

# PAYING DIVIDENDS BY KENYAN COMPANIES

JOHN M. PARKINSON<sup>1</sup> and NELSON MANIA WAWERU<sup>2</sup>

---

## Abstract:

*The Nairobi Stock Exchange (NSE) has, as of 2007, 50 companies listed. In general, the NSE does not seem to be a major factor in the economy of the country. In this study we examined the factors that might have motivated the managers of NSE listed companies to pay dividends. This was done through multiple regression analysis of dividends paid as well as by a survey of company managers. Dividends are strongly related to net income and to liquidity and they are negatively related to the existence of investment opportunities. These findings are in accord with received finance theory, but they have not previously been examined in the Kenyan context.*

**Keywords:** Dividends; Dividend Policy; Nairobi Stock Exchange; Kenya.

**JEL Codes:** M400, N270.

## 1. INTRODUCTION

Companies exist to create value for their shareholders. Value can be based on the stream of dividends that the shareholder will receive over the life of the company, discounted back to the present. For a constant dividend payable to eternity, this resolves to:

$$P_0 = d_1/r$$

Where the price at time 0 (now) is the dividend to be paid at the end of year one, divided by  $r$ , the required rate of return.

---

<sup>1</sup> Professor of Accounting, School of Administrative Studies, York University, 4700 Keele St, Toronto, ON, Canada, M3J 1P3, Email: Johnmp@yorku.ca.

<sup>2</sup> Associate Professor of Accounting, School of Administrative Studies, York University, 4700 Keele St, Toronto, ON, Canada, M3J 1P3, Email: waweru@yorku.ca.

---

If the dividend is growing at a constant rate ( $g$ ) then, using the Gordon (1962) growth model of share valuation based on dividends we get:

$$P_0 = d_1 / (r - g)$$

If we accept that share values are a function of dividends then the policies adopted by firms in paying dividends are important. This paper sets out to establish the nature of dividend policies of companies listed on the Nairobi Stock Exchange (NSE).

In section 1 we briefly survey the relevant literature. In section 2 we give some background information on the NSE. In section 3 we report the dividend payments by NSE listed companies for the period 1998 to 2007 and the patterns they appear to represent. In section 4 we report on a survey of the dividend policies of NSE listed companies and in 5 we summarize the situation.

## 2. LITERATURE SURVEY

Modigliani and Miller (1961) show that in a world free of taxes (or at least tax differentials) and transaction costs the dividend decision is irrelevant: any advantage the shareholder receives by way of dividend is wholly negated by way of a decline in share price and so it does not matter whether the company pays all its profit out as dividend, pays none of it as dividend, or compromises by paying part of profit as dividend. However the world of no taxes and no transactions is not the world we live in, so the MM hypothesis is of marginal practical relevance.

Lintner (1956) interviewed a broad sample of U.S. companies to establish their dividend policies. He discovered that most had a conscious commitment to paying out a specific percentage of earnings (generally around 50%) but that adjustment from the current dividend to a new, higher, dividend would be spread out over a number of years so that the negative effects of a dividend reduction could be avoided and only permanent dividend increases would be made. Even those companies that did not claim this "partial adjustment model" as a policy would pay dividends that were in general conformity with the policy.

Lintner's work gives rise to the theory that there is information in dividends (and in particular in changes in dividend) that is greater than the information from earnings alone. Presumably managers have greater insight than do shareholders into the future of their organizations. They only in-

---

crease dividends when they are optimistic about growth and sustainability of higher earnings. Dividends and increases in dividends are therefore a signaling device.

A company cannot pay a cash dividend without cash. Dividends may therefore be constrained by liquidity. A company that is faced with investment opportunities must sometimes make a choice between paying a dividend to its shareholders and investing. Or, if it makes the investments in the absence of adequate liquidity to do so as well as paying dividends, then it commits itself to raising new equity or additional borrowing.

This gives rise to the following possible rationales for a particular dividend policy:

- 1: that the dividend is a defined percentage payout of earnings;
- 2: that the dividend is a defined percentage payout of earnings, with a lag effect;
- 3: that the dividend is limited by the liquidity of the company.
- 4: that the dividend is passive residual of the investment decision.

If the Gordon's model holds, then the dividend may be selected with a view to influencing share price. If the objective is to maximize share price then the choice should be to maximize dividend payments. Logically, the dividend payout ratio should be 100%, unless there are sufficient investment opportunities to warrant plugging back the earnings into new projects (which would imply a 0% payout) or the company is constrained by liquidity.

In practice of course, a 100% payout is seldom seen. Most organizations appear to adopt the compromise of a partial payout.

