

**THE RELATIONSHIP BETWEEN DIVIDEND POLICY AND VALUE OF THE
FIRMS QUOTED AT NAIROBI STOCK EXCHANGE**

BY

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Requirements for Award of the Degree of Master of Business
Administration of the University of Nairobi**

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Table of content

Declaration

Declaration

This research project is my own work and has not been submitted for award of any degree in any other university and where other people's research work has been used, they have been duly acknowledged.

Signed... *Skwangi*

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This research project has been submitted with my approval as the university supervisor.

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1.1.2 Firm Value 2

1.2 Statement of the Problem 3

1.3 Objectives of the Study 5

1.4 Importance of the Study 3

CHAPTER TWO: LITERATURE REVIEW 7

2.0 Introduction 7

2.1 Theoretical Literature Review 7

2.1.1 Firm valuation theories 7

2.1.1.1 Discounted Valuation Models 7

Table of content	
Declaration.....	ii
Table of content	iii
List of abbreviations and acronyms.....	vi
List of table.....	vii
Acknowledgment.....	viii
Dedication	ix
Abstract.....	x
CHAPTER ONE: INTRODUCTION.....	1
1.0 Introduction.....	1
1.1 Background of the Study.....	1
1.1.1 Nairobi Stock Exchange (NSE).....	2
1.1.2 Firm value	3
1.2 Statement of the Problem.....	3
1.3 Objectives of the Study.....	5
1.4 Importance of the Study.....	5
CHAPTER TWO: LITERATURE REVIEW.....	7
2.0 Introduction.....	7
2.1 Theoretical Literature Review.....	7
2.1: 1 Firm valuation theories.....	7
2.1.1.1 Discounted Valuation Models.....	8

2.1.1.2 Free Cash Flow Model.....	8
2.1.1.3: Dividend Discount Model.....	9
2.1.1.4 Discounted- Residual Income Model	10
2.1.1.5: Asset Based Valuation Model	11
2.1.2 Dividend Theories.....	14
2.1.2.1 Dividend Relevance – Walter Model (1963)	14
2.1.2.2 Dividend Relevance – Myron Gordon’s Model (1962)	15
2.1.2.3 Dividends Relevance: The Bird in Hand Theory (Myron Gordon)	16
2.1.2.4 Dividend Irrelevance: Modigliani/Miller Hypothesis (MM).....	16
2.2 Empirical literature review	18
2.3 Summary of Literature Review.....	20
CHAPTER THREE: RESEARCH METHODOLOGY	18
3.0 Introduction.....	18
3.1 Research Design	18
3.2 Population and Study Sample	18
3.3 Data collection methods	19
3.4 Data Analysis.....	19
CHAPTER: Four Data Analysis And Discussion.....	21
4.0 Introduction.....	21
4.1 Summary Statistics.....	21
4.2 Dividend policy and Firm value.....	22

4.3 Summary and interpretation of findings.....	24
CHAPTER FIVE: Summary, Conclusion and Recommendation.....	25
5.0 Summary of the study.....	25
5.1 Conclusions.....	26
5.2 Policy Recommendations.....	27
5.3 Limitations of the study.....	27
5.4 Suggestions for Further Research.....	28
REFERENCE.....	29
Appendix I.....	32
Appendix II.....	34

List of abbreviations and acronyms

APV	Adjusted Present Value
CMA	Capital market authority
DCF	Discounted Cash flows
Div t-1	Dividend Paid During the Previous Year
FCFE	Free Cash Flows to Equity holders
FV	Firm Value
Kd	Cost of Debt
Ks	Required Rate for Return on Equity
MM	Modigliani and Miller
NSE	Nairobi Stock Exchange
OLS	Ordinary Least Square
P/E	Price Earnings Ratio
PAT	Net Current Earnings after Tax
ROCE	Return on Capital Employed
Vf	Value of a Firm
Vd	Value of a Debt
Vs	Value of Equity
WACC	Weighted Average Cost of Capital
YTM	Yield to Maturity

List of tables

Table 1 Summary statistics of data analysed	21
Table 2 Model summary of the relationship of dividend policy and firm value.....	21
Chart 1 Line of best fit dividend policy as variables under study	23
Table 3 Summary of test of significant.....	23

My sincere gratitude to my sisters Lydia and Beatrice, my brothers Patrick's, Stephen and James, for financial and moral support for the entire period of the study.

I wish to express my gratitude to my brothers, sisters and parents who constantly encouraged me to carry on and gave me inspiration to take next step.

I also wish express my gratitude to staff of the CMA and the NSF for allowing me to use their facilities for purposes of data collection. My friends, classmates and colleague deserve mention for their patience and encouragement during entire course.

For those not specifically mentioned, accept my sincere gratitude for your contribution and assistance in any way to make this project a success.

May the almighty God bless you.

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My sincere gratitude goes to almighty God for His love, blessing and protection during the entire course period.

I wish to highly express my gratitude to my supervisor, Mr. Mwachiti Mohamed Ngome whose invaluable guidance and insights made it possible for me to carry out the research study to its logical conclusion.

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DEDICATION

This project is dedicated to all people who strongly believe they can achieve whatever they put their minds into.

Special dedication to my sister Beatrice, who sacrificed so much for us. Thanks and God bless you.

Dividend policy refers to managerial guide that directs how and when dividends are to be paid. There are several dividend policies: Constant payout ratio, regularly division payout, stable shillings divided payout policy, low regularly and constant dividend policy. Constant payout ratio is a dividend based on payment of a certain percentage of earnings to owners in each specified period. 'Regular divisions' payout is a dividend policy that requires a fixed -shilling dividend be paid in each period. The stable - shilling dividend policy provide the investor with a stable income and are made better off by this policy because a decline in dividends would force them to dispose off their share to obtain the needed funds and a rise in dividend would produce excess cash. Low-regular and extra dividend payout policy is based on the paying of a low regular dividend supplemented by an additional dividend when earnings are higher than normal in a given period. In a residual dividend policy, profits are used to fund new projects with the residual or remaining profit distributed as dividends.

This study will be focus on firm's listed at NSE, according to the bird in-hand theory brought forwards by Kirshman (1933), which argues that shareholders prefer dividend now instead of future earnings as illustrated by a saying " ... a bird in hand is worthly than in the forest ..."

The research design employed will be a census study on all firm's listed at NSE between years 2005-2009. This technique provide that all firms are considered in the study.

ABSTRACT

This research project sought to establish the relationship between dividend policy and firm value for companies listed at NSE. The study focuses on influence of dividend policy on firm value. Dividends are payments made by firms to their shareholders which are the distribution of the firm's recent earnings to the owners of the business. Dividends are usually distributed in the form of cash (cash dividends) or share (share dividends).

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CHAPTER ONE: INTRODUCTION

1.0 Introduction

This study aimed at investigating the relationship between dividend policy and firms value by focusing on the firms quoted at the NSE. This chapter aimed at giving a complete overview of the study. It comprised seven sections; section 1.0 gives a brief introduction, section 1.1 expound background of the study, section 1.1.1 examines dividend policy, section 1.1.2 explains origins and structure of the NSE, section 1.1.3 examines the meaning of firm's value, section 1.2 critically examines statement of the problem, section 1.3 explains the objectives of the study and section 1.4 discusses significance of the study.

