

**RELATIONSHIP BETWEEN DIVIDEND POLICIES AND SHARE PRICES OF NON
FINANCIAL FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE**

By

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REG.NO. KCA/07/05026

**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF MASTER'S OF SCIENCE COMMERCE
(FINANCE AND INVESTMENT)**

KCA UNIVERSITY

2017

DECLARATION

I declare that this dissertation is my original work and it has not been previously been published or submitted elsewhere for a ward of degree I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

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ABSTRACT

The aim of this study is to examine the relationship between dividend policies and share prices of non financial firms listed at Nairobi Securities Exchange (NSE). The general objective of the study was to examine the relationship between dividend policies (dividend payout ratio, dividend growth rate and control variable i.e. Earnings per share) and the share price of non financial firms listed at NSE. The dataset consisted volume weighted average price as dependent variables and dividend payout ratio, dividend growth rate and earnings per share as independent variables. A non probability sampling was used. Purposive sampling was used to select the 20 desired non financial firms listed at Nairobi Securities Exchange. The study used secondary panel data contained in the annual reports and financial statements of listed non financial firms. The data was extracted from the Nairobi Securities Exchange websites for period 2010 to 2015. The study employed descriptive design. The study applied panel data models (Fixed effects). Multiple linear regression analysis was used to establish the relationship. The findings showed that there was statistically insignificant positive relationship between dividend payout ratio and share price of non financial firms listed at NSE. Dividend growth rate had positive significant relationship with share price. Earnings per share had negative and significant relationship with the share price. The study recommended that management of listed firms should conduct a research on different dividend policies to identify the ones that would maximize the value of a firm.

Acknowledgment

My research dissertation would not have been possible without the cooperation and support of my family, workmates and friends.

I hereby express my sincere gratitude to my supervisor Dr. Michael Njogo for his tireless guidance, selfless dedication and encouragements in making this dissertation a reality.

Most important of all I extend my gratitude to the Almighty God for granting me the needed strength, good health, knowledge, finances and support team of family lecturers and fellow students that enabled me carry out this dissertation.

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DEDICATION

To my husband Godfrey Mbuvi Kang'e, my son Godwin Mbuvi and my daughter Blessing Mbuvi for their constant encouragement, and support.

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ABBREVIATION

NSE- Nairobi securities exchange

MM- Miller and Modigliani

CAPM-Capital Asset Pricing Model

CFO-Chief Finance Officer

DPS-Dividend per Share

EPS –Earnings per share

MPS-market price per share

OPERATIONAL DEFINITION OF TERMS

Dividends

Dividend is the distribution of a company's profits (Depte & Roshan, 2009).

Dividend policy

Dividend policy is the blueprint used to determine the fraction of the dividends to be shared or reinvested (Arnott, 2003).

Share Price

Share price is the market value of the security in the free financial capital market for equity (Baker, 2001).

Dividend Payout

Dividend payout is the percentage of earnings a company pays in cash to its shareholders (Van Horne, 2001).

Dividend Payout Ratio

The dividend payout ratio is the amount of dividends paid to stockholders relative to the amount of total net income of a company. Pandey (2010)

Dividend Growth Rate

The dividend growth rate is the annualized percentage rate of growth that a particular stock's dividend undergoes over a period of time (Stulz, 2000)

Earnings per Share

Earnings per share represent a portion of company's earnings, net of taxes and preferred share dividend, which is allocated to each ordinary share holder. Eriots (2005)

CHAPTER ONE

INTRODUCTION

1.0 Back ground of the study

Dividend policy is described as the regulations and guidelines that a company uses to decide to make dividend payments to shareholders' (Nissim & Ziv, 2001). It clearly expresses decision of the Board of Directors regarding the amount of dividend that should be distributed to the shareholders of the corporation.

Gibson (2009), Baker and Powel (1999) stated that dividend policy is considered to be important financial decisions that corporate managers encounter. Omran and Pointon (2004) observed that dividend policy has potential implications for share prices and hence returns to investors, the financing of internal growth and the equity base through retentions together with its gearing and leverage.

Lintner (1956) was pioneer to work on dividend policy. He inquired about the factors that affect the size, shape and dividend payment timing. Miller and Modigliani (1961) found that there exists no relationship between the dividend and the value of any firm; rather investment policy can exclusively affect the value of the firm. Gordon (1963) proved that dividend policies cause a change in the firm value and is an indication for the prospect incomes (Baskin, 1989).

The twenty first century has seen dividend policy remain one of the most important financial policies used in financial management to achieve the objective of wealth maximization (Baker & Kent 2009). It's a requirement in Kenya for companies that intend to be listed at the

Nairobi Stock Exchange to have a clear future dividend policy (Kenya Gazette Legal Notice No.60 May, 2002).

Patterns of dividend policy not only vary overtime but across countries especially between developed and emerging capital markets. Glen et al (1995) found that dividend policies in emerging markets differed from those in developed markets. They reported that dividend payout ratios in developing countries were only about two thirds that of developed countries.

Capstaff, Klaeboe, and Marshall (2004) explains dividend policy under the relevance theory as, a practical approach which treats dividends as an active decision variable and retained earnings as the residues. Dividend policy is 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 (Nitta, 2006). Dividend policy remains a source of controversy despite years of theoretical and empirical research, including its linkage between dividend policy and share price volatility, (Allen and Rachim, 1996).Paying large dividends reduces risk and thus influence share price (Gordon, 1963) and is a proxy for the future earnings (Baskin, 1989)..

Black and Scholes (1976) stated that dividend policy has remained a great puzzle that many scholars have tried to solve. Dividend policy therefore is considered to be one of the most important financial decisions that corporate managers encounter (Baker and Powel, 1999). It has potential implications for share prices and hence returns to investors, the financing of internal growth and the equity base through retentions together with its gearing and leverage (Omran & Pointon, 2004).

Frankfurtet and McGoun (2000) concluded that the dividend puzzle, both as a share value enhancing feature and as a matter of policy is one of the most challenging topics of modern financial economics. Mizuno (2007) argued to the fact that a firm ought to pay dividends to

shareholders if it cannot identify suitable investment which would bring higher returns than those expected by the shareholders. Dividend represents the return accruing to a shareholder for investing in an organization in order to acquire stocks (Eriki & Okafor, 2002).

The principle of wealth creation in finance is mostly based on the notions of dividend payout and share price increases. A number of scholars who believe in Wealth creation, such as Bainbridge (1993), Jensen (2001), Brigham and Ehrhardt (2002), Brealey and Myers (2003) and Moyer, McGuigan and Kretlow (2003) argued that shareholders wealth is maximized when the company gives out a regular dividend to shareholders and when the stock price appreciates on the stock market so that the investors makes some capital gains.

Properly managed dividend policy has an impact on share prices and shareholders wealth (Gill, Biger & Tibrewala, 2010). Park (2009) discussed that dividend payments are associated with firms with good corporate governance, concluding that firms in legal regimes with less investor protection.

Dividend policy is influenced by internal factors such as investment opportunity ,profitability stability of earnings, the firms debt structure which may require cash be available to repay debt and liquidity of companies but also ,influenced by external factors such as legal provisions which provide that dividends be paid from earnings and contractual constraints which could restrict payment of dividends (Jensen & Johnson ,1995;Jensen & Smith 1984;Litner ,1956).Other external factors that affect dividend payout include inflation rate ,exchange rates, interest rates and money supply.

Gill, Biger and Tibrewala (2010) suggested that dividend are paid to provide certainty about the company's financial wellbeing ,dividends are attractive for investors looking to secure

current income ,and dividends help maintain market price of the share. Finnerty's (1986) advised that firms should establish its dividend policy with a view to maximize shareholders wealth.

Miller and Modigliani (1961) stated that in perfect capital market, the firm's choice of dividend policy is irrelevant and does not affect the value of the firm. The irrelevance theorem is emerging that dividend policy is shaped by market imperfections, such as taxes, agency costs, transactions costs, and asymmetric information between managers and investors.

Berkand DeMarzo (2011) argued that dividend policy has no effect on either the price of firms share or its cost of capital. They rather argued that the firm's value is determined only by its basic earnings power and its business risk that is the value of the firm depends only on the income produced by its assets , not on how this income is split between dividends and retained earnings .

Diamond, (1967), Gordon (1963), Litner (1962), and Walter (1963) propose that cash dividends are worth more than capital gains to be received basic earnings power and its business risk that is the value of the firm depends only on the income produced by its assets, not on how this income is split between dividends and retained earnings.

Brigham and Houston, (2004), assert that investors are interested in the income after tax. Dividends may have higher taxes than capital gains and thus investor's prefer capital gains to cash dividends due to the tax effect. Dividends communicate message about the company, so it suggests the feasibility of its influence on the stock market. Paying large dividends lowers the risk and influences stock price (Gordon, 1963) and is a proxy for the future earnings (Baskin, 1989).

