/or omissions (when firms omit to distribute a dividend after a good track record of distributions) (Ghosh and Woolridge, 2008 and John and Lang, 1991). In addition, some studies have investigated the impact of special and extra dividend announcements on stock prices (Chhachhi and Davidson, 1997, DeAngelo et al., 2000 and Crutchley et al., 2003).

Black and Scholes (1974) attempted to answer this question in a study that covered a period of 35 years (from 1931 to 1966). They created 25 investment portfolios from companies listed in the New York Index and classified them into five groups according to the cash dividend policy they followed. Then they divided each group into five categories according to risk (beta coefficient). Examining the investment portfolios returns compared with the cash dividends (cash dividends distribution policy in place), they did not find any statistically significant relationship between the cash dividends and the total portfolio return.

Litzenberger and Ramaswamy conducted a study in 1979 to determine whether the total portfolio return in the ex-dividend month of distribution has any relationship with cash dividends. They found that there is a strong direct correlation between the portfolio total return and cash dividends. This supports the theory that investors do not prefer cash dividends because of the negative impact of taxes on these dividends. They also found that the impact of the tax rate difference on cash dividends and capital gains reaches up to 23%. This means that investors pay less for the company shares that distribute cash dividends or demand greater returns on these shares to offset the negative impact of the different tax rate between cash dividends and capital gains. This means that the clients' effect was not strong enough to force the cancellation of the cash dividend policy effect on the company's value.

Miller and Scholes's study (1982) accused Litzenberger and Ramaswamy's (1979) study of being distorted in that it is affected by cash dividend increases or a lack of information. In Miller and Scholes's study, they excluded all companies that announced their profits and distributed them in the same month in order to mitigate the impact of the dividend declaration. They came to the conclusion that portfolio total revenue is in direct proportion to the cash dividends, but that the impact of the difference between the tax percentage on cash dividends and capital gains is not 23%, but only 4%. This influence in terms of statistical significance does not differ from the impact of zero, which means there is no effect regarding the difference of tax rate on cash dividends and capital gains. However, the direct relationship between the total portfolio returns and cash dividends could reflect the share price increase due to an unexpected increase in cash dividends and not the negative impact of the taxes. This means that the clientele effect is a force strong enough to neutralize the impact of the cash dividend policy on the company's value.

A local study by Bitok (2004) on the effect of dividend policy on the value of the firms quoted at the NSE found that paying dividends reduces risk to the companies and thus influence stock price. The study also found that dividend yields and payout ratio serves as proxies for the amount of projected growth opportunities. Njoroge (2001) examined relationship between dividend payout and some financial ratios such as return on assets. The results obtained were that the most significant variable in making dividend decisions is return on assets while return on equity and growth in assets are not considered in making dividend decisions. On another research by Karanja (1987) on dividend practices of publicly quoted companies, it was found that there are many reasons why firms pay dividends and the dividend payment directly affected the share

price of the company in question. One reason is lack of investment opportunities, which promises adequate returns. Firm's cash position was the most important consideration of timing of dividends.

## **2.5 Research Gap**

While many studies have been done on dividend policies very few have sought to establish how they affect market share prices or market value of listed companies (Ongiri, 2002, Pradhan, 2003 and Chawla, Deepak and Srinivasan, 1997). 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.

In Kenya, fewer researches have been done on the same with inexhaustive results. Ongiri's (2002) study sought to establish the effect of payment of dividends on Kenyan firms quoted in the NSE. The research covered the firms which were in operation for the periods between 1988 and 1998. The research was geared towards the effect of government change on the above two variables as it touched on both the pre-multiparty and post-multiparty era. The study found mixed results as dividend payments affected market share prices in different directions from one company to the next. This study's approach differs from previous studies that examined the effect of dividend policies on market share prices. More specifically, this study attempts to examine evidence on three related questions, that is, how does payout ratio relate to market share

prices of listed companies, how does 100% retention and dividend announcement affect market share prices.

### 2.6 Summary

Retained earnings are used for making investments in favorable investment opportunities, which in turn help to increase the growth rate of a firm. What and how much it is desirable to pay dividend is always a controversial topic because shareholders expect higher dividends from corporation, but companies ensure towards setting aside funds for maximizing shareholders' value. The well being of shareholders is usually measured by dividends received, but a more accurate measure is the market value of stock.