1.1 Background of the Study.

In his study Pettit (1972) documented that announcement of dividend increases are followed by significant share price increases and in vice versa, that announcements of dividend decreases are followed by significant share price drops. Later studies of large changes in dividend policy: Asquith and Mullins (1983) (dividend initiations), and Michaely, Thaler, and Womack (1995) (dividend omissions) indicated that the market reacts dramatically to such an announcements. Other research studies which tested the dividend announcement effects include; Ofer and Siegel (1987), Empirical studies however showed mixed evidence, using the data from US, Japan and Singapore markets. Other studies found that stock price has a significant positive relationship with dividend payments (Gordon (1962), while others found a negative relationship like Linter, (1956), and Higgins, (1972),

The relationship between dividend policy and firm value claimed that, in the presence of perfect markets, "given a firm's investment policy, the dividend payout policy it chooses to follow will affect neither the current price of its shares nor the total return to its shareholders" However, "market imperfections as differential tax rates, information asymmetries between insiders and outsiders, conflicts of interest between managers and shareholders, transaction costs, flotation costs, and irrational investor behavior might make the dividend decision relevant"

Dividends are payments made by firms to their shareholders which are the distribution of the firm's recent earnings to the owners of the business. Dividend policy refers to managerial guide that directs how and when dividends are to be paid. There are several dividend policies: Constant payout ratio, regularly division payout, stable shillings divided payout policy, low regularly and constant divided policy. Constant payout ratio is a dividend based on payment of a certain percentage of earnings to owners in each specified period. Regular divisions' payout is a dividend policy that requires a fixed – shilling dividend be paid in each period. The stable shilling dividend policy provide the investor with a stable income and are made better off by this policy because a decline in dividends would force them to dispose off their share to obtain the needed funds and a rise in dividend would produce excess cash. Low-regular and extra dividend payout policy is based on the paying of a low regular dividend supplemented by an additional dividend when earnings are higher than normal in a given period. Residual Dividend policy is one where a firm pays dividend only after its investments needs while maintaining a desired debt-equity ratio.

1.1.1 Nairobi Stock Exchange (NSE).

The Nairobi Stock Exchange was constituted in 1954 as a voluntary association of stockbrokers registered under the Societies Act. Trading in shares at the NSE was not strictly guided by rules but it was largely a gentleman's agreement between trading parties and mainly involved professional acting on behalf of their clients before the registration of the NSE in 1952. After Kenya gained its independence, the NSE remained depressed exchange in trading volumes as uncertainty regarding the policy of new independent African governments' scared investors. The first issue of share through the NSE was in 1988 when the first privatization involving the sale of a 20% government stake in Kenya Commercial Bank was done. This privatization marked the start of robust growth for the NSE. Notably, in 1994 the NSE 20-Share Index recorded an all-record high of 5030 points on Feb. 18, 1994, NSE website (2011).

During this period, the NSE has 46 listed companies whose shares trade on the stock exchange. The study will focus on the companies listed on the NSE and all the companies listed will be considered. The NSE has also grown to incorporate trade in financial securities such as bonds issued by the government as well as the private sectors and currently modalities of introducing microfinance stocks is in progress.

The NSE has been structured into six main segments namely; Agricultural sector, Commercial and Services, Industrial and allied sector, Alternative markets investment segment, fixed income security market segment and Finance and investment segment. The finance and investment segment which is focus of this study comprises of commercial banks, insurance firms, investment banks and mortgaged companies.

1.1.2 Firm value

Firm value (FV) is an economic measure reflecting the market value of a whole business. It is a sum of claims of all the security-holders: debt holders, preferred shareholders, minority shareholders, common equity holders, and others. Firm valuation is the process of estimating what the firm is worth. During Firm valuation Items that are usually valued are a financial asset or liability. Valuations can be done on assets (for example, investments in marketable securities such as stocks, options, business enterprises, or intangible assets such as patents and trademarks) or on liabilities (e.g., bonds issued by a company). Firm valuation constitutes a fairly significant issue that has generated the intense interest of various economic and financial analysts. Valuation research has emerged as a central theme in the accounting research of the 1990s. This literature has had a substantial impact on the research agendas of academics and on the day-to-day work of practitioners. According to the 'Efficient Market Hypothesis', as defined by Fama et al (1993), security prices fully reflect all available information. Whether security markets are informationally efficient is of great interest to investors, shareholders, managers, lenders, standard setters and other market participants who care about intrinsic value of the firm.

1.2 Statement of the Problem.

According to Myers, S.C., (1974). dividend policy has been kept as the top ten puzzles in finance. The most pertinent questions to be answered here is that, which is the most optimal dividend policy that maximizes firm's value? Does dividend policy have direct influence on firm's value? Should corporations pay their shareholders through cash dividends or by repurchasing their shares? Which is the least costly form of payout from tax perspective? Firms must take these important decisions period after period (some must be repeated and some need to be re-evaluated each period on regular basis).

Abdul (1993) carried out a research concentrating on quoted firms at the Nairobi Stock Exchange to identify parameters important in the determination of dividends by publicly traded firms to maximize shareholders' value. His observations were that, in a fully informed, efficient market with no taxes and no transaction costs, the free cash flow model of the dividend decision would prevail and firms would simply pay as a dividend any excess cash available. The observed behaviors of firms differ markedly from such a pattern. Most firms pay a dividend that is relatively constant over time. This pattern of behavior is likely explained by the existence of clienteles for certain dividend policies and the information effects of announcements of changes to dividends.

Kibet (2004) analyzed the factors leading to decline of cash dividend on manufacturing firms quoted at the N.S.E, in his studies he found out that dividend decision is usually taken by considering at least the three questions of: how much excess cash is available? What do our investors prefer? And what will be the effect on our stock price of announcing the amount of the dividend?

Dividend policy has been an issue of interest in financial literature since Joint Stock Companies came into existence. Dividends are commonly defined as the distribution of earnings (past or present) in real assets among the shareholders of the firm in proportion to their ownership. Management's 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. Thus, dividend policy is one of the most complex aspects in finance. Francis et al (2000) 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.

If the manager believes dividend policy is important to their investors and it positively influences share price valuation, they will adopt managed dividend policy. The optimal dividend policy is the one that maximizes the company's stock price, which leads to maximization of shareholders' wealth. Whether or not dividend decisions can contribute to the value of firm is a debatable issue.

Firm's value is represented in the market price of the company's common stock, which, in turn, is the function of the company's investment, financing and dividend decisions. Among the most

crucial decisions to be taken for efficient performance and attainment of objectives in any organization are the decisions relating to dividend. Dividend decisions are recognized as centrally important because of increasingly significant role of the finances in the firm's overall growth strategy.

This study will to answer some of the following questions such as: Does dividend policy have direct effects on firm value? Which is the most optimal dividend policy that maximizes firm's value?

1.3 Objectives of the Study.

The objective of this study was to determine the relationship between dividend policy and the firm's value.

1.4 Importance of the Study.

This study was to be of great importance to different individual groups as discussed below.

a) The brokers

The study was to benefit them in the stock exchange as they seek to get information on quoted firms so as to advice their clients on which stock to stake their money. Depending on the needs of the clients, the broker or agent will be able to place a particular client in a company with the dividend policy that best policy that best fits the client.

b) The investors

The study was to enable them to crystal gaze and understand the dividend policies employed by quoted companies and invest only in companies whose dividend policies serve their best interests

c) To the quoted companies

The study was to be of much assistance to them in assisting them gauge which dividend policy to employ, how it contributes to creation of wealth of the shareholders and the growth of the firm.

d) The unquoted companies

Unquoted companies was to benefit from this study as they were to know which policy to use once they become quoted and again it was to excite their interest to be quoted as they appreciate

the immense benefits enjoyed by quoted companies that employ the most optimal dividend policy.

2.1 e) The Researcher

The study was to assist the researcher qualify for an award of MBA Finance and thus put him on a competitive edge in the business world. The study was also to excite more interest in the study of the subject and expose areas that need more research and exploration. Future research, students may fill up the gap in the areas not covered and thereby contribute to the frontier of knowledge in this area of dividend policy and firm value.