Farsio et al., (2004) argued that empirical studies that conclude a causal relationship exists between earnings and dividends are based on short periods of time and are therefore misleading to potential investors..

Kuria (2001) studied relationship between dividend policies and company's growth in assets, return on assets and return on equity of firms listed at Nairobi Securities Exchange. A regression analysis showed a negative relationship between dividend payout ratios and growth in assets and concluded that managers used retained earnings to finance company's growth. The study concluded that an investor, especially the one interested in cash dividends rather than capital gains, will be able to distinguish these companies with high capital gains as reflected in increase in assets and increase in stock prices.

Dhanani (2005) concluded that it is possible for a firm to develop a dividend policy that takes into consideration the different circumstances of its shareholders. Certain shareholders may have a preference for cash dividends, others for dividend stability while others would prefer capital gains earned through reinvestment of dividends and thus no cash dividends. Depending on the various shareholders preference a company should therefore formulate a dividend policy that meets the needs of its shareholders.

Wrungler and Malcom (2004) agree with this and have demonstrated that firms design dividend policy in response to shareholders preference for dividends. Lintner (1956) concluded that the dividend payment pattern of a corporation is substantially attributed to current year earnings and previous year earnings. Eriotis (2005) found that the Greek firms distribute dividend each year according to their target payout ratio, which is determined by distributed earnings and size of these firms.

Baker, Powell, and Veit (2002) discussed in their article that “Reinvesting managerial perspective on dividend policy provided new evidence of managers’ decision about dividend policy. They conducted a survey of managers’ decision about dividend policy. They conducted a survey of managers of NASDAQ firms that are consistently paying cash dividends. Their survey result shows that managers are mostly aware of historical pattern of dividends and earnings.

1.2 Dividend policy and Share Price

Dividend policy is important, because they provide hints as to the sustainability of a company. Huka (1998) defines Dividend decisions as proportion of profits that are distributed as dividends. Dividend policy has for a long time been of greatest interest in financial literature. Issues relating to dividend policy have remained controversial. Pandey (2010) explained that the MM propositions do not hold in real world because there exist no perfect capital market as dividend is not equivalent.

There are two categories of dividend policy that is residual dividend policy and payout ratio. In residual dividend policy the amount of dividend is simply the cash left after the firm makes desirable investment using net present value 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 life cycle they are in. Dividend policy has gained attentions by the financial researchers since it was pioneered by Miller and Modigliani (1961).

1.3 Statement of the Problem.

Dividend policy is an issue of interest in the financial literature, despite vast research on the topic it has remained a controversial issue. The ideal situation is that a good company should have investors in their mind when developing a dividend policy. The ideal situation has not been met due to the problem of practice; in most cases companies have ignored investor's interest when coming up with dividend policies.

Dividend policy is a struggle between how much to invest for the company's growth and how much to payout to investors. Both two portions affect stock price, investors level of confident and company's opportunity in generating income. The need to distribute free cash flows of the firms has become a pushing factor to achieve optimum payout policy (Baker, 2015).

Firms are faced with difficulties of sharing dividend to stockholders and retaining their earnings with a view to reinvesting it into the business so as to promote further growth. Managers searching for help in making dividend policy decisions encounter many theories and the explanations, where under real world conditions, determining an appropriate payout policy involves a difficult choice between the need to balance many potentially conflicting forces.

Dividend distribution seems to be a tool to increase the value of a firm in the eyes of investors; it is still unclear what financial factors management uses to support their decision behind declaring a dividend payment. Researchers have different views about the dividend policy and share prices.

Graham,Dodd (1951) and Gordon (1959) stated that an increase in dividend payout policy advances to higher stock prices and bring down the cost of equity. Enhardt (2013) studied

the relationship between dividend policies and share prices and found that there was positive relation between dividend policy and share price.

Ogolo (2012) studied the effect of dividend policy on share prices on firms listed at Nairobi Stock Exchange. The study found positive relationship between market price per share and dividend policy. Muriuki (2012) studied relationship between dividend policies and share prices for companies quoted at NSE. His findings was that there was a statistically significance positive relationship between the dividend payout and share price of the firms listed at NSE.

Azhagaih and Priya (2008) studied the impact of dividend policy on shareholders wealth in organic and inorganic chemical companies and found that shareholders wealth was not determined by dividend policy. Sew Eng Hooi Mohammed Albity and Ahmad Ibn Ibrahim (2015) studied relationship between dividend policy and share volatility in Malaysian market they found that dividend payout ratio and dividend yield to be negatively related to share price volatility.

The findings of the research contradict previous studies. Peterson (1985) in his findings concluded that high elevated dividend payout ratio, heightened returns are needed by firm's shareholders and this leads to lower share price.

Although extensive theorizing and empirical research into the motivations of paying dividends help to explain the dividend puzzle, all of the pieces of this puzzle still do not fit into coherent whole.. Despite some inconclusive evidence about the competing theories of paying dividends, some theories or explanations have relatively more empirical support than others.

1.4 Objective of the Study

The general objective of the study is to empirically examine the relationship between dividend policy and the share price of the non financial companies listed at Nairobi Stock Exchange.

1.5 Specific Objective

1. To establish the relationship between payout ratio and share prices of nonfinancial firms listed at the Nairobi Securities Exchange (NSE).
2. To determine the relationship between dividend growth rate and share price of non financial firms listed at the Nairobi Securities Exchange
3. To examine relationship between earnings per share as a control variable and share prices of non financial firms listed at the Nairobi securities exchange.

1.6 Research questions

1. What is the relationship between dividend payout ratio and share price of nonfinancial firms listed at the Nairobi Securities Exchange?
2. What is the relationship between dividend growth rate and share price of non financial firms listed at the Nairobi Securities Exchange?
3. What is the relationship between earnings per share as a control variable and share prices of non financial firms listed at the Nairobi securities exchange?

1.7 Significance of the Study

The study will be significance to the following;

1.7.1 Shareholders:

The study would provide an insight to shareholders on the theory and practice of dividend policy and its relationship on the share price of non listed firms which is also useful in appraisal of the efficiency of the management in decision making. The Shareholders have a responsibility to continually monitor management's decisions to ensure that they are aimed at maximizing shareholders' wealth. The study would therefore help in making strategic investment decisions which would maximize shareholder's wealth.

1.7.2 Managers:

It shades light on how corporate manager should decide on the dividend policy and what should be considered before they make any decision. It will be able to know the information content of dividend policy hence use dividends to convey important information to Shareholders. When managers know the relationship between dividend policy and share prices, then they will be able to satisfy shareholder expectations.

1.7.3 The Government:

The government will find this research useful in the formulation of policies that would protect shareholders from exploitation by firm managers by knowing the information content of dividend policies and the importance of this information for non financial companies listed at Nairobi Securities Exchange.

1.7.4 Investment analysts:

Investment analyst will be able to use the findings to offer value adding services to their clients thereby assisting them to maximize the share value of shares held. This would also increase their credibility in the face of their clients by increasing their clientele.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section analyses several literatures related to the relationship between dividend payout policies and share price. In this chapter the theoretical and empirical works of scholars in the area of dividend payouts and valuation of common stock is presented. The theories present conflicting opinions as to the effect of dividend policy decisions on the value of a company's shares. Empirical review with respect to each objective is presented and then conceptual frame work developed.

2.2 Theoretical review

2.2.1 Miller and Modigliani dividend irrelevance theory

Modigliani and Miller (1958) and Miller and Modigliani (1961), argued that dividends do not change a firm's underlying investment policy and cash flows, dividend policy is irrelevant to firm value. They suggested that a firm's value is determined by its investment policy and the manner in which earnings are split between retained earnings and dividends does not affect the firm's value (Stulz, 2000). Dividend policy does not affect share price because the value of the firm is a function of its earning power and the risk of its assets.

Baker and Kent (2009) stated that under perfect capital markets, the dividend policy is independent to the price of firm and it states that there is no transaction or flotation cost and there is no influence of investors on the market value of the share. This theory assumed that there is no

existence of taxes, in terms of the assumption relation to investment policy; it claimed that the company does not change their investment policy. The assumptions made by the MM theory are not logically strong and thus have been criticized.

The assumption of no transaction cost and no taxes are not possible in the real world. However, both internal and external financing are different, but this theory assumed them to be logically equal which is also not possible. The MM theory of dividend policy is an interesting and a different approach to the valuation of shares. It is a popular model which believes in the irrelevance of the dividends.