### 2.7 Conceptual Framework

Conceptual framework is a diagram which presents the relationship between independent and dependent variables thus guide the study. Informed by Aaker's (1991) model, the independent variables in this study are clientele effect, tax incentives and free cash flows while the dependent variable is the shareholder price. This is presented in the figure below:

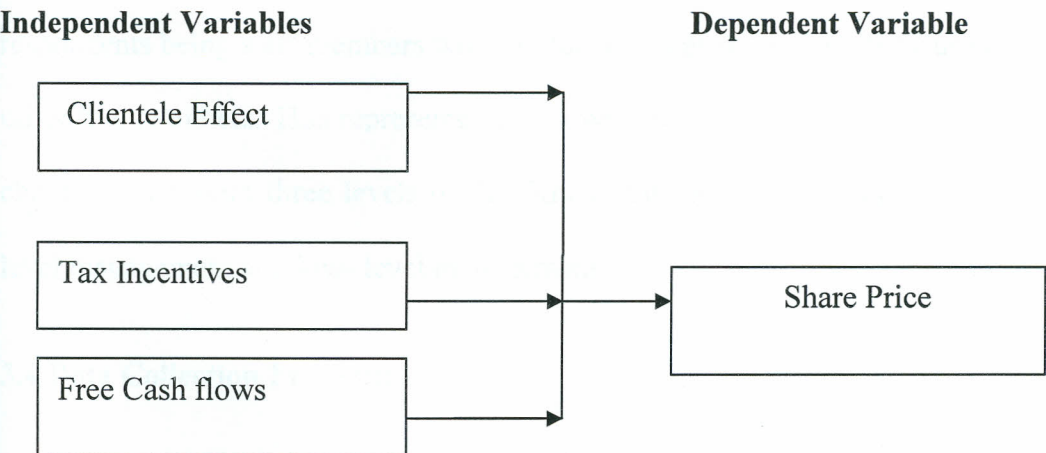


Figure 2.1 Conceptual framework

## **CHAPTER THREE: METHODOLOGY OF THE STUDY**

### **3.1 Introduction**

This chapter sets out the research method that was followed in completing the study. It involves a blueprint for the collection, measurement, and analysis of data. This chapter is structured into; research design, target population, data collection instruments, data collection procedures and finally data quality and analysis.

### **3.2 Research Design**

Since this it is an initial study of the effects of dividend policy on share prices of companies in NSE, the researcher considered the case method to be a suitable research methodology for this research. Previous research has revealed that the case method was appropriate when investigating the of dividend policy on share prices of companies in NSE (Venkatesh, et al. 2000; Venkatesh and Brown, 2001) which was the circumstance surrounding this study.

### **3.3 Target Population**

The study targeted the forty six listed and trading companies in the NSE with the target respondents being staff members working for the companies. The study used a random sample of thirty five members. This represented a four percent representation the thirty five members were chosen to represent three levels of the firm's structure namely Top level management, middle level management and low- level management.

### **3.4 Data Collection Procedure**

Primary data was collected for the purpose of this study. This was done using a self-administered questionnaire available in the appendix. The questionnaire was semi-structured, having both

open-ended and closed-ended questions. The questionnaire was divided into two parts. The objective of the first part was for getting the demographic information of the staff members that would be deemed relevant for the study. The second part of the questionnaire was used to examine the effects of dividend policy on share price. Secondary data was collected from the websites of the various companies, journals and relevant texts.

### **3.5 Pilot Study**

The pilot study was conducted using five firms within the targeted companies. The secondary data collected during the pilot study was not used in the final data analysis. The purpose of the pilot study was to establish the accuracy and appropriateness of the research. After the pilot study the main survey followed.

#### **3.5.1 Validity**

Mugenda (2008) contend that the usual procedure in assessing the content validity of a measure is to use a professional or expert in a particular field. To establish the validity of the data, the research sought opinions of experts in the field of study especially the researcher's supervisor. This facilitated the necessary revision and modification of the research instrument thereby enhancing validity.

#### **3.5.2 Reliability**

According to Shanghverzy (2003), reliability refers to the consistency of measurement and is frequently assessed using the test–retest reliability method. Reliability is increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures (Shanghverzy 2003).

Reliability of the data was enhanced through a pilot study that was conducted on the listed companies in Nairobi Securities Exchange. The pilot study enabled the researcher to be familiar with research and its administration procedure as well as identifying items that require modification. The result helped the researcher to correct inconsistencies arising from the instruments, which ensured that they measured what was intended.

### **3.6 Data Quality and Analysis**

Analysis was done using SPSS software. Multiple Regression, ANOVA test was used to determine the effect of dividend policy on stock prices.

$$Y' = A + b_1X_1 + b_2X_2 + b_3X_3$$

Where Y'=Dependent variable and X<sub>1</sub>, X<sub>2</sub> and X<sub>3</sub> are the three independent variables

Where Y'-Share price

X<sub>1</sub>. clientele effect

X<sub>2</sub> - tax incentives

X<sub>3</sub>. free cash flows

Findings were presented in form of tables, bar graphs and pie chart, while explanation to the same was presented in prose.

## CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

### 4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The study findings are presented on to investigate the effects of dividend policy on share prices. The data was gathered from the questionnaire as the research instrument and other secondary sources. The questionnaire was designed in line with the objectives of the study.

#### 4.1.1 Response Rate

The study targeted respondents in collecting data with regard to the effects of dividend policy on share prices. The respond rate was 85% which made the study to progress to data analysis and interpretation.