2.1 Theoretical Literature Review

The research aimed at analyzing information asymmetry, agency conflicts, signalling effect and corporate dividend policy determinants. This section on literature review is focused on various models and theories that are relevant to our study. The review of the literature is organized into various schools of thought on firm valuation and dividend policy which we discussed as follows:

2.1.1: Firm valuation theories

Valuation is the process of forecasting the present value of the expected payoffs to shareholders and of converting this forecast into one number that corresponds to the fundamental intrinsic firm value. Lee et al (1999) argues that valuation models are merely 'pro forma accounting systems' that constitute the vehicles for articulating the assessment of future events typically in terms of accounting constructs.

According to Barker et al (2001), a good understanding of valuation methods requires two main things. The first is an analytical review of the models, identifying their relationship and exposing their assumptions. The second is an evaluation of the data that are available for one of these

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

This study is an investigation into the effects of company dividend policy on firms' value quoted at the NSE finance and investment segment. This section addresses and reviews past studies on the subject and critically reviews relevant literature on this area. Attempt is made to do an empirical study, which critiques the fundamental theories of dividend policy. The chapter comprises of six main sections; section 2.1. briefly explain the literature review, section 2.2 and it's subsections examines the theories of Firm value, section 2.3 and it's subsection discusses the dividend relevance theories, section 2.4 examines dividend Irrelevance theories, section 2.5 is about empirical evidence on dividend policy in general, section 2.6 present a of summary literature review which seeks to find out any gap in the subject which the theories have not addressed.

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According to Barker et al (2001), a good understanding of valuation methods requires two main things. The first is an analytical review of the models, identifying their relationship and exposing their assumptions. The second is an evaluation of the data that are available for use of these

models. Therefore, there is a significant relationship between the choice of valuation models and the available data.

2.1.1.1 Discounted Valuation Models.

These models assign a value to the firm that equals the present value of expected future accounting measures, based on all currently available information. The parameters that make up Discounted Valuation Models are related to risk (the required rate of return) and the return itself (Levin et al ,2000). DCF methodologies are developed to analyze values in the light of a firm's future earnings. These valuation methods consider firm earnings for a number of forecasted years into the future, quite often in practice, ten years used. These earnings are then discounted back to present value that is the value of future earnings stated in today's dollar. (Penman, 1998).

These models use three alternative cash flow measures: Free cash flows, Dividends and accounting earnings. Under the assumption of perfect markets, these models give the same results as the asset-based valuation model.

2.1.1.2 Free Cash Flow Model.

This mode assumes that the firm's value equals the present value of cash flows from all the projects in its operations. Free cash flow is the difference between the cash flow from operations and cash investment. It is the cash available to debt and Firm holders after investment. The Free Cash Flow Model (FCF) is specified by Copeland et al (2000) .

Modigliani and Miller (1958,1963) in their seminar paper described that the firm's market value equals the present value of the cash flows it generates regardless of the capital structure it chooses. They made assumptions that the markets were efficient and there were no taxes. Miller and Modigliani's seminal papers (1958) gave rise to two alternative discount rates for project and firm valuations: the Weighted Average Cost of Capital (WACC) and Adjusted Present Value (APV). MM relaxed the assumptions by introducing taxes into their model in which case the method of financing become relevant. APV- Discount the cash flows before allowing for debt capital but allowing for tax relief obtained on the debt capital.

Myers (1974) introduced the APV. According to Myers, the value of the levered firm is equal to the value of the firm with no debt plus the present value of the tax saving due to the payment of

interest. Myers proposes calculating the value of tax savings by discounting the tax savings at cost of debt. He argued that the risk of the tax saving arising from the use of debt is the same as the risk of debt.

The value of the firm is obtained by discounting the free cash flow to the firm at the weighted average cost of capital. Embedded in this value are the tax benefits of debt (in the use of the after-tax cost of debt in the cost of capital) and expected additional risk associated with debt (in the form of higher costs of equity and debt at higher debt ratios). Just as with the dividend discount model and the FCFE model, the version of the model used will depend upon assumptions made about future growth (Copeland et al, 2000).

Several different models of income approach available depending on which type of income flows that will be discounted. The benefit flows that are used in the income based approach are dividends, free cash flows and residual income. The dividends and cash flow refer to direct payment flows from a company to shareholders while the residual income measure has focus on return which is derived from the company's book value based on accrual accounting. The differences among the models are in how the calculation is done and what factors about the company are highlighted in the process (Soffer and Soffer, 2003, p.134).

Discounted cash flows values the whole company's operation irrespective of how it is financed, rather than focusing on the equity-financed portion, the companies with different capital structures can be easier compared with one another (Baker et al, 2001, p.197). The main disadvantage is that the result calculated by DCF can be easily manipulated (Damodaran, 2002, p.4).

DCF is based on many variables which require assumptions about the company's future performance. It is neither easy to determine the reasonable discounted rate. Just few percentage point modification of the discounted rate causes great changes in the final value (Chege, 2006,).

2.1.1.3: Dividend Discount Model

This model assumes that a stock's fundamental Firm value can be defined as the present value of its expected future dividends based on all currently available information (Gordon, 1962). Gordon proposed the dividend growth model now popularly known as the Gordon's growth

model. According to this model the equity of a firm with a dividend stream growing at a constant rate can be valued as follows

$$P = D \times \frac{1 + g}{k - g}$$

Where D -is the dividend paid and g- is the expected growth rate in perpetuity. P- is the price of equity, K- is the required rate of return for equity investors. In order to estimate the value of the firm then the value of equity is multiplied by the total equity in the firm.

Unlike the asset-based approach, this model can capture unrecorded goodwill, that is, the difference between the book value and market value of the firm's assets. The earnings-based model is often applied to firms such as technology intensive firms (computer firms, telecommunication firms) that have considerable unrecorded intangible assets and high expected future cash flows (Gordon, 1962).

2.1.1.4 Discounted- Residual Income Model

This model is sometimes referred to as Edwards-Bell-Ohlson (EBO), is generally considered to be the most reliable model for firm valuation. It provides a way of thinking about value generation in the business. It is an accrual accounting model where the central concept is the residual income, a measure of accounting income in excess of a normal/required return on capital employed. As far as the model of Ohlson (1995), the parameters that make up the Discounted Residual Income Model are:

This is the Residual Income Model (RIM) which shows that firm value can be split into two components: an accounting measure of the capital invested (B_t), and a measure of the present value of future residual income, defined as present value of future discounted cash flows not captured by the current book value. If a firm earns future accounting income at a rate exactly equal to its cost of Firm capital, then the present value of future residual income is zero, and $V_t = B_t$ (Ohlson, 1995). In other words, firms that neither create nor destroy wealth relative to

their accounting-based shareholders' value. That Firm will be worth only their current book value.

Firms with expected ROEs higher (lower) than r_e will have values greater (lower) than their book values. Therefore, the RIM is a combination between asset-based valuation model for firm's financial activities and earnings-based model for operating activities. Since it incorporates firm's stock and flow components, it is most applicable to companies with high fixed and intangible assets and whose values are generated by both assets and future stream of earnings (Ohlson, 1995).

2.1.1.5 Asset Based Valuation Model

This approach assigns a value to the firm based on the fair value of individual component assets. This model can be applied when the balance sheets are perfect that is the assets and liabilities are recorded at fair market value. The substance value which is also the equity is thus estimated as assets minus liabilities (Nilsson et al., 2002, p.301). To be useful, the substance value must be positive, if liabilities are bigger than assets there is no use of the method (Chege, 2006).

The model can be used for valuing small private companies where the cash flow is difficult to forecast (Nilsson et al, 2002, p.301).the method is useful in valuing firms with large fixed assets and firms applying simple technology. Asset based methods used commonly when company is going to be liquidated.

2.1.2 Dividend Theories

On the relationship between Dividends distribution and the value of the firm, different theories have been advanced. They can grouped into two:-Theories that consider dividends decision to be irrelevant and Theories that considers dividends as an active variable influencing the value of the firm.