Miller and Modigliani argued that it does not matter how a firm distributes its income since it has no effect on the value of the firm rather the value of the firm is greatly influenced by its basic earning power and its investment decisions. They stated that a firm's investment policy and the dividend payout policy chosen will not affect the current price of its shares and the total returns to its shareholders. This is to mean that whether a firm pays dividends or not, and also how it sets the dividend policy, the value of a firm is based on the capitalized value of their future earnings. They pointed out that, all dividend policies are almost the same since investors can have their own dividends by having a diversification in their portfolios in a way that matches their preferences.

Al-Malkawi, Rafferty and Pillai (2010) in their study of dividend policy theories proofed that dividend irrelevance theory put forward by Miller and Modigliani (1961) to be true by them asserting that the firm's investment policy is the key determinant of its value and dividend policy is the residual. Since the operating cash flows are dependent on firms' investments, positive net present value projects will lead to increases in the operating cash flows and thus leading to increase in the value of the firm. Considering the assumptions above, a firm's future cash flow

from investment activities has the greatest impact on the value of the firm. They argued that the backbone of dividend irrelevancy was based on various assumptions about the nature of perfect capital markets. Therefore, the theory suggests that under perfect market, the company's dividend payout policies do not affect the share value of a company.

MM assumed that capital markets are perfect whereby no buyers or sellers of securities is enough to have a significant influence on ruling share prices, that investors are rational meaning that they always prefer stocks of higher returns and they are risk averse, and that there is perfect certainty hence there is complete assurance on the part of the investors as to future investment programs and profits of every corporation. Empirical evidence in support of Miller and Modigliani dividends irrelevance theory has been done by Black and Scholes (1974), Bernstein (1996), and Miller and Scholes (1978,1982).

Black and Scholes (1974) studied the relationship between dividend yield and stock returns so as to establish the effect dividend policy has on stock prices. They sampled common stocks of firms listed on the New York Stock Exchange (NYSE), and comprehensively looked at the capital asset pricing model (CAPM) to test the long run estimate of dividend yield effects. They used the dividend yield given by previous year's dividends divided by the year end share price. Their results showed that the dividend yield coefficient was not significant. They concluded that there is no difference in the expected return for high or low yield stocks. They also concluded that differences in yield do not automatically lead to having any differences in stock prices, meaning that neither high yield nor low yield payout policy of firms have an influence on stock prices.

Baker and Powell (1999) studied effects of dividend policy on firms value, where they surveyed CFOs of firms listed in the NYSE, and found that majority of respondents believed that

dividend policy affects value of the firm including its cost of capital. These studies have provided evidence of the inconsistent with dividend irrelevance theory.

2.2.2 Signaling Theory

Stephen Ross, (1977) studied effects of dividend payment and share prices. He found that there is a strong association between dividend payment and share prices. The theory states that investors regard dividends as signals of managements forecast of earnings. There is a belief that managers change dividends (increase or decrease) only when it is necessary that is, a decrease occur only when the firm is facing financial difficulty ,while increase occur only when expected that the firm can continue to pay higher dividends long into the future.

Changes in a firm's policy provide investors who will react accordingly. Investors consider an increase or decrease in dividends to be good or bad news and thus increase or decrease the price of firm stock. Rise in dividend payment is viewed as a positive signal whereas a reduction in dividend payment is viewed as a negative signal about the future earnings prospects of the company, thus leading to an increase or decreases in share prices of the firm.

Al-Malkawi, Rafferty and Pillai, (2010) studied signaling effects hypothesis on share price, investors can infer information about a firm's future earnings through the signal coming from dividend announcements, both in terms of the stability of and changes in dividends. Dividend cuts it may be considered as a signal that the firm has poor future forecasts, and this will make the share price to react unfavorably to this.

Managers have asymmetric information which means they have some information that outside investors do not have, could mean that any action taken by a firm, including how it raises funds might provide a signal to the less informed investors. Studies have shown that when firms

issue new common stock to raise funds the per share value of the stock decreases. If these conditions are fulfilled, the market should react favorably to the announcements of dividend increase and unfavorably otherwise (Koch & Shenoy, 1999).

As managers are likely to have more information about the firm's future prospects than outside investors, they may be able to use changes in dividends as a vehicle to communicate information to the financial market about a firm's future earnings and growth.

Outside investors may perceive dividend announcements as a reflection of the managers' assessment of a firm's performance and prospects. An increase in dividend payout may be interpreted by investors as the firm having good future profitability, and therefore its share price will react positively to this. The signaling theory of dividends has its origins in (Lintner, 1956) studies who revealed that the price of a company's stocks usually changes when the dividend payments changes.

Modigliani and Miller (1961) argued in favor of the dividend irrelevance they also stated that in the real world disregarding the perfect capital markets, dividend provides an "information content" which may affect the market price of the stock. Many researchers have thereafter been developing the signaling theory and today it is seen as one of the most influential dividend theory.

Bhattacharya, (1979) presented one of the most acknowledged studies regarding signaling theories which states that dividends may function as a signal of expected future cash flows. An increase in the dividends indicates that the managers expect higher cash flows in the future. Dividends are taxed at a higher rate compared to capital gains. He argued that under these circumstances even though there is a tax disadvantage for dividends, companies would choose to pay dividends in order to send positive signals to shareholders and outside investors.

The relation between share price and dividends announcements depends on how much information is contained in the announcements and how much the information influences the investors' expectations (Black *et. al.*, 1995). For the vast majority of public companies, cash dividend announcement is an important factor to maximize the value of shareholders (Escherich, 2000; Keown *et. al.*, 2002)

Pettit (1972) concluded that dividend announcements do communicate valuable information, and showed that the market reacts positively to the announcement of dividend increases, significant increase in stock prices, and negatively to the announcement of dividend decreases, significant drop in stock prices.

Aharony and Swary (1980) studied quarterly cash dividends and earnings announcements made on different dates in a quarter. They find that changes in quarterly dividends provide information in addition to the quarterly earnings announcements. They find that stock prices react quickly to the dividend announcement, which supports the semi-strong form of efficient market hypothesis.

Kane, Lee, and Marcus (1984) developed an expectation model of dividends and earnings based on a formula that determines what constitutes an unexpected change in dividend or earnings. They conclude that dividend announcement and earnings announcement have a significant impact on stock price individually.

Bhattacharya (1979) studied a model that attempts to explain why many firms choose to pay dividends even if there is a tax disadvantage. He assumes that outside investors have imperfect information about a firm's profitability, and information, such as accounting data, is not fully reliable in assessing a firm's profitability.

Bhattacharya (1978) concluded that investors are willing to pay a higher tax rate if they receive the favorable signal that the firm will have greater value in the future. Therefore, dividend is a useful signaling device for outside investor to evaluate a firm's future profitability. Asquith and Mullins Jr (1983) provided empirical evidence in favor of the signaling theory. They argue that an increase of dividend payments tends to increase the shareholders wealth.

2.2.4 Bird in the Hand Theory

Gordon and Lintner (1963) concluded that investors prefer current dividends to capital gains. They argue that current dividends are certain and resolve uncertainty in the investors mind about the future. Because investors are risk averse preferring current to future dividends, near dividends are, therefore, discounted at a lower rate in comparison to future dividends. Because of this, equity costs reduce with high payout ratios.

The stock price increases as shareholders get more dividends in cash as they view the stock as attractive, thus lowering the cost of capital while increasing the value of common stock. The Bird in Hand theory was first mentioned by Lintner (1956) and it has been supported by various researchers including (Gordon, 1963).

Al-Malkawi (2008) asserts that in a world of uncertainty and information asymmetry, dividends are valued differently from retained earnings (capital gains). The name "bird in hand" is the umbrella term for all studies that argues that dividends are positively correlated to the company's value.

Keown et.al (2007) in their study concluded that based on the expression that a bird in the hand is worth more than two in the bush. Due to uncertainty of future cash flow, investors will often tend to prefer dividends to retained earnings. Current dividends are more predictable than capital gains, since the stock price is determined by market forces and not by the managers.

Gordon (1959) studied three possible reasons as to why investors would buy a certain stock. Firstly, to get dividends and earnings, secondly is to get dividends only, and lastly is to get the earnings. He estimated from the different regression models to find out about the above reasons using cross sectional sample data of four industries; chemicals, foods, steels, and machine tools for a period of two years 1951 to 1954. A linear regression was used to test the dividend hypothesis. Gordon found that dividends have greater influence on share price than retained earnings. In addition, he argued that the retained earnings impact on the required rate of return on a share because of the uncertainty associated with future earnings.

Fisher (1961) studied that share prices and retained earnings are heavily impacted by dividends. This is due to the high degree of uncertainty related to capital gains and dividends paid in the future. Current dividends are more predictable than capital gains, since the stock price is determined by market forces and not by the managers (Keown, Martin, Petty & Scott, 2007; Gordon, 1963).