#### 4.1.2 Reliability Analysis

Cronbach's alpha was calculated by application of SPSS for reliability analysis. The value of the alpha coefficient ranges from 0-1 and may be used to describe the reliability of factors extracted from dichotomous ( that is questions with two possible answers) and or multi-point formatted questionnaires or scales (i.e., rating scale: 1=poor, 5=excellent). A higher value shows a more reliable generated scale. Cooper & Schindler (2008) has indicated 0.7 to be an acceptable reliability coefficient.

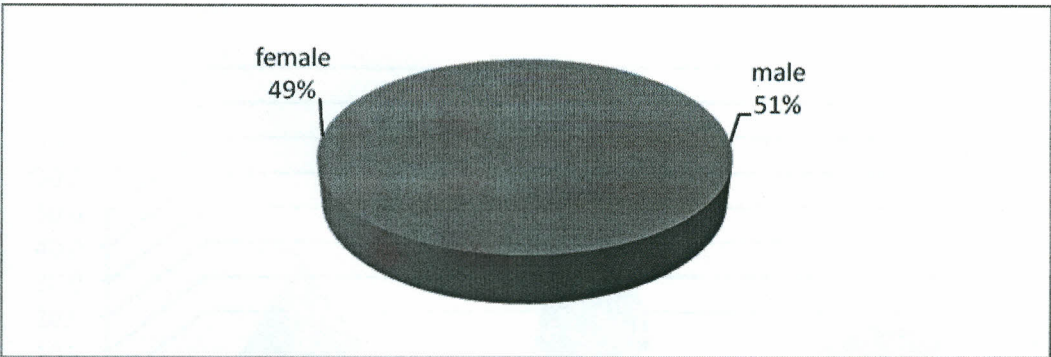
The table below illustrates the results of the reliability analysis. It involved questionnaires from seven respondents. As the alpha coefficients were all greater than 0.7, a conclusion was drawn that the instruments had an acceptable reliability coefficient and were appropriate for the study.

**Table 4.1: Reliability Analysis**

<b>Variable</b>	<b>Cronbach's Alpha</b>	<b>No of Items</b>
To identify how clientele effect influence share prices of NSE	.8257	4
To determine how tax incentives influence share prices of NSE	.7452	5
To identify how free cash flows influence share prices of NSE	.7701	4

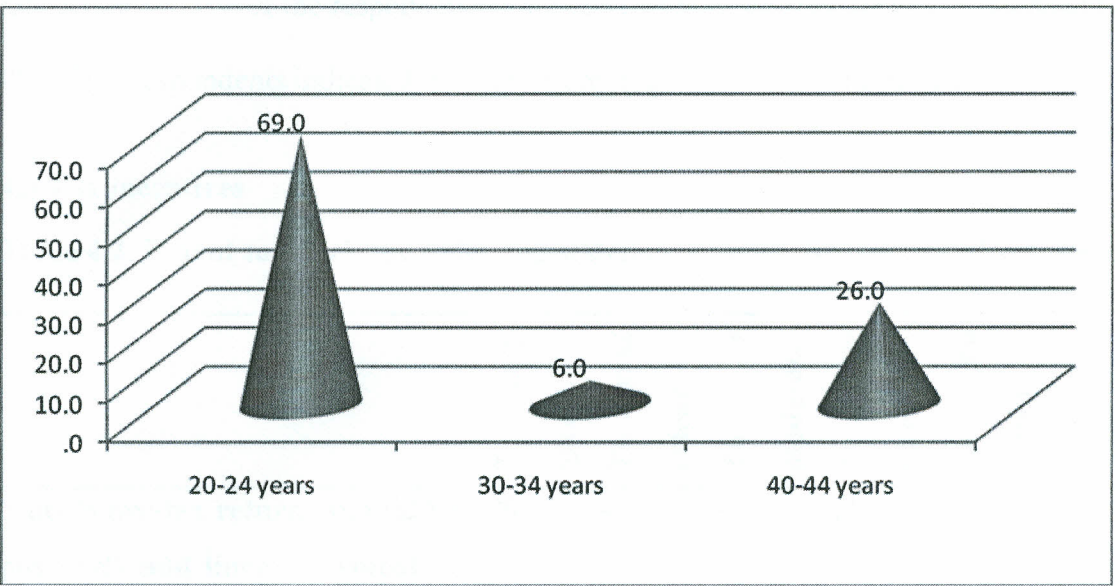
Validity is the accuracy or meaningfulness of inferences, which are based on the research results (Kothari 2008). The validity was determined through the use of content validity test index which was obtained by summing items rated 4 or 5 by experts and dividing by the total number of items in the questionnaire. Content validity index of 0.802 was obtained. This value indicated that the instrument was acceptable as recommended by Davis 2002. Davis (2002) recommended content validity index of 0.80 for new measures.