2.1.2.1 Dividend Relevance – Walter Model (1963)

Walter (1963) argued that Dividend Policy almost always affected the value of the firm. He showed the importance of the relationship between the firm's rate of returns and its cost of capital K , in determining the dividend policy that maximizes the wealth of the shareholders. However, for the model to hold the following assumptions have to be taken

into consideration: Internal financing -The firm finances all investments through retained earnings (no debt or equity is issued) so that the market price per share is the sum of the present value of two sources. The foregoing showed that in Walter's Model the optimum dividend policy depended on the relationship between the firm's rate of return and its cost of capital K . The comparison above is among growth firm where $r > k$, Normal firm (mature) where $r = k$ and a declining firm where $r < k$. Thus in Walter's Model the dividend policy of the firm depended on the availability of investment opportunities and the relationship between the firm's internal rate of return, r and its cost of capital k . Thus: Retain all earnings when $r > k$, Distribute all earnings where $r < k$, Dividend policy has no effect when $r = k$

2.1.2.2 Dividend Relevance – Myron Gordon's Model (1962)

Myron Gordon's Model suggested that there was a direct relationship between the firm's dividend policy and its market value. Fundamental to this proposition was the "Bird in hand theory" which suggested that investors saw current dividends as less risky than future dividends or capital gains, "a bird in hand is worth two in the bush." Gordon argued that current dividend payments reduced investor uncertainty causing investors to discount the firm's earnings at a lower rate and all held constant, placed a high value on the firm's stock. Conversely, if dividends were not paid or were reduced, investor uncertainty would increase, raising the required rate of return and lowering the stock value. Myron Gordon's Model is based on the following assumptions: - All equity financing - The firm is all equity firm and has no debt, No external financing - retained earnings are to be used to expand a firm's project, Constant return, Constant cost of capital, Perpetual earnings, No taxes, Constant retention ratio and Cost of capital greater than growth rate.

The Gordon's Model revealed that:-The market value of the share P increases with the retention ratio; for firms with growth opportunities i.e. $r > k$, The market value of the share increases with the payout ratio for declining firms where $r < k$, The market value of the share is not affected by dividend policy when $r = k$ and therefore, Gordon's conclusions about dividend policy were similar to Walter's model. Then similarities seem to stem from the assumptions which underlie both models.

2.1.2.3 Dividends Relevance: The Bird in Hand Theory (Myron Gordon)

According to Gordon's Theory above, dividends policy was irrelevant where $r = k$ when all other assumptions hold. However, Gordon insisted that if the assumptions were modified to conform more closely to reality, dividend policy would affect the value of the share even when $r = k$. Gordon argued that under conditions of uncertainty, investors would always prefer dividends to capital gains which would be future and certain. They would therefore discount capital gains at a higher rate than dividends. The bird in hand argument was first brought forth by Kirshman (1933) who argued that myopic (short sightedness) vision played its part in price making process of a share. He argued that stockholders preferred present to future values and acted upon the principle of a bird in hand is worth two in the bush and were therefore willing to pay premium price for stock with higher dividend rate. Graham and Dodd (193) held a similar view he declared:-The typical investor would most certainly prefer to have his dividend today and let tomorrow take care of itself. Given two companies in the same general position and with the same earning power; the larger dividend always sold at a higher price.

Gordon (1962) argue that uncertainty increased futurity and therefore when dividend policy would be considered in the context of futurity, the appropriate discount rate k would remain constant (the risk of the future would be higher).The investors would therefore be ready to avoid the risk and uncertainty and would pay a higher price for the share that pay greater current dividend all other things constant, meaning that the discount rate would increase with the retention rate. Hence, an increase in ratio would result in a lower value of the share. Two basic assumptions regarding investor behavior were applied:- Investors were risk averse, They considered future dividends as less certain than near dividends that dividend policy did affected the value of the shares.

2.1.2.4 Dividend Irrelevance: Modigliani/Miller Hypothesis (MM)

According to MM. (1961) the value of the firm depended on the firm's earnings which resulted from its investment policy. They argued that dividend policy was irrelevant, as it did not affect value of the firm. To get this clearly, we must distinguish between "Dividends and Dividend Policy" so as to understand what M. M. really meant.

Dividends are paid in cash or in something everybody likes. Investors will prefer higher dividends at any single date if the dividend level is held constant at every date. If the dividend per share at every other date is held constant, the stock price will rise. This is because the present value of the future dividends must go up if this occurs. The management can accomplish this by improving; productivity, improve marketing and increase tax savings to improve the cash flow.

The argument here is whether the firm should pay out cash now or invest the cash and pay it later. Dividend policy merely establishes the trade off between dividend at one date and dividends at another date. Once we allow for time value the present value of dividend stream is unchanged, this is illustrated below:- Suppose a business could pay a dividend alternatively it could invest the amount now to one cash flow after a year which will be paid as a dividend at that time. The shareholders would be indifferent as to whether the dividend paid now or in N years provided that the later dividend is:- $D(1+r)^n$, this is simply because $D(1+r)^n$ has the present value of D i.e., $D(1+r)^n$, therefore $(1+r)^n$ Dividend D today and Dividend $D(1+r)^n$. In n years have the same effect for MM.

In MM hypothesis on irrelevance to hold water when the following assumptions are taken:- Perfect capital market, The firm operates in perfect capital markets where investors behave rationally, Information is freely available to all and transaction and floatation costs do not exist and that there is no investor large enough to influence the market price of a share, No taxes- In the MM hypothesis, taxes did not exist or there was no difference between tax rates applicable to dividends and capital gains, Investment policy given;- The firm had a fixed investment policy No risk;- Risk of uncertainty did not exist. That is, investors were able to forecast future prices and dividends with certainty and one discount rate was appropriate for all securities at all time periods thus $r = k = t$

2.2 Empirical literature review.

The empirical review is concerned with studies done by other scholars in determining the relationship between dividend policy and the value of the firms. It's important to note that dividend policy is one the top ten 'puzzles' in finance

Pettit (1972), in his study on effect of dividend policy on share prices, he concentrated on market efficiency at Indian stock exchange. He sampled 45 commercial banks. Pettit documented that announcement of dividend increases the share prices significantly; he concluded that dividend policy must be well devised so as to ensure shareholder goal on wealth maximization is achieved.

Asquith and Mullins (1983) research on dividend initiations effect on value of the firm concluded that there is very large positive relationship between dividend policy and firm value. In their study they found out that, dividend policy adopted by various companies have great influence on firm's value. They concluded that high dividend payout indicates superior performance of the firm hence increase in its firm value and vice versa.

Offer, A. and Thakor, D. (1987) research on stock price reaction on cash dividend indicated that the market reacts dramatically to such an announcements. Where companies choose to distribute cash dividend to its shareholders its stock price dramatically reacts positively as compared to other forms of dividends such as issue of additional shares (stock dividend). They based their research on firms quoted at South Africa stock exchange market where 45 firms were sampled and analyzed.

Gordon (1962), study on Investment, Financing, and Valuation of the Corporation, where he concentrated on quoted agricultural firms observed that dividend policy have a positive relationship with firm value. However he could not concluded whether this will always be the case with all firms under considerations, he concluded by suggesting more study to be undertaken especially on manufacturing and oil exploration sector.

Linter, (1956) research study titled "Distributions of incomes of corporations among dividends, retained earnings and taxes: effects on Firm Value", where he concentrated on large American corporations quoted at New York stock exchange. Revealed that dividend policy have Negative relationship with the value of the firms. Linter sampled 100 firms and analyzed their dividend policy for the period (1945-1955) and their corresponding firm value for that period. The result of the study showed that dividend policy and Firm value were moving on the opposite directions. When firms adopted income distribution dividend policy i.e. cash dividend, firms valued responded by shrinking in valued as demonstrated by decline in its share price, however when

the firms decided to adopt another policy such as treating its income as Retained earnings, purposes the firm value responds by increasing as indicated by increase in its share prices. However it well known that this period under study was immediately after world war two, a fact which cannot be ignored to have an influence in investors' decisions.