Dividend model is based on several assumptions, that the company is all equity financed and no external financing is used. This implies that the company finances all

investment with retained earnings, secondly, internal rate of return, cost of capital and the retention ratio is constant and finally that the company has an eternal life.

The underlying assumptions of Gordon's model is based on the idea of what is available today compared to what may be available in the future (Khan & Jain, 2008). It is based on the logic that the more distant the future is, the higher the uncertainty regarding capital gains and future dividends. Even though the capital gains in the future may provide a higher return than the current dividends, there is no guarantee that the investor will accumulate a higher return due to the high degree of uncertainty (Gordon, 1963).

Khan and Jain (2008) asserted that investors are unwilling to invest in companies which pay the dividend. An investor would therefore be willing to pay a higher price for firms that pay current dividends. For companies which do not pay current dividends, the investor would use a higher discount rate in order to discount the earnings and the value of these companies should therefore be lower than the companies which pay current dividends. This means that the discount rate becomes higher as the earnings retained in the company increases. The opposite is true; companies which pay current dividends have a lower level of retained earnings which contributes to lower discount rate which in turn contributes to a higher value of the firm.

Lintner's (1956) main arguments towards the bird in hand theory is based on that most companies are conservative in their financing policy and the dividend payments are therefore based on an optimal payout ratio.

The principal factor that contributes to deviations from the optimal payout ratio is due to changes in the company's profit, and if the profit increases the dividend payout should increase in the same proportions (Myers & Bacon, 2004). But uncertainty regarding future profits also has

an impact on the company's dividends. If the estimated risk in the future is higher than the current risk, the company may decrease the dividend payout ratio in order to hedge to decreasing future profits (Friend & Puckett, 1964.).

Keown, Martin, Petty and Scott (2007) argued against the theory and said that increases in current dividends do not decrease the riskiness of the company; it does work in the opposite direction. Because if an increase in dividend payments are made the managers have to issue new stocks in order to raise the needed capital. Therefore a dividend payment just transfers the risk from the old to the new shareholders. Keown, et al (2007) argued that there are still many individual investors and financial institutions who consider that dividends are important.

2.3 Review of Empirical Evidence

2.3.1 Dividend payout ratio and Share Price

Ndeto (2014) studied relationship between dividend payout ratio and firms value of firms listed at Nairobi Securities Exchange for the period of six year as from 2008 to 2013. The study found that there was positive significant relationship between dividend payout ratios and the value of the firm for companies listed at NSE.

Mudasa, Hassan et al (2015) studied relationship between dividend payout ratio and firms profitability of firms in Pakistan. The study covered a period from 1996 to 2008. Firm performance was measured using Earnings per share and return on assets. The results find negative impact of payout ratio on earnings of a firm.

Abor and Amidu (2006) studied determinants of dividend payout ratios in Ghana during a six year period. Using an Ordinary Least Squares model, the results showed positive relationships between dividend payout ratios and profitability, cash flow and tax. The results

showed negative association between dividend payout and risk, institutional holding, growth and market to book value.

Odhiabo (2015) studied effect of dividend payout ratio on market capitalizations of firms listed at Nairobi Securities Exchange. The study used secondary data collected from NSE. Multiple regression analysis was used to analyze the data. The study was for a period of five years as from 2010 to 2015. The study found that positive significant relationship between dividend payout ratio and share value.

Muriuki (2010) studied relationship between dividend policies and share prices for companies listed at Nairobi Stock Exchange. He found an inverse relationship between share prices and dividends for firms which have constant dividend payout ratio, constant dividend per share and residual dividend policy. He found positive relationship between dividend payout and share price.

Ouma and Murekefu (2012) studied relationship between dividend payout ratio and firm performance of listed companies at NSE and find out that a strong positive relationship between dividend payout ratio and stock performance. They concluded that dividend policy is relevant and that managers should devote adequate time and effort to determine a dividend policy that can enhance firm performance and shareholder value.

Okpara (2010) studied effects of dividend payout ratio of firms listed at Nigerian Securities Exchange Commission .He found that profitability negatively affected the payout ratio whereas liquidity and previous year's dividend had a positive impact on payout ratio. He

therefore concluded that the three factors, profit, liquidity and previous year's dividends were good predictors of the dividend payout policy.

Khan and Shehzad (2015) studied effects of dividend payout ratio on the firm profitability. The study was conducted on the non-financial firms listed at Karachi Stock Exchange 100 index. The data was collected as from 2008 to 2012. The data was collected from annual reports and balance sheets analysis. They found that dividend payout ratio has significant effects on profitability.

2.3.2 Dividend Growth Rate and Share Price

Thomas Pedersen (2010) studied unpredictable dividend growth rate and dividend ratio using long term annual data from the US and three European countries. They found that dividend growth rate is strongly predicted by the dividend price ratio.

Ifuero Osad Osamwonyi and Iyobosal Lola (2016) studied effect of dividend policy on firms returns using data of seventeen manufacturing firms listed in Nigerian Stock Exchange. They employed descriptive statistics, correlation analysis and panel data regression technique where fixed effect regression was adopted. The findings revealed that current dividend payout, growth opportunity and dividend per share have positive significant effect on earnings per share.

Jahnke (1975) studied what is behind stock prices done using 425 industrial averages' for 10 years from 1947. The findings were that changes in stock prices and dividend income are the realized compensation for owning stocks used the dividend discount model to demonstrate the relationship between dividend payout policy and stock values.

Balke and Mohar (2006) studied drivers of stock prices by identifying the determinants of stock price movements. They argued that there is a fundamental problem in identifying the source of stock price movements because stock prices are persistent but real dividend growth rate and excess returns are not. They presented that the decomposition of stock price movements is very sensitive to what assumptions are made about the presence of permanent changes in either real dividend growth or excess stock returns. When they allowed real dividend growth to have a permanent component but excess stock returns a temporary one, then the real dividend growth rate was found to have a significant bearing on stock price movement.

Mokaya et al (2013) studied the effects of dividend policy on the banking industry in Kenyan using National Bank as a case study. They applied an explanatory research design. The study used primary data. The study found that there was positive significant correlation between dividend growth rate and value of shares.

2.3.1 Earnings per Share and Share Price

Kalama (2013) studied relationship between earnings per share and share price of firms listed at Nairobi Securities Exchange during the year 2007 and 2012, a sample of 42 companies was used. Multiple linear regression analysis was used to establish the relationship. The findings showed that there was a positive significant relationship between earnings per share and share price of firms listed at NSE.

Oliver Ike (2015) studied relationship between earnings per share and market price of ordinary share in Nigeria banking industry as from 2004 to 2013. He used multiple linear regression analysis. The findings are that there was positive significant relationship between earnings per share and share price of banking industry of Nigeria.

Beaver (1968) studied impact of announcements of annual earnings released by 143 firms listed in NYSE during the year 1961 to 1965. The results reported that there is positive significant relationship between earnings per share and share price.

Malakar,B. and Gupta,R (2002) in his research concluded that earnings per share is found to be significant determinant of share value by considering share value of eight major cement companies in India for the period 1968 to 1988 and five variables namely, dividend per share, retained earnings, earnings per share the share price and sales proceed.

Umar and Musa (2013) studied the relationship between stock prices and earnings per share. The study was for 140 firms listed at Nigeria Stock Exchange from 2005 to 2009. They employed simple linear regression model to analyze the data. They concluded that there was insignificant relationship between stock price and earnings per share.

Dehavi, Zarezadeh and Zraezadehand (2011) studied the relationship between the financial variables and stock price of Iran Khordo. The independent variables were earnings per share, Dividends per share and price earnings ratio and dependent variable was stock price. The empirical result was that there is a positive and significant relationship between earnings per share and stock price of the company. However there is a negative and significant relationship between dividend per share, price earnings ratio and stock price of the company.

Musyoki (2011) studied examination of the predictability of accounting earnings using changes in share prices of companies listed at the Nairobi Securities Exchange for period 2001 to 2005. The independent variables were earnings per share, dividend yield and price earnings ratio while dependent variable was the share price. Eleven companies were analyzed. The price

earnings ratio was positive and significant towards the share price while earnings per share and price earnings ratio had insignificant relations with the share price.

2.4 Summary of literature review

In efforts to understand dividend puzzle various theories have been advanced by academicians (Stulz, 2000; DeAngelo et al., 2006). These theories view dividends as either relevant or irrelevant. These theories are dividend irrelevance theory, bird in hand theory, signaling theory (Miller & Modigliani, 1961; Gordon, 1963; Pettit, 1977). In practice firms design their own dividend policies that suit their requirements or enable them achieve their goals.