**4.2 Demographic Information**



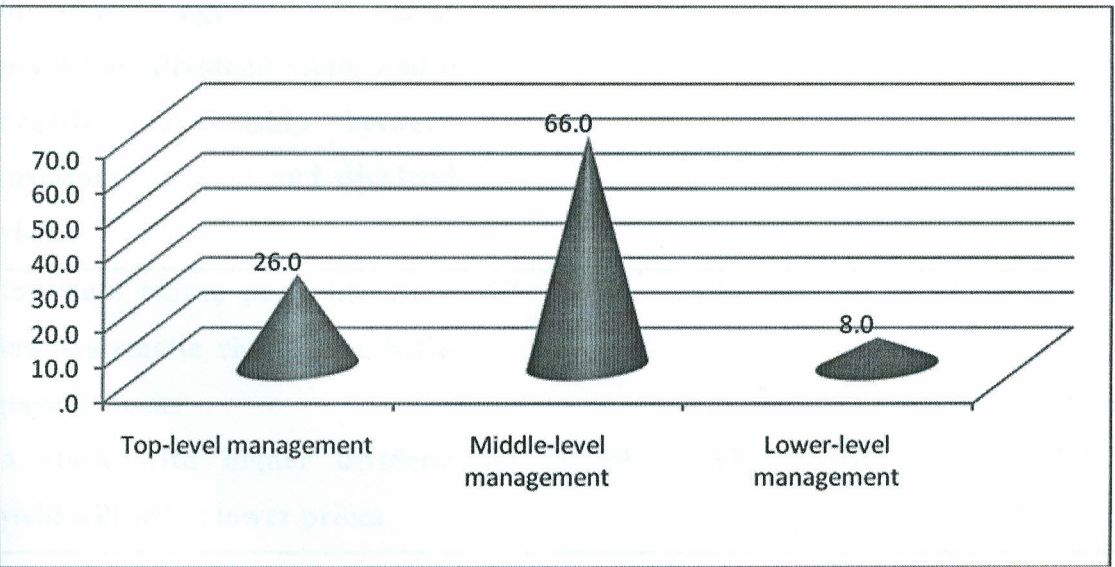
**Figure 4.1: Gender**

From the findings, 51% of the respondents indicated that they were male while 49% of the respondents indicated that they were female.



**Figure 4.2: Age**

According to the findings, 69% of the respondents indicated that they were aged between 20-24 years, 26% of the respondents indicated that they were aged 40-44 years while 6% of the respondents indicated that they were aged 30-34 years.



### Figure 4.3: Departments

From the findings ,66% of the respondents indicated that they were in the middle level management, 26% of the respondents indicated that they were in the top management level while 8% of the respondents indicated that they were in the lower level management.

### 4.3 Tax incentives

**Table 4.2: Extent to which the following statements on Tax incentives affect share prices**

	To a very great extent	To a moderate extent	To a little extent	To no extent	Mean	Stdev
Stock's pre-tax returns should be positively and linearly related to its dividend yield and to its systematic risk.	29	40	9	11	2.3	1.3
Higher pre-tax risk adjusted returns are associated with higher dividend yield.	20	43	11	6	2.6	1.4
Positive relationship between investors' ages and their portfolios' dividend yield, and a negative relationship between investors' incomes and dividend yield	31	31	17	11	2.3	1.3
Investors whose portfolios have low systematic risk prefer high-payout stocks	17	51	14	9	2.4	1.1
A stock with higher dividend yield will sell at lower prices	37	29	11	14	2.3	1.3

According to the findings, the respondents indicated that higher pre-tax risk adjusted returns associated with higher dividend yield stocks affected share prices to a very large extent as shown by a mean of 2.6, the respondents indicated that investors whose portfolios had low systematic risk preferred high-payout stocks to a very large extent as indicated by a mean of 2.4, the respondents indicated that Stock's pre-tax returns positively and linearly related to its dividend yield and its systematic risk, Positive relationship between investors' ages and their portfolios' dividend yield and a stock with higher dividend yield sold at a lower price affected share prices to a great extent as indicated by a mean of 2.3 respectively. The respondents demonstrated that they higher pre-tax risk adjusted returns were associated with higher dividend yield stocks to compensate investors for the tax disadvantages of returns affected share prices. This was in agreement with the Brennan's model which maintains that a stock's pre-tax returns should be positively and linearly related to its dividend yield and to its systematic risk.