Higgins, (1972), study on the corporate dividend –saving decisions also found just like in linter study that dividend have a negative relationship, he based his research on the firms involved in Oil exploration industry. He concluded that dividend policy have a significant influence on value of the firm, but a negative in nature.

Fama and French (2001) conducted a research in the United States in publicly traded, non utility and non financial firms which revealed the following findings:- In 1973 the proportion of firms that paid cash dividends was 52.8 per cent in 1978 the proportion of firms that paid cash dividends was 66.5 percent. This showed an increase in the payment of cash dividends of 13.7 percent. In 1999 the proportion of the firms that paid cash dividends was 20.8 percent. This showed a sharp decline of 45.7 percent in a period of twenty one years.

Closer home, According to Glen (1995) and Skinner (2004) dividend policies in emerging markets such as Nairobi stock Exchange are different from those in developed markets. They reported that dividend payout ratios in developing countries were only about two thirds that of developed countries. They also found out that in emerging markets such as NSE is not efficient strong form hence not all information is cost freely available to all stakeholders, this impedes accurate assessment on dividend policy effect on value of the firm.

Research carried out in quoted firms at the Nairobi Stock Exchange included those of Abdul (1993) which identified parameters important in the determination of dividends by publicly quoted firms. Abdul found out that due to information asymmetry, semi- illiteracy, and high transactions costs, political volatility and lack of capital, were the key hindrance factors in assessment of the relationship between dividend policy and firms value. He suggested that more conclusive studies should be carried out especially on commercial and agricultural sectors.

2.3 Summary of Literature Review.

From the above finding it's evident that no concrete studies had been made to determine the most optimal dividend policy to apply so as to maximize the shareholders value. The researchs done gives conflicting conclusions to the nature existing between dividend policy and the firm's value.

It is clearly evident from the existing theories and hypothesis that not enough studies had been done to explain the relationship between dividend policy and firm values. Most studies have focused on the firms in the developed countries and hardly few on the emerging markets; this necessitates the need to undertake more research on the emerging markets.

As stated earlier, different scholars and authors have reported conflicting results relating to dividend policy and value of the firm. This study aimed to contribute to the debate by carrying out an empirical test on firms quoted on the stock exchange to establish whether dividend policy have direct influence on firm value.

This study I also tried to conclusively examine the relationship between dividend policy and firm value especially for companies that were in the emerging market like NSE.

3.2 Population and Study Sample

The research population represents the elements that will be studied in the research. These consist of all the 46 firms quoted on the Nairobi stock exchange as information for these firms is likely to be easily available. The researcher carried out a census survey of all the firms quoted on the NSE and therefore no need for sampling the firms. At the period under study NSE has 46 listed companies whose shares trade at the NSE, which will be the population.

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This chapter outlines the research methodology. The study outline population as all firms quoted at NSE. Therefore, this chapter outline: selection of the sample, data collection instruments and data collection procedures and data analysis. It also explains how the researcher carried out the study to achieve the study objectives. It consist five sections, section 3.0 introduction, section 3.1 research design, section 3.2 population and study sample, section 3.3, data collection methods and section 3.4 data analysis.

3.1 Research Design

The research study adopted a cross-sectional research design that focused on a specific point in time for determining dividend policy and value of the firms. Empirical studies have shown that companies that constantly declare high dividend usually signals superior performance, attracts investor hence boasting its firm value. However, other studies have reported the opposite result stating that there was no significant relationship between dividend policy and firm value. The study was intended to determine the effect of dividend policy on firms quoted on the NSE and how this has affected their firm's value. This design was adopted to ensure proper representation of all the firms quoted at NSE as most of the studies done previously were sector specific or panel based. Firms quoted on the stock exchange represent a mixture firms in different sectors e.g. finance and investment sector, agricultural sector extra, this give a true picture of Kenyan situation.

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3.3 Data Collection Methods

The data collected in this study was quantitative in nature, mainly secondary data from publications by both the NSE and other financial statements of companies for the period 2005-2009 including Statement of financial position, Statement of income and Directors reports. Concentrating on their dividend policy adopted at that particular period and their corresponding Total Assets (Debt plus Equity). The data collected was mainly quantitative data relating to the dividend declared and Total Assets at that particular point in time of the firms on the NSE. The data was obtained mainly from CMA and NSE publications such as the NSE handbook, as well as publications by the companies such as the annual reports of the companies. As the data was secondary, the researcher organized and tabulated to summarize and carry out the necessary analysis.

3.4 Data Analysis

After the data was collected, it was analyzed using tabulations, graphs and pie-charts. The data was used to determine the relationship between the dividend policy and value of the firm. After determining the dividend policy adopted and total assets, the relationship between the two variables was determined. This involved regressing the dividend policy with value of the firm for entire period of the study. Dividend policy was the independent variable in the regression equation while firms' value was the dependent variable. The regression equation is expected to assume the following expression;

Objective 1

$$V = K + Dp + \epsilon$$

Where V represents firm's value, K represents the intercept or constant, Dp represents dividend policy and ϵ represents the error term or firm's value that cannot be explained by dividend policy. The regression equation above was extracted from the scatter plot that was used to achieve the above objective 1 as stated earlier.

The value of the firm was determined by using total assets for the firms in this study. This information was obtained from the financial statements of the companies.

To generate the regression equation, the Statistical Package for Social Sciences (SPSS) version 17 was used. Tests of significance were used to determine whether the results were significant especially for achieving objective 1 stated earlier. No tests of validity or reliability was done on the data as the data was mainly secondary and invalid or unreliable data is not likely to be collected by the researcher.

4.1 Summary Statistics.

The summary statistics for the study were computed and table 1 indicates the study descriptive statistics output calculated from data attached in appendix II

Table 1.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Firm value	46	514.40	145724.80	22975.078	35457.821
Dividend policy	46	.46	9.60	2.5365	1.43638
Valid N (listwise)	46				

From the above output, it is clear that the number of the companies of the study were forty six (46) as earlier indicated. The results also show that the maximum Firm value was Ksh.145,724.80 million and minimum was Ksh.510.40 million. While the maximum and minimum of dividend policy was Ksh. 9.60 and ksh. 0.46 respectively. The average level of firm value was Ksh 22975.08 million and average level of dividend policy was Ksh 2.5, this is an indication that among the of the firms listed on the NSE the highest aggregate dividend during period of the study declared was Ksh. 9.60 and lowest average declared in the same period was Ksh. 2.5., On the other hand, the highest average firm value among the companies during the period of the

CHAPTER FOUR: DATA ANALYSIS AND DISCUSSION.

4.0 Introduction.

This chapter present data collected during the study and analysis of the same. A total of forty six (46) companies were considered in the study, the data on their firm value and dividend policy was collected. Dividend policy was collected in terms average dividend per share between years 2005-2009. Firm value measured by the average of total assets (Debt plus Equity) for the years between 2005- 2009.

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study listed at NSE was Ksh. 145,724 million and the lowest Firm value on the same period was Ksh. 510.4 million. This indicates that dividend policy has a positive influence on the firm value.

4.2 Dividend policy and Firm value.

Table 2 below shows the summary of data calculated from appendix II

Table 2.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.672	.451	.439	26568.79936

Independent variable: (Constant), Dividend policy

Dependent Variable: Firm value.