Modigliani and Miller's Dividend Irrelevance theory concluded that the company's dividend payout policy is irrelevant under perfect capital markets, there are no kinds of financial illusions and only real factors affect the value of the firm. The Dividend Irrelevancy theory explains that Dividend Policy does not affect the stock prices and it depends on investor's decision to keep either high or low yielding securities return.

The Bird in the Hand Theory concluded that dividend payments affect the value of the firm and investors are willing to pay premium price for stocks that pay dividends; a higher degree of uncertainty is connected to capital gains and dividend paid in the future compared to current capital gains and dividends. Investors use a higher discount rate in order to discount earnings for companies who not pay current dividends.

The signaling theory concludes that outside investors have imperfect information regarding the firms profit opportunities. Dividends function as a signal of expected future cash flows and increasing dividend payments indicates higher cash flows in the future. If the dividend

payments should be seen as a signal, the payments have to be large enough so that only profitable firms can afford to pay.

2.5 Research gap

Dividend policy is a topic of ongoing debate in finance because questions still remain unanswered. There is little research on share price and dividend policy. The results are different from the companies or institution they chose to conduct research, methodology used by the researcher and the economic level of their countries.

Academic research typically develops a theory in the abstract and then tries to find the empirical evidence to validate the theory. They tend to focus only on one piece of the dividend puzzle at a time. Many of the theories or explanations of why firms pay dividends are relatively simple.

The competing frictions model of Lease et al. (2000) is a notable exception. These authors note, however, that comprehensively examining the interactions among the market imperfections becomes mind-numbing. Instead of building a theory in the abstract, researchers could start by determining the factors or characteristics that decision makers consider important in setting their firms dividend policy and then estimating the relative weights. This positive rather than normative-based approach could help build more realistic dividend models, perhaps on a firm specific basis. Yet a drawback of the positive approach is that we need to know more about why firms behave in one way or the other.

2.6 Conceptual Framework

Conceptual framework is a graphical or diagrammatical representation of the relationship between variables in a given study (Born, Gall& Gall, 2005). It has bases from ideas that can be formulated from the researchers own perspective (Cooper &Schindler, 2011).

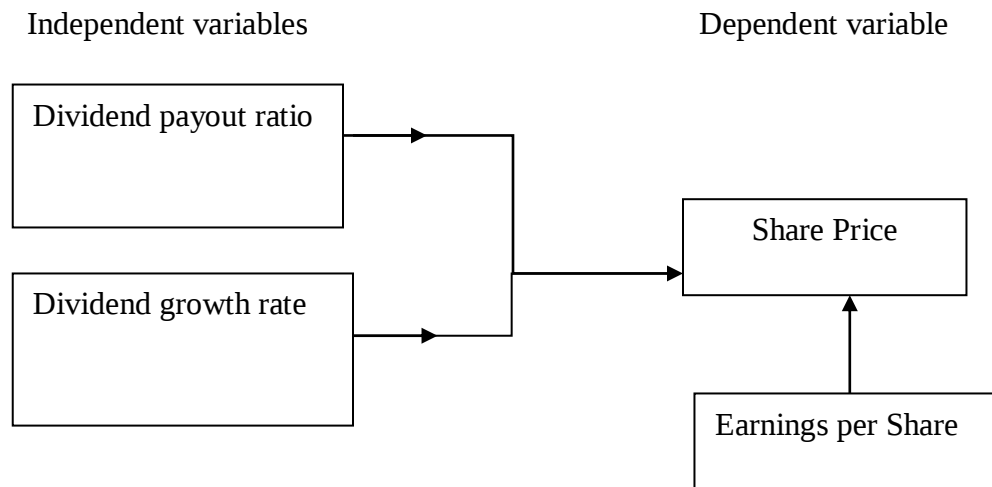


Table 1 Operationalization of Variables

Type	Variables	Transformation and measure	Variable description
Dependent variables	Share price	$\frac{Pt_{+1} + Pt_{+2} + Pt_{+3} + \dots + Pt_{+n}}{t_{+n}}$ $P = \frac{PH + PL}{2}$	Volume weighted average price of specific counters measured by yearly volume weighted average price of indices
Independent variable	Payout ratio	$\frac{DPS}{EPS}$	Total dividend to total earnings
	Dividend growth rate	$\frac{DIV_1 - DIV_0}{DIV_0}$	Dividend at time 1 minus dividend at time zero then divide it by dividend at time zero.
	Earnings per share	$\frac{\text{Net profit attributable to shareholders}}{\text{weighted average no. of ordinary shares}}$	Net income dividend by number of shareholders.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter examines the methodology and data employed in the study. It examines the research design, target population, sample size and sampling technique, data collection, diagnostic collection and data analysis techniques used in the study.

3.2 Research design

Kumar (2005) defines research design as procedural plan that is adopted by researcher to answer questions validly, objectively, accurately and economically. A research design helps a researcher to conceptualize an operational plan to undertake the various procedures and task required to complete the study and to ensure that these procedures are adequate to obtain valid, objective and accurate answers to the research questions. Secondary data was collected for the study from the non financial firms listed at Nairobi Securities Exchange.

Descriptive research design was deemed to be appropriate for the study since the research intended to investigate the in depth information on the relationship between the dividend payout policy variables and the share price of non financial institutions listed at NSE.

3.3 Target Population

Target population is defined as a computed set of individuals, cases or objects with some common observable characteristics of a particular nature distinct from other population. According to Ngechu (2004), a population is a well defined or set of people, services, elements

and events group of things or households that are being investigated. The study targeted all non financial sectors listed at Nairobi Securities Exchange. The companies in the financial sector were excluded from the study to remove any anomalies associated with this sector which is highly regulated by the central bank prudential on issues of liquidity, asset and capital holding, and provision for bad debts among other factors (Santos, 2001).

3.4 Sampling Technique

A sampling technique is the process by which the subjects in the sample have been selected. In this study the sampling technique used was non probability sampling technique. This involved use of judgmental or purposive sampling. Purposive sampling was used due to the various aspects of these firms. Some of the firms did not meet the criteria required for the study. The reason for the chosen sampling technique was due to the need for these elements to fit into the criteria that could help in yielding the needed objective of the study.

3.5 Sample size

A sample size is a group of cases that comprise part of the target population that is carefully selected to present that population (Cooper & Schindler, 2000). The sample size in the study comprised of 20 firms which paid dividends consistently from 2010 to 2015. The sample size is given in the table below;

Table 2 Sample size for non financial firms listed at NSE

Non financial firms listed at NSE	Total no. of companies	No. of selected cos.
Agricultural	7	3
Construction and allied	5	2
Energy and petroleum	5	3
Insurance	6	3
Manufacturing and allied	9	2
Telecommunication	2	1
Commercial and services	9	4
Automobiles	7	2
Total	50	20

Source (Nairobi Stock Exchange website, 2016)

3.6 Data collection

Secondary data was collected from the published financial statements of non financial companies listed at the NSE and published annual reports from the company's websites. The data was for a period of six years from 1st January, 2010 to 31st December, 2015. A period of 6 years was used since it was considered to be adequate for establishing the relationship between dividend policy and share price of non financial firms listed at NSE. The published financial statements of these companies were obtained from the NSE

3.7 Data Analysis

The study investigates the relationship between dividend payout policy and share price through panel data estimation. Panel data estimation allows for observation for company effect and time effect through the period under consideration. Panel data consist of observations on the same cross-sectional, or individual, units over several time periods (Gujarati, 2003).

To carry data analysis, correlation and panel data multiple regression analysis statistical technique was used to assess the nature and extent to which the independent variables (dividend payout ratio, dividend yield, earnings per share, Price earnings ratio) relate with the dependent variable (share price) for non financial firms listed at NSE. Regression analysis was used to find out whether the independent variables predict the given dependent variable (Zinkmud, 2003)

The following regression panel equation was used;

$$P_{it} = \beta_{0i} + \beta_1 DPO_{it} + \beta_2 GRT_{it} + \beta_3 EPS_{it} + \varepsilon_{it}$$

Where;

P –refers to the Share Price

DPO- refers to Dividend payout ratio

DGR- refers to Dividend growth rate

EPS-refers to Earnings per share

β_0 -is the intercept of the model.

$\beta_1, \beta_2, \beta_3$ -are the coefficients of independent variables.

ε_{it} - is the disturbance term.

i-Represents firms.

t- Time measured by the firms year end.