#### 4.4 Clientele effect

**Table 4.3: Extent to which the following statements on clientele effect affect share prices**

	To a very great extent	To a moderate extent	To a little extent	To no extent	Mean	Stdev	
<b>Increase in firms' stocks trading volume</b>	17	37	17	9	20	2.8	1.4
<b>Investors who want current investment income should own shares in high dividend payout firms</b>	9	49	17	23	3	2.6	1.0
<b>Size of the trading volume of stocks</b>	17	49	9	9	17	2.6	1.4
<b>Investors who do not require dividend distributions should own shares in low dividend payout firms</b>	37	20	20	11	11	2.4	1.4

From the findings, the respondents indicated that increase in firms' stocks trading volume affected the share prices to a very large extent as indicated by a mean of 2.8, the respondents indicated that investors who wanted current investment income owned shares in high dividend payout firms and size of the trading volume of stocks affected the share prices to a great extent as indicated by a mean of 2.6 respectively, the respondents indicated that investors who did not require dividend distributions owned shares in low dividend payout firms which in turn affected the share prices to a moderate extent as indicated by a mean of 2.4. The respondents clearly explained that increase in firms' stocks trading volume greatly affected the share prices. These

findings supported findings by Richardson, Sefcik and Thompson (1986) where they tested a sample of 192 US firms that initiated dividends for the first time during the period of 1969 through 1982. Where they found that increase in firms' stocks trading volume is due to the signaling effect or was a product of investors in various tax clienteles adjusting their portfolios.

#### 4.5 Free cash flow

**Table 4.4:** Extent to which the following statements on free cash flow affect share prices

	To a very great	To a great extent	To a moderate	To a little extent	To no extent	Mean	Stdev
Executive option plan will persuade management to reduce corporate dividends by an amount that is equal to the option plan.	17	46	11	11	14	2.6	1.3
Dividends reduce free cash flows available to managers	20	34	23	9	14	2.6	1.3
Free cash flow causes conflict between management and shareholders	20	34	20	6	20	2.7	1.4
Dividends are therefore a way of removing free cash flows from managerial control in firms that face limited investment opportunities	31	40	17	6	6	2.1	1.1

According to the findings, the respondents indicated that Free cash flow caused conflict between management and shareholders which in turn affected the share price to a very large extent as indicated by a mean of 2.7, the respondents indicated that executive option plan persuaded management to reduce corporate dividends by an amount that was equal to the option plan and dividends reduced free cash flows available to managers which in turn affected the share price to a great extent as indicated by a mean of 2.6 respectively, the respondents further indicated that dividends were a way of removing free cash flows from managerial control in firms that faced limited investment opportunities and this affected the share price to a moderate extent as indicated by a mean of 2.1. The respondents affirmed that free cash flow was the major cause of conflict between management and shareholders. This was in agreement with the Easterbrook's (1984) analysis; the monitoring role of dividends mitigates agency conflicts between managers and shareholders. The agency problem in Jensen's (1986) analysis arises from managers' incentives to consume private benefits, e.g., building their empires by investing free cash flows in negative net present value projects or spending cash on perquisites. Thus, dividends alleviate this problem by reducing free cash flows available to managers.

#### **4.6 Regression Analysis**

The researcher conducted a multiple regression analysis. This was done to test relationship among variables (independent) on the effect of dividend policy on share prices. The statistical package for social sciences (SPSS) was applied to code, enter and compute the measurements of the multiple regressions for the study.

**Table 4.5: Model Summary**

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate
1	.796(a)	.893	.591	.42945

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 (share price) that is explained by all the three independent variables (Clientele effect, tax incentives and free cash flows).

The three independent variables that were studied, explain only 89.3% of the factors affecting dividend policy on share prices as represented by the  $R^2$ . This therefore means that other factors not studied in this research contribute 10.7% of the factors affecting dividend policy on share prices. Therefore, further research should be conducted to investigate the other factors (10.7%) factors affecting dividend policy on share prices.

**Table 4.6: ANOVA (b)**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	36.739	3	12.913	13.948	.000(a)
	Residual	20.461	32	.864		
	Total	57.200	23			

a. Predictors: (Constant), Clientele effect, tax incentives and free cash flows

b. Dependent Variable: share price

The significance value is 0.000 which is less than 0.05 thus the model is statistically significant in predicting how Clientele effect, tax incentives and free cash flows affect the share prices. The F critical at 5% level of significance was 2.32. Since F calculated is greater than the F critical (value = 13.948), this shows that the overall model was significant.

**Table 4.7: Coefficients (a)**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.423	.369		.290	.004
	Clientele effect	.453	.148	.757	5.869	.001
	Tax incentives	.205	.123	.115	.935	.003
	Free cash flow	.295	.138	.092	.688	.002

b) Dependent Variable: Share price

The researcher conducted a multiple regression analysis so as to explaining the effect of dividend policy on share prices. And the three variables as per the SPSS generated table 4.7, the equation

( $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$ ) becomes:

$$Y = 0.453X_1 + 0.205X_2 + 0.295X_3 + 0.423$$

Where Y is the dependent variable (share price),  $X_1$  is the Clientele effect variable,  $X_2$  is Tax incentives variable and  $X_3$  is free cash flows variable.