From the model summary, it clearly indicates that dividend policy can explain 67.2% variation of the dependent variable (firm value), while the other variations depends on other factors other than dividend policy. The correlation coefficient which measures the strength of the relationship between two variables shows a moderate strong but a positive relationship at 0.451. The firms which declares high dividends, signals superior performance hence, able to attract investors and hence enjoys high firm value. This vindicate the Bird in hand theory of dividend which argues that shareholders prefers "bird in hand rather than many in the forest"

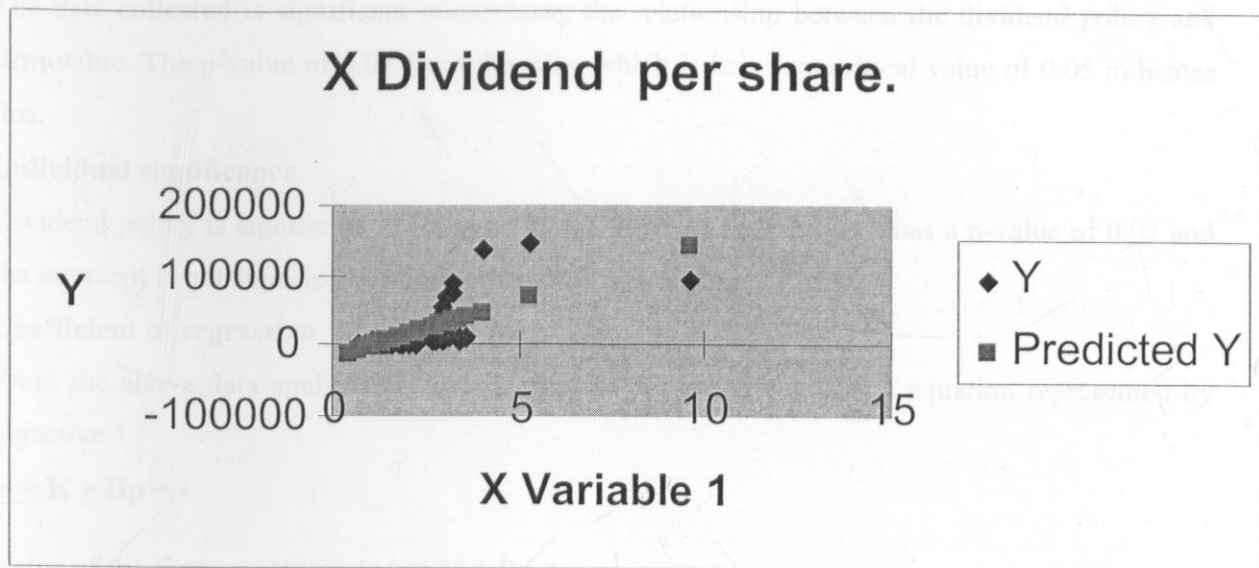
The variation in dividend policy (independent variable) causes positive correlations to Firm value. Dividend irrelevance theories which argue dividend policy has no influence on firm's value are contradicted by above model summary.

The chart 2 below show the line of best fit calculated from data attached in appendix II

	Coefficients	Standard Error	t-Statistic	P-value	Lower 95%	Upper 95%
Intercept	-19076.1	3058.48	-6.23951	0.001712	-35232.3	-32919.9
Variable	14578.3	3757.89	3.88121	3.24E-07	11021.15	18135.45

Chart 2

Line of the best fit



X variable one Dividend policy

Y predicated variable Firm value.

The plot shows that there is positive relationship between dividend policy and firm's value. When the level of dividend policy increases the level of firm values increases and vice versa.

The table 3 below shows levels of significance at 95% confidence level calculated from data attached in appendixII

Table 3.

Significance

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	-19076.1	8016.49	-2.37961	0.021732	-35232.3	-2919.97	-35232.3	-2919.97
X Variable 1	16578.3	2757.387	6.012323	3.24E-07	11021.15	22135.45	11021.15	22135.45

Significance of the relationship

Overall significance

The data collected is significant in assessing the relationship between the dividend policy and firm value. The p-value of 0.02 from the data, which is less than critical value of 0.05 indicates this.

Individual significance

Dividend policy is significant in influencing the value of the firm as it has a p-value of 0.02 and the intercept is not significant in influencing the firm's value.

Coefficient of regression

From the above data analysis we can extract the following regression equation represented by objective 1.

$$V = K + Dp + \epsilon$$

$$\text{Value of the firm} = -19076.1 + 16578.3 Dp + \epsilon.$$

This partial regression equation is estimated from the coefficient table 3 above. The coefficient output indicates that dividend policy is significant in the equation as the p-value is small at below 0.5 hence it can be included in the equation.

4.3 Summary and interpretation of findings.

The research indicated that, firm value of the companies listed at NSE is greatly influence by dividend policy. This may be an indication of shareholders preference of dividend now instead of high dividend in the future. Companies that declares high dividend payout signals better utilization of capital hence attracting high firm value. Due to high risks exposed to firm's future growth and competitiveness, shareholders prefer dividend now instead of dividend in the future.

The study established that there is a relationship between dividend policy and firm's value. As level of dividends increased a corresponding increased in firm's value was established. From the companies listed at NSE its evident that majority of those which declares high dividend constantly enjoys corresponding high firms value represented by debts plus equity.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Summary of the study.

The research study sought to establish the relationship between dividend policy and firm value considering firms listed at Nairobi stock exchange. Dividend policy and its effects on firm value has been a major area of discussions and study in trying to seek the firm value maximizations. Most studies done in developed country found out that dividend policy has mostly positive effects to firm value; however in developing countries like Kenya this area has not been well researched. This study has shown that dividend policy and firm value have a positive correlation i.e. an increment in dividend payout ratio leads to a corresponding increment in Firm's value.

This study focused on relationship of dividend policy and firm's value. Dividend policy is expected to greatly influence firm's value and the researcher aimed at establishing this relationship. It's argued that shareholders preferred present dividend to future values and acted upon the principle of a bird in hand is worth two in the bush and are therefore willing to pay premium price for stock with higher dividend rate.

At NSE companies listed have adopted different dividend policy, i.e. either Constant payout ratio, regularly division payout, stable shillings divided payout policy, low regularly or constant divided policy. The dividend policy was measured by aggregate dividend per share of each company for the period 2005-2009, on the other hand; value of the firm was measured by aggregate total assets for the period 2005-2009. Empirical studies have showed mixed results with majority showing that dividend policy has a positive effect on value of the firm and vice versa.

The research established that dividend policy has a positive influence on the value of the firm for the companies listed at NSE. Those companies that had high average dividend per share for the periods 2005-2009 had corresponding high firm value measured by its total assets and vice versa. This may be is to the fact that high dividends signals superior performance hence corresponding increase in its total capital base.

This findings from the study may assist the companies management in designing and adopting a high dividend per share so a continuously increase the firm's value and vice versa. This makes companies to focus mainly in firm value maximization which a core functions of any business organizations.

From the study it's clear that companies which do not declare dividend or have low dividend payout or irregular dividend payout policies have less firm value compared to the companies that adopted high constant dividend payout, since the latter enjoys high firm value. This may vindicate proponents of high dividend policy as more visionary managers than those who propose low or zero dividend payout policy so as to create cheap source of capital as retained earnings.

5.1 Conclusions

Using the empirical data from the analysis, we can draw the following conclusion. As one of the objectives was to determine the relationship between dividend policy and firm's value, the results indicate that there might be a relationship between dividend policy and firm value of the firm's quoted on the NSE.

In this study Empirical evidence indicates that there is a positive relationship between dividend policy and firm value of the firms quoted at NSE. The results from the data indicate dividend policy have a positive influence on firm's value. This vindicates the MM dividend relevancy theories and Bird in Hand Theory (Myron Gordon). Firm's that declare high dividend always enjoys high firm value. The empirical study from this study negates dividend irrelevancy theories. Modigliani/Miller Hypothesis (MM) which argues that dividend policy has no influence on firm's value. High dividend policy should not yield any high firm value or vice versa, which is centrally to the empirical data from this study.