CHAPTER FOUR

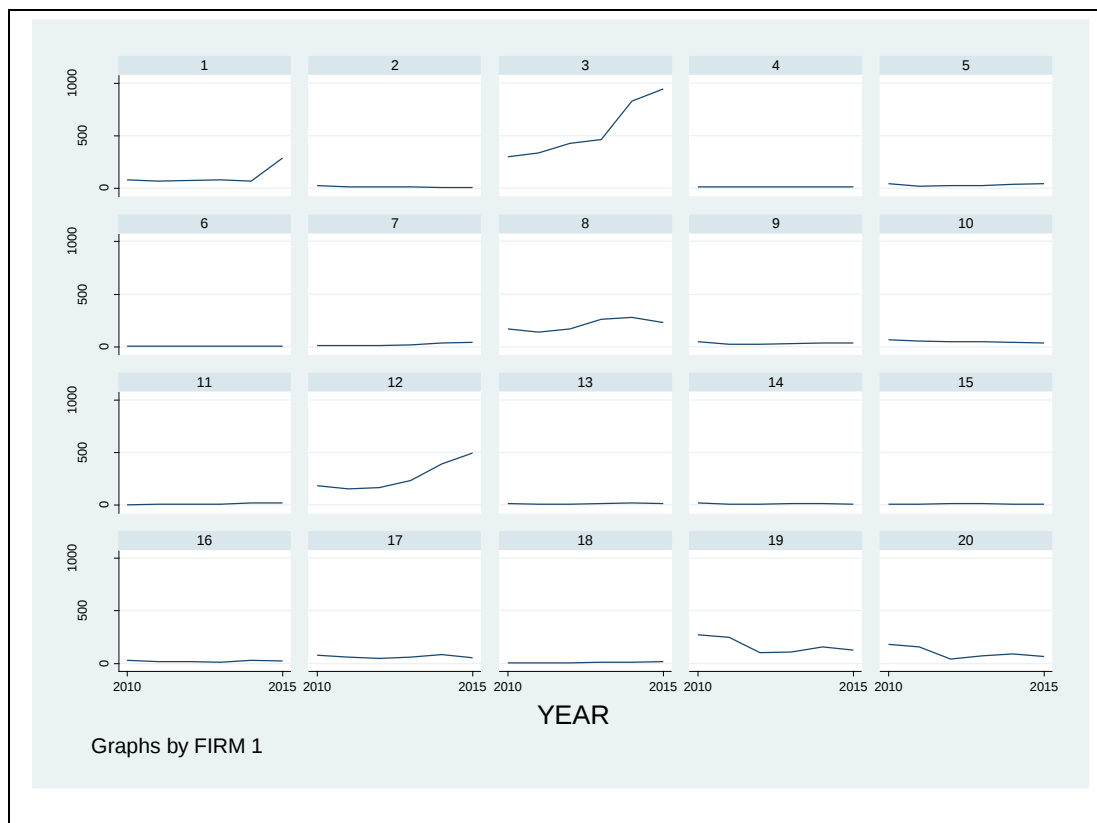
4.0 Chapter Introduction

The chapter presents analysis and findings of the study as set out in research objectives and methodology. It contains descriptive statistics, correlation analysis regression analysis presentation and interpretations of research findings

4.1 Results and Discussion

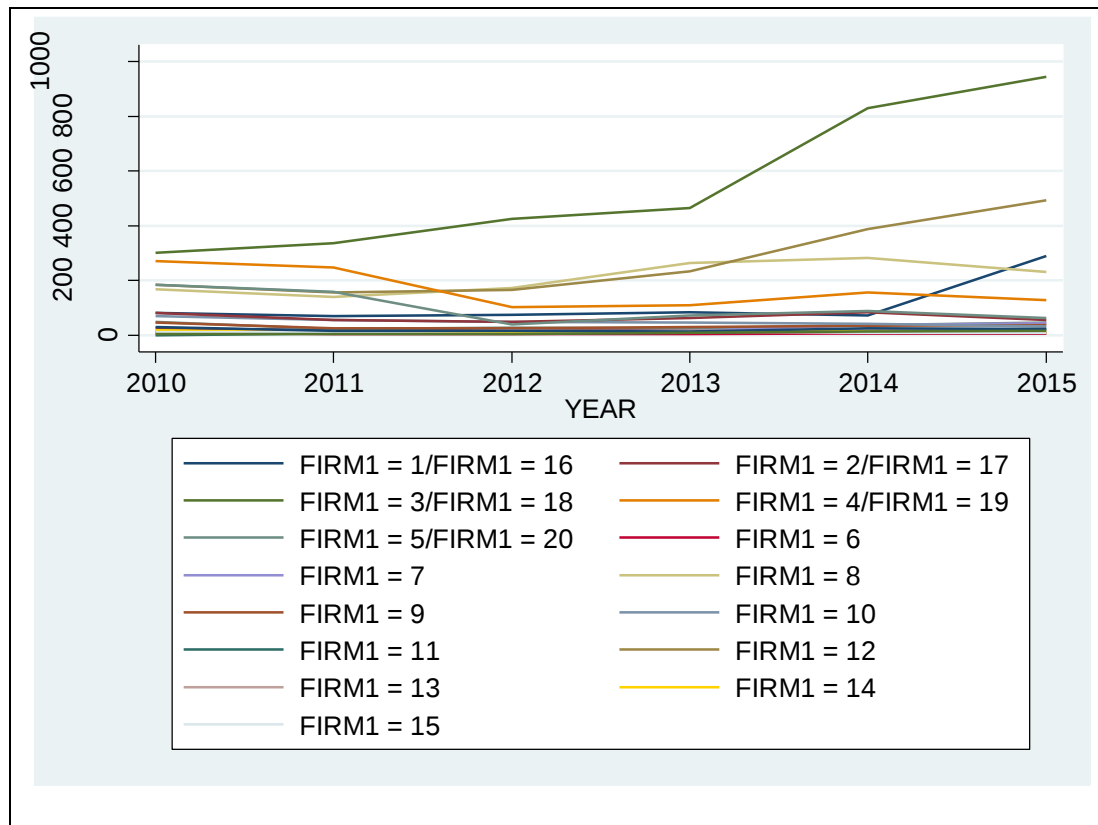
4.1.1 Exploration for dependent variable

Table 3 Trend plots for independence variables



Source Author (2017)

Table 4 Overlain plot for dependent variable



Source Author (2017)

This will help determine whether there are time related fixed effects. It helps explain if there are significant differences between firms, and if the firms have different y- intercepts. According to the outputs there are significant differences between the firms.

Table 5 Descriptive statistics

Variables	Mean	Std deviation	Minimum	Maximum
Share price	85.75425	146.6865	0	934.54
Dividend payout ratio	0.43325	0.728422	0	6.96
Dividend growth rate	0.0789785	1.124409	-6.14	6.14
Earnings per share	8.58225	14.43301	0.06	84.9

The table above shows the descriptive statistics including means standard deviations of all the variables, the mean value for share price of 120 observations is 85.75425 with standard deviation of 146.6865 with minimum and maximum values of 0 and 943.54 respectively. The mean value for dividend payout ratio is 0.43325 with minimum and maximum values of 0 and 6.96 respectively and standard deviation of 0.728422 .Dividend growth rate had a mean value of 0.43325 and minimum and maximum values of -6.14 and 6.14 respectively and standard deviation of 1.124409, Earnings price per share had a mean of 8.58225 with a minimum and maximum values of 0.06 and 84.9 and standard deviation of 14.43301.. Dividend payout ratio had the minimum variance i.e. 0.728422 which show that dividend payout ratio causes minimum variation in the share price of non financial firms listed at NSE.

Table 6 Correlation matrix

	Share price	DPO	DGR	EPS
Share Price	1.0000			
DPO	0.0042	1.000		
DGR	0.0008	0.0116	1.0000	
EPS	0.4620	0.0664	-0.1661	1.0000

Source Author (2017)

From the matrix above this can be seen that the explanatory variables are not strongly correlated. Correlation between dividend share price and dividend payout ratio is 0.0042 there exist positive and insignificant relation between them. The correlation between share price and dividend growth rate is 0.0008 which is positive but significant. The correlation between dividend growth rate and dividend payout ratio is 0.0116 which is positive. The correlation between earnings per

share and share price is 0.4620* which is positive and significant, the correlation between earnings per share and dividend payout ratio is 0.0664 which is positive and insignificant, the correlation between earnings per share and dividend growth rate is -0.0708 which is negative and insignificant.

4.3 Diagnostic test

4.3.1 Multicollinearity test

This helps to identify highly correlated variables causing presence of collinearity.

Table 7 Specification tests for the data

VARIABLES	VIF	SQRT VIF	TOLERANCE	R-SQUARED
Share price	1.12	1.13	0.7847	0.2153
DPO	1.01	1.00	1.9944	0.0056
DGR	1.01	1.00	0.9933	0.0067
EPS	1.29	1.13	0.7772	0.2228
MEAN VIF	1.14			

Source Author (2017)

From the table above the mean vif is below 5 which mean that the variables are not highly correlated. As presented in table 4.2 2 the correlation coefficients for all variables were less than 0.8 implying that the study data did not exhibit severe multicollinearity as recommended by (Gujarati,2003; Cooper & Scindler ,2008). This means that the reliability of the statistical tests of the coefficients was not adversely affected.