According to the regression equation established, taking all factors into account (Clientele effect, Tax incentives and free cash flows) constant at zero, share price will be 0.423. The data findings analyzed also showed that taking all other independent variables at zero, a unit increase in clientele effect will lead to a 0.453 increase in share price; a unit increase in tax incentives will lead to a 0.205 increase in share price; a unit increase in free cash flow will lead to a 0.295 increase in share price. This infers that clientele effect contribute more to share price followed by the by free cash flow. At 5% level of significance and 95% level of confidence, clientele effect had a 0.001 level of significance; tax incentives showed a 0.003 level of significant, free cash flow showed a 0.002 level of significant hence the most significant factor is clientele effect.

#### **4.7 Dividend policy and share prices**

##### **4.7.1 Market Analysis Of Some Of The Firms Listed In The NSE**

The analysis for the relationship between dividend policies and share process between the years 2006 to 2011 for a few of the firms listed in the NSE can be as follows: When Rea Vipingo paid no dividend in 2007, its market share price value was Ksh. 3.00. The share price increased to Ksh. 5.00 when the company paid a dividend of 60.98% of its net earnings. In 2007, the share price rose to Ksh. 16.90 when a dividend of 37% was paid while it increased to Ksh. 20.75 when the company paid a dividend of 39% of its total net earnings in 2005. The company increased the dividend payout to 43% in 2006 and the share price rose to Ksh. 37.

Kakuzi did not pay any dividend in 2007 and its market share price was Ksh. 28. In 2008 the company did not pay dividends and the share prices dropped to Ksh. 19.85. In 2009, it paid out a dividend of 23.41% of its total net income and its market share price shot to Ksh. 45.50. In 2010

the company paid out a dividend of 21.6% of its net earnings and the market share price was Ksh. 41.7. Sasini Tea paid a dividend of 34.36% of its net profit in 2007 and the share price was Ksh. 15.00. The price rose to Ksh. 21.50 when the dividend payout ratio was 61.73% in 2008. In 2009, Sasini paid a dividend of 12.32% of its net profit and the share price increased to Ksh.27.00. When the company did not pay any dividend in 2010, the share price dropped to Ksh. 20.50 while in 2011, the company paid a dividend of 16.06% but the share price remained stagnant at Ksh. 20.50.

Williamson Tea paid a dividend of 12.72% in 2007 and the market share price was Ksh. 41.25. In 2008, the share price rose to Ksh. 84.00 when the dividend payout was increased to 70.89% of the net profit. The share price rose to Ksh. 90.50 when dividend of 40.73% of the net profit was paid out in 2009. In 2010, a dividend of 49.62% was paid and the share price rose to Ksh. 143.00 while in 2011, a dividend of 7.95% was paid and the market share price declined to Ksh.40.25.

Analysis of Nation Media Group market share price sensitivity to the dividend payout policy indicates that when the company paid a dividend of 32.78% of its net profit in 2007, its market share price was Ksh. 40. The company increased its payout ratio to 33.11% in 2008 and the share price shot to Ksh. 101.00. The share price further increased to Ksh. 195.00 when the company paid a dividend of 50.03% in 2009. In 2010, the dividend was increased to 59.74% of its net profit and the prices rose to Ksh. 199 while in 2011, NMG paid a dividend of 109.25% and the share prices rose to Ksh. 204.

The share price to dividend pay-out policy sensitivity analysis showed that when TPS Serena paid a dividend of 51.16% of its net profit in 2007, the market share price was Ksh. 16.00. The

company increased the dividend to 40.15% and the share price rose to Ksh. 20.00. In 2008, TPS paid a dividend of 32.6% and the share price rose to Ksh. 33.75. When the company paid a dividend of 135.42% in 2009, its share price rose to Ksh. 81.00. In 2010, a dividend of 33.77% was paid and the share price became Ksh. 35. Barclays Bank paid a dividend of 89.06% in 2007 and the market share price was Ksh. 85.00. The share price increased to Ksh. 131.00 when the dividend of 124.61% was paid. In 2008, a dividend of 77.21% was paid and the share price rose to Ksh. 235.00. The share price dropped to Ksh. 204.00 when a dividend of 81.55% was paid out in 2009 while in 2010, the share price remained stagnant at Ksh. 204.00 when a dividend of 49.88% was paid out.

Diamond Trust paid a dividend of Ksh. 9.00 when the dividend paid was 78.43% of the net earnings in 2007. In 2008, the dividend paid was 63.16% and the share price increased to Ksh. 21.50. The dividend was increased to 42.42% of the net profit and the share price rose to Ksh. 32.25. In 2009, a dividend of 29.52% of the net profit was paid and the share price increased to Ksh. 44.75 while in 2010, the dividend payout was reduced to 28.65% of the net profit but the share price remained stagnant at Ksh. 44.75. Total Kenya paid no dividend in 2007 and the share price was Ksh. 10.35 while in 2008, the share price rose to Ksh. 35.75 when a dividend of 70.54% was paid out. In 2009, a dividend of 74.96% was paid and the share price rose to Ksh. 94.50. When the dividend was increased to 81.37% in 2010, the market share price dropped to Ksh. 41. In 2011, a dividend of 88.98% of the net profit was paid out and the share price further dropped to Ksh. 34.75.