This study also established that dividend policy and firm's value are positively related. The dividend policies adopted have corresponding influence on firm's value. This collaborate the various theories of dividend relevance theories such as Walter Model, Myron Gordon's Model and the Bird in Hand Theory.

5.2 Policy Recommendations.

The findings on the relationship between dividend policy and firm's value can be used to inform policy. It's important to note that dividend policy have relative influence on firm value but not absolute value as the study have indicated the some elements firm's value which influence firm's value. As observed by other researchers it is possible to have an optimum dividend policy which will maximize firm's value. Management would err if they adopt zero or very low dividend policy payout with assumptions that it will have no influence in the firm value.

Firm's in emerging market (developing countries) find themselves in a difficult positions as they try to maximize firm's value and at same time access cheap source of capital from retained earnings. Management always finds themselves, between a rock and a hard place as they try to balance dividend payout ratio and the value of the firm.

As this study has empirically shown, there is positive relationship between dividend policy and firm value. Management should adopt high dividend payout policy so to attract high firm value and vice versa.

5.3 Limitations of the study

The researcher is expected to encounter certain obstacles that may have affected the results or outcome of the study. These obstacles may be controllable, uncontrollable or both. One of the controllable obstacles included miscomputations by the researcher from the raw data contained in the publication by the companies and NSE. This obstacle was checked through double checking before data was input in the computer.

In the study the researcher may have carried out wrongful analysis of the data hence ending up to wrong conclusions. This limitation was avoided by the researcher relied on a statistical package to analyze the data and used the SPSS package Version 16 as version 17 was not available. The role of the researcher was to interpret the data as the analysis was done by the computer. The interpretation and conclusions were based on computer generated analysis which is likely to be more accurate.

The other limitation, uncontrollable encountered by the researcher was the reliability of the data used. As the data was obtained from financial statements published by the companies and the

NSE, there is likelihood of the data being a bit subjective as it is prepared with certain audience in mind. The data may suffer from window-dressing or creative accounting to please the shareholders. The researcher however had no option but to assume that the regulatory bodies such as CMA, ICPAK and NSE disclosure requirements were met by the reporting firms listed at NSE.

5.4 Suggestions for Further Research

This study established that there might be relationship between dividend policy and firm's value. Future researchers may find concentrate on trying to identify the other factors that influence the firm's value other than dividend policy. Since dividend policy only influence approximately sixty percent of firm's value.

Also future researcher's area of interest maybe researching more on most optimal dividend policy payout ratio and how management can balance between firm's value and enjoys cheap source of funds may be through retained earnings.

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Appendix I

Companies listed on the NSE by sector.

Agricultural

Eaagads Limited
Kapchorua Tea Company Limited
Kakuzi limited
Limuru Tea Company Limited
Rea Vipingo Plantations Limited
Sasini Limited
Williamson Tea Kenya Limited

Commercial and Services

Express Limited
Kenya Airways Limited
Nation Media Group
Standard Group Limited
TPS (Tourism Promotional Services) Eastern Africa (Serena)
Scan group Limited
Hutchings Biemer Limited

Telecommunication and Technology

Access Kenya Group Limited
Safaricom Limited.

Automobiles and Accessories

Car and General (K) Limited
CMC Holdings Limited
Sameer Africa Limited
Marshalls (E.A.) Ltd

Financials and Investments

Barclays Bank Limited
CFC Stanbic Holdings Limited
Diamond Trust Bank Kenya Limited
Housing Finance Company Limited
Kenya Commercial Bank Limited
National Bank of Kenya Limited
NIC Bank Limited
Standard Chartered Bank Limited
Equity Bank Limited
The Co-operative Bank of Kenya Limited
Jubilee Holdings Limited
Pan Africa Insurance Holdings Limited
Kenya Re-Insurance Corporation Limited
CFC Insurance Holdings

British-American Investments Company (Kenya) Limited
 City Trust Limited
 Olympia Capital Holdings limited
 Centum Investment Company Limited
 Trans-Century Limited

Manufacturing and Allied

B.O.C Kenya Limited
 British American Tobacco Kenya Limited
 Carbacid Investments Limited
 East African Breweries Limited
 Mumias Sugar Company Limited
 Unga Group Limited
 Eveready East Africa Limited
 Kenya Orchards Limited
 A.Baumann Company Limited

Construction and Allied

Athi River Mining
 Bamburi Cement Limited
 Crown Berger Limited
 E.A.Cables Limited
 E.A.Portland Cement Limited

Energy and Petroleum

KenolKobil Limited
 Total Kenya Limited
 KenGen Limited
 Kenya Power & Lighting Co Ltd

WILLIAMSON TEA KENYA LTD.

CAKUP
 LAMU TEA CO
 EXPRESS LTD/ORD

KENYA AIRWAYS
 STANDARD GROUP

TIPS EASTERN
 AFRICAN SERENA

SEAN GROUP
 ACCENT KENYA GROUP LTD

SAFARICOM LTD
 KMC HOLDING LTD

SAMBA AFRICA
 MARSHALL SEA LTD

JUBILEE HOLDING LTD

	Dividend per share				Average dividend per share
	2006	2007	2008	2009	
B.O.C Kenya Limited					
British American Tobacco Kenya Limited					
Carbacid Investments Limited					
East African Breweries Limited					
Mumias Sugar Company Limited	0.4	1.2	1.2	1	1.0
Unga Group Limited	0.8	0.8	0.8	0.5	1
Eveready East Africa Limited	3.02	3.49	7.64	7.74	2.1
Kenya Orchards Limited	2	1.5	2	2.5	2.2
A.Baumann Company Limited	2.1	2.3	2.5	2	5.12
	0.2	0.5	1	1.5	3.02
Construction and Allied					
Athi River Mining	0.4	0.6	0.7	0.8	1
Bamburi Cement Limited	0.5	0.7	0.8	1.2	1
Crown Berger Limited	2.5	2.7	0.8	0.5	2.82
E.A.Cables Limited					
E.A.Portland Cement Limited	7.5	8.3	10	10	9.6
	0.2	0.2	2	3	3.98
Energy and Petroleum					
KenolKobil Limited	2	1	1	4	3.21
Total Kenya Limited	1	1.2	1.44	1.6	2.15
KenGen Limited	3.75	2	1	3	2.8
Kenya Power & Lighting Co Ltd	5	0.5	3	0.5	3.35
WILLIAMSON TEA KENYA LTD.	5	0.5	3	0.5	4
CAKUP	0	0	0	1	2.5
LAMU TEA CO	5	10	8	8	7.5
EXPRESS LTD/ORD	0.5	0.5	0.5	1	1.5
KENYA AIRWAYS	1.25	1.75	1.75	1	1.75
STANDARD GROUP	0	0	2	1.1	0.5
TIPS EASTERN					
AFRICAN SERENA	0.4	1.25	1.25	1.25	1.25
SEAN GROUP	0.1	0.1	0.2	0.5	0.5
ACCENT KENYA GROUP LTD	0.1	0.2	0.3	0.4	0.5
SAFARICOM LTD	0.05	0.07	0.08	0.09	0.1
KMC HOLDING LTD	2.3	0.35	0.45	0.35	0.2
SAMBA AFRICA	1	0.5	2	0	0.5
MARSHALL SEA LTD	0	1	1.5	0	1
JUBILEE HOLDING LTD	2	2.2	2.5	2.9	3

Appendix II

Companies covered and data used in the analysis.

Dividend per share.