4.3.2 Heteroskedasticity

Table 8 Testing for Heteroskedasticity

Modified wald test for group wise heteroskedasticity in fixed effect regression model

H0: $\sigma_i^2 = \sigma^2$ for all I

Chi2 (20) =1379.27

Prob>chi2 =0.0000

The study tested for panel level heteroskedasticity using Modified Wald test. The null hypothesis of this test was that the error variance was homoskedasticity. The chi-square was 1379.27 with a p-value of 0.0000. The chi-square value was statistically significant at 1 percent level and hence null hypothesis of constant variance was rejected to signify the existence of heteroskedasticity in the study data.

Table 9 Use of robust to eliminate heteroskedasticity

Share price	coef.	Robust std err.	T	P>T	95% conf	Interval
DPO	1.854538	4.016131	0.46	0.649	-6.551321	10.2604
DGR	19.45835	9.805725	1.95	0.062	-1.065265	39.98197
EPS	-2.82482	2.16425	-1.31	0.062	-7.35466	39.98197
CONS	107.6573	16.87325	6.38	0.000	72.3412	142.9734

The table above shows results of robust test to control for standard errors. To control

for heteroskedasticity the researcher used the option robust to eliminate heteroskedasticity. The study consequently employed the robust test estimation technique to take care of this problem.

4.3.5 Hausman test

Table 10 Fixed and Random; Hausman test

	(b)	(B)	(b-B)	Sqrt(diag(V-b-B)
	Fixed	Random	Difference	
DPO	1.854538	-1.339395	3.193933	1.715004
DGR	19.45835	15.93551	3.522844	0.9696615
EPS	-2.824823	-0.6936776	-2.131145	0.2718673
Chi2 (4) = (b-B) V-b-B) =63.71				
Prob>chi2=0.0000				

To choose between fixed and random effects model, hausman test was used. The null hypothesis of the hausman test was that Fixed effects model was preferred to Random effect .Hausman test reported a chi-square of 63.71 with a p-value of 0.000 implying that at 10 percent level ,the chi-square was statistically significant, therefore rejecting the null hypothesis meaning use of fixed effect model.

4.4 Model fitting

Table 11 Fixed effect Regression model

VARIABLE	COEFFICIENT	STD ERROR	T	P>T
DPO	1.854538	9.429176	0.20	0.844
DGR	19.45835	5.984241	3.25	0.002
EPS	-2.824823	0.6687447	-4.22	0.000
CONS	107.6573	9.003767	11.96	0.000
F(4,96)= 24.08 prob>F= 0.000				
Rho=0.85563782				

$$SP = 107.6573 + 1.854538DPO + 19.45835DGR - 2.824823EPS$$

Table 4.4.1 shows that the p-value is less than 0.05 meaning overall model is significant.

The R squared within the firms is 22.34% of the variance explains the share price with the given independent variables. R-squared between firms is 72.09% of the variance explains share price with the independent variables. The overall R-squared is 15.64% of the variance explains share price with the given independent variable.

The regression result in table 4.4.1 indicates that the coefficient for dividend payout ratio is 1.854538 and is statistically insignificant at 1 percent level, with p-value of 0.844 which is

greater than 0.05. A one unit change in the value of dividend payout ratio it causes a change of 1.854538 increase of share price. The relationship is positive, meaning that an increase in the value of dividend payout ratio will cause an increase in the value of share price. These results confirm if companies pay dividends it will positively affect its share price. These findings were similar to results of Allen and Richim (1996), Rashid and Rahman (2009).

The results indicate that coefficient of dividend growth rate is 19.45835 and a p value of 0.002, which is below than 0.05, meaning that the relationship between the dividend growth rate and share price is positive and significant. A one unit change of dividend growth rate leads to 19.45835 increase of share price. The results are similar to results of Alzomania and Al-Khadhiri (2013).

Results on earnings per share coefficient are -2.824823 which is negative and p-value of 0.000 which is below than 0.05, meaning that the relationship between earnings per share and share price is negative and significant. A one unit change in earnings per share it leads to - 2.824823 decrease of share price. The relationship is negative this contradicted to Sharma and Singh (2006) and Somoye et al. (2009) who concluded that earnings have no significant influence on share prices. The significant relationship between the Earnings per share and share price shows that if the companies increase their Earnings per share ratio, share prices decreases and has a significant relation.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the main findings of the study, conclusion recommendation and recommendation for future research.

5.2 Summary of findings

5.2.1 Relationship between Dividend Payout Ratio and Share Price

The study aimed at establishing the relationship between dividend payout ratio and share price of non financial firms listed at NSE. The null hypothesis was stated as follows;

Ho: There is no statistically relationship between dividend payout ratio and the share price of the non financial firms listed at Nairobi Securities Exchange.

The results of hypothesis test indicated that there was an insignificant positive relationship between dividend payout ratio and the share price of the non financial firms listed at Nairobi Securities Exchange. This implies that higher dividend payout ratio may result to higher share prices though at a small increment

Dividend payout ratio was found to be positively correlated with the share price. This positive relationship means that increase in firms dividend payout ratio results into increase in share value by a small margin and this results resonates with the preposition of the bird in the hand theory

which holds that shareholders as a way of enhancing their value in the firm prefers current dividend payment instead of future uncertain dividends that will lead to accumulation of capital gains. Dividend payout ratio was insignificant this is similar with Muturi and Elmi (2015) who found insignificant relationship between dividend payout ratio and share value. The observations are holding all other variables in the regression constant one unit increase in dividend payout ratio leads to increase of 1.854538 in share price.

5.2.2 Relationship between Dividend Growth rate and Share Price

The second objective was to examine relationship between dividend growth rate and share price of non financial firms listed at NSE.

Ho: There is significant relationship between dividend growth rate and share price of non financial firms.

The 5% level of significance is that accept null hypothesis for dividend growth rate is statistically significant. Dividend growth rate had a strong positive relationship with share price. This means that increase in firms dividends growth rate leads to increased share price .Investors looking to invest in companies they will look on the companies which has dividend growth rate which is increasing. Therefore investors would prefer to be paid dividends from the current profits made by the company instead of anticipating future uncertain capital gains as put forward by the bird in the hand theory. The findings were similar to results of Alzomania and Al-Khadhiri (2013).This means that holding all other variables in the regression constant a unit increase in dividend growth rate leads to an increase of 19.45835 in share price.

5.2.3 Relationship between Earnings per Share and Share Price

The third objective of the study was to examine relationship between earnings per share and share price of non financial firms listed at the Nairobi Stock Exchange. The hypothesis is that;

Ho: There is significant relationship between earnings per share and share price of non financial firms listed at NSE.

The result of hypothesis is that accept the null hypothesis since the relationship between earnings per share and share price is negative and significant. The findings contradicted to Sharma and Sigh (2006) and Somoye et al. (2009) who concluded that earnings have no significant influence on share prices. The significant relationship between the Earnings per share and share price means that if the companies increase their Earnings per share ratio, share prices decreases and has a significant relation. The observation was that holding all other variable in the regression constant one unit increase in earnings per share leads to a decrease of -2.824823 in share price.

5.3 Conclusion

The objective of the study was to examine the relationship between dividend policy and share price of non financial firms listed at Nairobi Securities Exchange. The results showed that dividend payout policy has positive relationship with the share price. Dividend payout ratio has insignificant relation with share price. Dividend growth rate has positive significant relation with the share price. Earnings per share had negative relationship with the share price and were significant. Overall model was significant. The study finds that there is a relationship between dividend policy and share price of non financial firms listed at Nairobi Securities Exchange.

5.4 Recommendations

The study recommends that management of listed firms should conduct a research on different dividend policies to identify the ones that would maximize the value of a firm. The study demonstrated that most of existing theoretical literature on dividend policy and share price can be applied to an emerging capital markets. Firms listed at NSE should adopt optimal trade off policy between dividend payment and retained earnings that would increase the shareholders wealth in the form of share price appreciation.

5.5 Recommendation for further studies

This study examined the relationship between dividend policy and share prices of non financial firms listed at Nairobi Securities exchange. This study suggest that using the similar studies, the dividend policies should go in a way under which the investors show positive process of support and welcoming markets with the financial guaranteed profits.

The study recommends that similar study should be done where data collection relies on primary data that is in depth questionnaires and interview guide so as to compliment this study. Due to the shortcomings of the regression models, other models can be used to explain various relationships between dividend payout ratios and value of the firms.

The study also recommends that future studies should examine the relationship between dividend policy and share price using data from specific industries to determine whether variations exist among different sectors of the economy as far as dividend policy is concerned.