In the finance and investment sector, NIC bank paid a dividend of 47.49% of the net profit in 2007 and had its market share price at Kshs 15.25. In 2008 its market share price increased to Kshs 13.10 following a 52.63% dividend payment. In 2009, the bank had paid 71.94% of its net profit during the year and the share price increased to Kshs 26. In 2010, NIC bank paid 75.68% and the market share price increased to Kshs 52.50 while in 2011, the bank paid 74.75% and the share price dropped to Kshs 52. Stanchart in 2007 paid 125% of its net profit and had a price of Kshs 56.50, in 2008, the bank paid 91.26% and the share price dropped to Kshs 52. In 2009, the bank paid 92.49% of its net profit and the share price increased to Kshs 93. In 2010, Stan chart paid 96.46% and the price increased to Kshs 133 while in 2011, the bank paid 83.13% and the share price increased to Kshs 139. In 2007, KCB did not pay dividend and the price was Kshs 19.10. In 2008, the bank did not pay any dividend and the price dropped to Kshs 10.15. In 2009, KCB did not pay any dividends and the price stood at Kshs 47.25 while in the following year, the bank paid 50.72% of its net profit and the market share price increased to Kshs 66.5 while in 2010, when KCB had a dividend pay-out of 60.21% of its net profit, the price stood at Kshs 115.

BAT in 2007, paid 68.59% of its net profit and the share price stood at Kshs 54, in 2008 BAT paid 173.84% and the share price was Kshs 47.50. In 2009, the company paid 85.05% of its net profit and the price increased to Kshs 98. In 2010, the company paid 136.34% and the price increased to Kshs 245. In 2011, the company reduced the dividend pay out to 90.45% and the price reduced to Kshs 200. EABL in 2007, paid 68.44% and the price was Kshs 80. In 2008, the company pay out reduced to 60.48% and the price was Kshs 82.50. In 2009, the company

increased pay out to 87.85% and the price increased to Kshs 226. In 2010, the company paid 51.36% and the price increased to Kshs 445. In 2011, EABL paid 62.17% and the price dropped to Kshs 149.

Bamburi in 2007 paid 57.80% and the share price was Kshs 29.00. In 2008, the company paid 37.31% and the price dropped Kshs 17.25. In 2009, the firm paid 29.59% and the price increased to Kshs 80. In 2010, the firm paid 129.30% and the price stabled at Kshs 80 while in 2011, the price increased to Kshs 140 when the payout was 89.27%. Firestone, in 2007 paid 82.64% of its net earnings as dividends and the price was Kshs 7.00. In 2008, the company increased its payout ratio to 100% of its net profit and the price increased to Kshs 8.15. In 2009, the company paid 60.24% of its net earnings and the price increased to Kshs 12.95. In 2010, the company paid 101.15% and the price reduced to 12.50. In 2011, the company paid 68% and the price was constant at Kshs 12.50. BOC Company in 2007, paid 92.69% payout ratio and the price was Kshs 31.00. In 2008, the company paid 92.45% payout ratio and the price reduced to Kshs 27.00. In 2009, the ratio reduced to 80.56% and the price reduced to Kshs 75.50. In 2010, the company paid 54.87% and the price increased to Kshs 116 while in 2011, the company had a dividend pay-out ratio of 59% of its net profits and the market share price rose to Kshs. 117.

## **CHAPTER FIVE: SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

The chapter provides the summary of the findings from chapter four. The chapter also gives the conclusions and recommendations of the study based on the objectives of the study. The objective of this study was to investigate the effects of dividend policy on share prices.

### **5.2 Summary of the Findings**

The study aimed at investigating the effects of dividend policy on share prices.

#### **5.2.1 Tax Incentives**

The study found out that the respondents indicated that higher pre-tax risk adjusted returns associated with higher dividend yield affected share price to a very large extent and that investors whose portfolios had low systematic risk preferred high-pay-out stocks to a very large extent this is as per the Brennan's model which maintains that a stock's pre-tax returns should be positively and linearly related to its dividend yield and to its systematic risk.

#### **5.2.2 Clientele Effect**

The study further found that increase in firms' stocks trading volume affected the share price to a very large extent and that the investors who wanted current investment income owned shares in high dividend payout firms and only a small part of the increased trading volume of stocks

related to clientele adjustment affected the share price to a great extent this collates with the literature review where Botha (1985), argues that the tax induced clientele argument is based on shareholders' different tax status, which causes shareholders to have preference in respect to returns from investments.