Name of the company	Dividend per share					Average dividend per share
	2005	2006	2007	2008	2009	
SASIN LTD	0.4	1.2	2	1	0	1.9
REA VIPIGO PLANTATIONS	0.8	0.8	0.8	0.2	0.5	1
NATION MEDIA GROUP	3.02	5.49	7.64	9.1	7.74	2.1
UNGA GROUP	2	1.5	2	2.5	0	2.2
BACLAYS BANK KENYA	2.1	2.5	2.5	2	2.5	5.32
CFC STANBIC HOLDING	0.2	0.5	1	1.5	2	3.02
HOUSING FINANCE CO.LTD	0	0	0.25	0.3	0.5	3.6
KCB BANK LTD.	0.4	0.6	0.7	0.8	1	4.01
NATIONAL BANK OF KENYA	0.5	2.7	0.8	3	1.2	3
NIC BANK LTD	2.5	2.7	0.8	0.5	0.5	2.92
STANDARD CHARTERED BANK	7.5	8.5	10	10	12	9.6
EQUITY BANK LIMITED	0.2	2	2	3	3.5	2.98
CO-OPERATIVE BANK	2	3	1	4	0.2	3.21
PAN AFRICA INSURANCE HOLD.	1	1.2	1.44	1.6	0	2.15
EAST AFRICAN BREWERIES	3.75	2	1	3	2	2.8
KAPCHORUA TEA Co. Ltd	5	0.5	5	0.5	5	1.35
WILLIAMSON TEA KENYA LTD.	5	0.5	5	0.5	4	2.1
KAKUZI	0	0	0	1	2.5	1.5
LIMURU TEA Co.	5	10	8	8	7.5	3.4
EXPRESS LTD ORD	0.5	0.5	0.5	1	1.5	0.9
KENYA AIRWAYS	1.25	1.75	1.75	1	1.75	3.01
STANDARD GROUP	0	0	2	1.1	0.5	1.8
TPS EASTERN AFRICA(SERENA)	0.4	1.25	1.25	1.25	1.25	1.08
SCANGROUP	0.1	0.1	0.2	0.5	0.5	2.25
ACCESSKENYA GROUP LTD.	0.1	0.2	0.3	0.4	0.5	1.2
SAFARICOM LTD.	0.05	0.07	0.08	0.09	0.1	2.8
CMC HOLDINGS LTD.	2.3	0.35	0.45	0.35	0.2	2.3
SAMEER AFRICA	1	0.5	2	0	0.5	1.6
MARSHALLS(E.A) LTD.	0	1	1.5	0	1	0.7
JUBILEE HOLDINGS LTD.	2	2.2	2.5	2.9	3	2.8

OLYMPIA CAPITAL HOLDINGS	0	1	0.15	0.2	0.1	1.3
CENTUM INVESTMENT Co. LTD.	1.3	0.4	2.4	0.45	2	2.7
ATHI RIVER MINING	5.3	1	1.25	1.25	1.5	2.8
BAMBURI CEMENT	5.3	5.5	6	6	11	2.8
CROWN BERGER	1	1.2	1	1.25	1.25	1.4
E.A CABLES	0.7	0.9	1	1	1	1.9
E.A PORTLAND CEMENT	1.3	1.3	2.3	1.2	1.3	3.4
KENOLKOBIL	0.15	0.2	0.25	0.325	0.52	2.72
TOTAL KENYA	0.5	3	3.4	2	1	3.4
KENGEN LTD	0.1	0.3	0.4	0.5	0.5	3.22
KENYA POWER AND LIGHTING Co.	1	1.5	3	3	3.5	2.9
BOC GAS KENYA LTD.	5.5	1.3	2	2	2	1.56
BRITISH AMERICAN TOBACCO KENYA	0.8	2	2.1	2.5	2.6	1.6
MUMIAS SUGAR CO.	0.58	0.5	0.79	1.05	1.03	3.12
EVERYDAY EAST AFRICA	0	0	0.6	0.7	1	0.46
OLD MUTUAL	1.2	2.4	3	1.6	1.5	2.8

Firm value.

	Total debts plus equity in millions.					Average (debt +equity)
	2005	2006	2007	2008	2009	
SASIN LTD	3,442	1,238	1,441	3,070	3,223	2482.8
REA VIPIGO	579	558	570	979	973	731.8
NATION MEDIA GROUP	3,267	3,566	4,121	4,549	4,803	4061.2
UNGA GROUP	3,873	3,590	3,717	4,761	5,565	4301.2
BACLAYS BANK KENYA	104,226	117,722	157,656	168,510	180,510	145724
CFC STANBIC HOLDING	33,112	40,368	43,262	112,128	127,691	71312.2
HOUSING FINANCE CO.LTD	9,902	9,141	10,369	14,294	18,239	12389
KCB BANK LTD.	78,000	93,000	120,000	191,000	195,000	135400
NATIONAL BANK OF KENYA	32,583	36,122	41,414	42,695	51,404	40843.6
NIC BANK LTD	20,700	26,062	31,281	42,619	47,558	33644
STANDARD CHARTERED BANK	72,000	81,000	91,000	99,000	120,000	92600
EQUITY BANK LIMITED	11,456	20,024	53,076	78,879	100,81	52849.4

CO-OPERATIVE BANK	51,832	57,688	65,324	83,486	110,678	73801.6
PAN AFRICA INSURANCE HOLD.	3,045	3,696	4,684	5,863	6,094	4676.4
EAST AFRICAN BREWERIES	18,500	20,761	22,800	24,386	25,114	22312.2
KAPCHORUA TEA Co. Ltd	1,000	965	1,100	982	1,200	1049.4
WILLIAMSON TEA KENYA LTD.	3,300	3,200	3,800	3,600	3,900	3560
KAKUZI	910	1,100	1,300	1,600	2,000	1382
LIMURU TEA Co.	5,200	5,500	5,100	5,200	5,500	5300
EXPRESS LTD ORD	616	895	824	432	412	635.8
KENYA AIRWAYS	44,000	69,000	70,000	77,800	74,900	67140
STANDARD GROUP	981	1,300	2,200	3,000	2,700	2036.2
TPS EASTERN AFRICA(SERENA)	4,300	5,500	5,500	5,400	6,000	5340
SCANGROUP	1,200	1,300	1,800	3,800	4,000	2420
ACCESSKENYA GROUP	15	20	833	1,100	1,800	753.6
SAFARICOM LTD.	22,000	30,000	43,000	33,000	60,000	37600
CMC HOLDINGS LTD.	4,000	4,300	5,100	5,700	5,900	5000
SAMEER AFRICA	2,000	2,000	1,800	1,900	2,100	1960
MARSHALLS(E.A) LTD.	467	475	500	690	807	587.8
JUBILEE HOLDINGS LTD.	11,600	15,400	18,000	20,000	23,800	17760
OLYMPIA CAPITAL	289	796	950	1,080	787	780.4
CENTUM INVESTMENT Co. LTD.	5,000	6,400	8,400	8,800	7,800	7280
ATHI RIVER MINING	12,800	4,200	4,500	6,000	12,000	7900
BAMBURI CEMENT	15,300	15,800	17,600	28,000	32,100	21760
CROWN BERGER	850	900	1,000	1,500	1,900	1230
E.A CABLES	1,900	3,200	3,000	3,500	4,500	3220
E.A PORTLAND CEMENT	9,000	8,900	9,000	12,000	12,000	10180
KENOLKOBIL	4,000	4,500	5,000	10,000	13,000	7300
TOTAL KENYA	10,500	10,800	15,300	12,500	14,500	12720
KENGEN LTD	6,000	95,000	99,000	102,000	136,000	87600
KENYA POWER	22,000	24,000	26,000	29,000	41,000	28400
BOC GAS KENYA LTD.	1,300	1,200	1,400	1,990	2,000	1578
BRITISH AMERICAN TOBACCO .	99	1,000	2,000	2,500	3,000	1719.8
MUMIAS SUGAR CO.	7,700	8,300	9,000	10,000	11,000	9200
EVERYDAY EAST AFRICA	377	525	500	550	600	510.4
OLD MUTUAL	3,900	5,300	5,900	6,000	8,000	5820