5.6 Limitations of the study

The study relied on secondary data. Thus based on historical data and due to changing economical factors and trends this may not be a good representation of what will happen in future.

The sample used was not the representative of the population of the study considering that there are fifty non financial firms listed at NSE. Inference from the finding would therefore be misleading for policy makers. The study was conducted for a period of six years. However, in statistical analysis involving regression requires that the time period should be at least 30 years.

The companies used in the study have different closing date of financial statements in annual reports. For example some company closing date is June and others December. This problem encounter because it will affect the company profit and growth. This research has been conducted by combining different year of the company annual report. Therefore data collection might be slightly inefficient.

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Table 5.0 Dependent and independent variables data

FIRM	FIRM 1	YEAR	SPRICE	DPO	Growth rate	EPS
KAKUZI	1	2010	81.5	0.16	0.00	15.87
KAKUZI	1	2011	69.5	0.97	-0.50	3.57
KAKUZI	1	2012	74.99	0.19	2.00	19.35
KAKUZI	1	2013	82.82	0	-1.00	8.42
KAKUZI	1	2014	72.09	0.45	0.00	8.17
KAKUZI	1	2015	290.34	0.56	0.33	23.45
KENYA POWER	2	2010	24	6.96	0.00	14.4
KENYA POWER	2	2011	17.55	0.13	-0.85	3.41
KENYA POWER	2	2012	16.63	0.53	-0.33	2.36
KENYA POWER	2	2013	17.15	0	-1.00	2.23
KENYA POWER	2	2014	7.1	0.21	0.00	3.58
KENYA POWER	2	2015	5.68	0.28	0.00	3.81
Limuru	3	2010	300	0.22	0.00	62.4
Limuru	3	2011	335	0.22	-6.14	33.7
Limuru	3	2012	425	1.23	0.00	84.9
Limuru	3	2013	465	0.32	0.00	23.8
Limuru	3	2014	830	0.36	-0.07	6.3
Limuru	3	2015	943.54	0	1.00	3.03
SASINI	4	2010	13.05	0.12	0.00	4.3
SASINI	4	2011	11.69	0.58	-2.33	1.72
SASINI	4	2012	12.19	2.5	-0.75	0.3
SASINI	4	2013	12.35	0.78	0.00	0.32
SASINI	4	2014	12.11	0.19	0.00	1.34
SASINI	4	2015	12.22	0.57	0.00	4.14
Car general	5	2010	47	0.07	0.00	10.7
Car general	5	2011	22.75	0.07	-0.31	7.79
Car general	5	2012	26.5	0.07	0.00	7.48
Car general	5	2013	25.12	0	3.55	8.83
Car general	5	2014	37.56	0.09	-0.50	6.57
Car general	5	2015	46.57	0	2.00	0.76
Sameer	6	2010	7.7	0	0.00	0.21
Sameer	6	2011	4.4	0.57	0.00	0.35
Sameer	6	2012	4.77	0.37	0.33	0.68
Sameer	6	2013	4.63	0.21	-0.40	1.44
Sameer	6	2014	6.79	0	-0.85	0.24
Sameer	6	2015	5.92	0	-0.33	0.06
Unga group	7	2010	11	1.4	0.00	1.18
Unga group	7	2011	9	0.21	0.00	3.57

Unga group	7	2012	11.95	0.27	0.00	2.81
Unga group	7	2013	15.2	0.29	1.10	2.59
Unga group	7	2014	37.05	0.21	6.14	3.65
Unga group	7	2015	42.63	0.19	0.00	5.27
NMD group	8	2010	167	0.82	0.00	9.8
NMD group	8	2011	140	0.63	-0.07	12.7
NMD group	8	2012	171.88	0.63	1.00	13.3
NMD group	8	2013	263.08	0.75	0.00	13.4
NMD group	8	2014	281.25	0.76	2.33	13.1
NMD group	8	2015	231	0.85	-0.75	11.8
Std group	9	2010	45.5	0.15	0.00	3.39
Std group	9	2011	25	0.63	0.00	2.69
Std group	9	2012	25.5	0	0.00	2.56
Std group	9	2013	29.75	0.75	2.20	2.41
Std group	9	2014	33.5	0.76	-0.31	2.57
Std group	9	2015	37.13	0.66	0.00	2.95
TPS EA ltd	10	2010	68.5	0.29	0.00	4.39
TPS EA ltd	10	2011	55	0.29	0.02	4.51
TPS EA ltd	10	2012	48.5	0.36	0.00	3.6
TPS EA ltd	10	2013	46.25	0.6	0.05	2.26
TPS EA ltd	10	2014	41	1	-0.01	1.35
TPS EA ltd	10	2015	32.5	0.15	-0.81	1.63
Britam	11	2010	0	0.07	0.00	1.43
Britam	11	2011	5.6	0.14	0.00	1.09
Britam	11	2012	6.4	0.18	0.66	1.33
Britam	11	2013	7.5	0.18	0.00	1.4
Britam	11	2014	18.66	0	-1.00	1.31
Britam	11	2015	22.65	0	0.00	0.32
Jubilee	12	2010	184	0.64	0.00	37.22
Jubilee	12	2011	155	0.5	-0.08	43.96
Jubilee	12	2012	165	0.51	-0.19	35
Jubilee	12	2013	233.5	0.4	-0.15	38
Jubilee	12	2014	388	0.5	0.44	43.7
Jubilee	12	2015	492	0.6	0.17	42.7
Kenya Re	13	2010	11.05	0.14	0.00	2.57
Kenya Re	13	2011	7.3	0.11	-1.00	3.19
Kenya Re	13	2012	10.1	0.1	0.00	1.22
Kenya Re	13	2013	14.38	0.15	0.00	4.29
Kenya Re	13	2014	18.1	0.16	-0.19	4.48
Kenya Re	13	2015	14.38	0.15	0.63	5.1
KenGen	14	2010	17	0.33	0.00	1.49
KenGen	14	2011	8.45	2.7	0.00	0.94

KenGen	14	2012	8.9	0.13	0.20	1.28
KenGen	14	2013	13.2	0.25	0.25	2.38
KenGen	14	2014	12.25	0.31	-0.47	1.29
KenGen	14	2015	9.53	0.12	0.63	4.9
Kenolkobil	15	2010	10	0.43	-0.23	1.21
Kenolkobil	15	2011	9.95	0.14	0.20	2.21
Kenolkobil	15	2012	15.35	0	-1.00	4.27
Kenolkobil	15	2013	12.2	0.26	0.00	0.38
Kenolkobil	15	2014	9.2	0.27	1.86	0.74
Kenolkobil	15	2015	9.03	0.25	0.50	1.37
Total Kenya	16	2010	29	0.44	0.00	2.4
Total Kenya	16	2011	14.75	0	-1.00	0.24
Total Kenya	16	2012	16.5	0.63	0.00	0.32
Total Kenya	16	2013	12.68	0.29	2.00	2.08
Total Kenya	16	2014	26	0.31	0.17	2.26
Total Kenya	16	2015	23.13	0.3	0.14	2.57
E.A Portland	17	2010	80	0	0.00	3.16
E.A Portland	17	2011	56	0.08	0.00	6.24
E.A Portland	17	2012	48.5	0.04	-0.20	10.81
E.A Portland	17	2013	62	0.04	0.40	19.73
E.A Portland	17	2014	83.25	0	-1.00	4.3
E.A Portland	17	2015	54.13	0	0.00	79.52
Safaricom	18	2010	4.7	0.53	0.00	0.38
Safaricom	18	2011	2.95	0.61	0.00	0.33
Safaricom	18	2012	4	0.69	0.10	0.32
Safaricom	18	2013	7.55	0.71	0.36	0.44
Safaricom	18	2014	12.43	0.82	0.67	0.57
Safaricom	18	2015	15.25	0.8	0.28	0.8
B.O.C Kenya	19	2010	270	0.14	0.00	10.98
B.O.C Kenya	19	2011	246	0.88	3.53	7.71
B.O.C Kenya	19	2012	101	0.7	0.04	10.11
B.O.C Kenya	19	2013	108.5	0.5	-0.28	10.38
B.O.C Kenya	19	2014	155	0.44	0.00	11.76
B.O.C Kenya	19	2015	127.5	0.68	0.00	7.61
ARM Cement	20	2010	183	0.22	0.00	10.92
ARM Cement	20	2011	158	0.17	-0.17	11.63
ARM Cement	20	2012	38.5	0.2	-0.75	2.51
ARM Cement	20	2013	70.63	0.22	0.20	2.74
ARM Cement	20	2014	87.25	0.2	0.00	3.01
ARM Cement	20	2015	63.25	0	-1.00	5.81

Source (Nairobi Securities Exchange, 2015)