### **5.2.3 Free Cash Flow**

Finally, the study found out that the respondents indicated that Free cash flow caused conflict between management and shareholders which in turn affected the share price to a very large extent and that the executive option plan persuaded management to reduce corporate dividends by an amount that was equal to the option plan and dividends reduced free cash flows available to managers to a great extent this relates with the literature review where Lambert, lanen and larker (1989) explain that where firms adopt executive share options plans, the dividend policy selected by management could be influenced by plans. They further conclude that an executive option plan will persuade management to reduce corporate dividends by an amount that is equal to the option plan.

### **5.3 Conclusion**

The study concludes that higher pre-tax risk adjusted returns associated with higher dividend yield stocks affected share price and that investors whose portfolios had low systematic risk preferred high-pay-out stocks.

The study further concludes that an increase in firms' stocks trading volume affected the share price and those investors who wanted current investment income owned shares in high dividend payout firms.

Finally the study concludes that free cash flow caused conflict between management and shareholders and that the executive option plan persuaded management to reduce corporate dividends by an amount that was equal to the option plan.

#### **5.4 Recommendations**

The study recommends that companies consider all pertinent issues before issuing dividends. Since the share market is positively responsive to the dividend announcement, companies should always strive to pay dividends consistently for their shares to perform well at the stock exchange. Dividend policy has an effect on the share prices of the firms quoted at NSE thus, companies (firms) should pay dividends to maintain high share prices. This is pertinent with the dividend theories of bird-in-hand theory, information signaling effect theory, tax differential theory and agency theory. These theories propose that dividend policy is relevant to the value of the firm; other factors kept constant.

Moreover, the study recommends that firms should maintain a clear and consistent dividend policy for the dividend policy to affect the value of the firm and firms should adjust its dividend policy to maximize its share market values, thereby influencing the supply of dividends.

#### **5.5 Recommendations for further studies**

This study has investigated the effect of dividend policy on share prices. To this end therefore a further study should be carried on unquoted companies to see whether the same results also hold by testing the variables in this study on companies not quoted on the Nairobi stock exchange.

Moreover, a study should be carried out to investigate the challenges faced in the implementation of the dividend policies on share prices.

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# APPENDICES

## Appendix I: Work Plan

Activity/weeks	1	2	2	3	4	5	5	6
Project projectwriting	■	■						
Corrections			■					
Data collection				■	■			
Data analysis					■			
Report writing						■		
Submission of report						■		
Finalization of report							■	■

## Appendix II: Budget Schedule

BUDGET ITEM	UNIT	RATE	TOTAL COST
MATERIALS			
Literature survey/photocopies	Item		3,500
Services from data source	Item		6,000
Research assistants(3)			20,000
SUBTOTAL			29,500
OTHER COSTS			
Projectdrafts printing			5,000
Binding			500
Travel			4,000
Telephone/internet			4,000
Report publication and photocopying			8,000
Binding			1,000
SUBTOTAL			21,500
Contingencies			8,000
TOTAL COST			60,000

## Appendix III: Questionnaire

### Part A: Demographic Data

1. Gender

Male

Female

2. Age

20-24 years

25-29 years

30-34 years

35-39 years

40-44 years

Over 45 years

3. Which department do you work in?

Top-level management

Middle-level management

Lower-level management

**Part b: Effects of Dividend Policy on Share Prices**

**A: Tax Incentives**

To what extent do you agree with the following statements on tax incentives, where 1 is to a very great extent and 5 is to no extent.

	To a very great	To great extent	To a moderate	To a little extent	To no extent
Stock's pre-tax returns should be positively and linearly related to its dividend yield and to its systematic risk.					
Higher pre-tax risk adjusted returns are associated with higher dividend yield stocks to compensate investors for the tax disadvantages of these returns					
Positive relationship between investors' ages and their portfolios' dividend yield, and a negative relationship between investors' incomes and dividend yield					
Investors whose portfolios have low systematic risk prefer high-payout stocks					
A stock with higher dividend yield will sell at lower prices					

**B: Clientele effect**

To what extent do you agree with the following statements on clientele effect where 1 is to a great extent and 5 is to no extent.

	To a very great	To great extent	To a moderate	To a little extent	To no extent
Increase in firms' stocks trading volume is due to the signaling effect or was a product of investors in various tax clienteles adjusting their portfolios					
Investors who want current investment income should own shares in high dividend payout firms					
Only a small part of the increased trading volume of stocks is related to clientele adjustment					
Investors who do not require dividend distributions should own shares in low dividend payout firms					

**C: Free cash flows**

To what extent do you agree with the following statements on free cash flow where 1 is to a great extent and 5 is to no extent.

	To a very great	To great extent	To a moderate	To a little extent	To no extent
Executive option plan will persuade management to reduce corporate dividends by an amount that is equal to the option plan.					
Dividends reduce free cash flows available to managers					
Free cash flow causes conflict between management and shareholders					
Dividends are therefore a way of removing free cash flows from managerial control in firms that face limited investment opportunities					

THANK YOU!