Black (1976, p. 5) complains that *"The harder we look at the dividend picture, the more it seems like a puzzle, with pieces that just don't fit together"*.

It has been observed that an increase in dividends is often accompanied by an increase in the stock price while a dividend cut generally leads to a stock price decline. This could indicate that investors generally prefer dividends to capital gains. However, Modigliani and Miller (1961) argued differently. They noted the well-established fact that corporations are reluctant to cut dividends, hence they do not raise dividends unless they anticipate good earnings in the future. Thus they argued that a higher than expected dividend increase is a signal to investors that the firm's management focus good future earnings.

A reduction of dividend on the other hand, or a smaller than expected increase, is a signal that management is forecasting poor earnings in the future. Thus, Modigliani and Miller, (1961) argued that investors' reactions to changes in dividend policy do not necessarily show that investors prefer

---

dividends to retained earnings; rather they argue that price changes following dividend policy simply indicate that there is an important information or signaling content in dividend announcements. They therefore explicitly suggested that dividends can convey information about future earnings when markets are imperfect.

Building on the notion of asymmetric information, Bhattacharya (1979), Miller and Rock (1985), John and Williams (1985), and other theorists have gone further. They point out that dividend changes are not actions that just happen to have information content; rather, these are explicit signals about future earnings, sent intentionally, and at some cost, by management to the firm and its shareholders. The information content position has often been based on the premise that corporate management has greater insight regarding the future of the firm than do investors. The inability of professional analysts to forecast performance was studied by Cragg and Malkiel (1968) who concluded that professional analysts were no more accurate than naïve earnings forecasting methods.

The role of changes in dividends as information signaling devices was further stressed by Brickley (1983), who examined stock returns and dividend and earnings patterns surrounding specially designated dividends (SDDs) and compared them to those surrounding regular dividend increases. Brickley suggested that both SDDs and regular dividend increases appear to convey positive information about future dividends and earnings beyond the current period.

However, using 310 firms during the period 1946 to 1967, Watts (1977) regressed the next year's earnings on current year's dividends, and found that while the average coefficients (across firms) are positive, the t-statistics were very low. Also, Penman (1983) found that after controlling for management's future earnings forecast, there is not much information conveyed by the dividend changes themselves. Perhaps theorists are unconvinced by the results of these two studies, since the signaling-based theoretical treatments of dividends remain in corporate finance. For example, Ross, Westerfield and Jaffe (2005) and Akhigbe, Borde and Madura (1993) argue that stock prices generally react positively to unexpected increase in dividends (or an initial dividend payment) and negatively to unexpected decreases in dividends, suggesting that there is information content in dividend payments.

It is worth noting that the classical dividend signaling theory is shaken again by the most recent two studies in this area. DeAngelo *et al* (1996) studied the signaling content of managers' dividend decisions for 145 NYSE firms whose annual earnings declined after nine or more consecutive years of growth. They found virtually no support for the notion that dividend de-

---

cisions help identify firms with superior future earnings. They concluded that dividends do not possess any reliable informative signals.

Benartzi, Michaely and Thaler, (1997) investigated NYSE firms' earnings and dividends, and found limited support for the view that changes in dividends have information content about future earnings changes. While there is a strong past and concurrent link between earnings and dividend changes, the predictive value of changes in dividends seems minimal. There is some evidence that dividend-increasing firms are less likely to have subsequent earnings decreases than firms that do not change their dividend despite similar earnings growth. The authors conclude that changes in dividends mostly tell us something about what has happened. If there is any information content in dividend announcements, it is that the concurrent change in earnings is expected to be permanent rather than transitory.

There are other factors influencing a firm's dividend policy. For example, some studies suggest that dividend policy plays an important role in determining firm capital structure and agency costs. Other variables that have been suggested as being potentially relevant to the determination of dividend policy include: current earnings (Partington, 1989 and Fama and French, 2001), retained earnings (DeAngelo *et al*, 2004 and Baker, Viet and Powell, 2004, Liquidity (Partington, 1989 and Darling, 1957) and Share Prices (Baker, Viet and Powell, 2004).

The fact that investors are willing to hold (or buy) a company's shares at the prevailing price implies that the rate of discount which equates their income expectation with market price constitutes a rate of return at least as high as could be obtained in alternative investments of comparable risk. If these investors are willing to increase their holdings of shares at the same rate of market return, they should also be willing to forego current dividends in so far as the added equity investment yields this rate. Stated another way, investors should be indifferent if the present value of the additional future returns resulting from earnings retention equals the amount of dividends foregone. Moreover, because increases in present value (market price) are realizable as capital gains, earnings retention carries a tax advantage that lowers the rate of return on corporate investment necessary for shareholder indifference between current dividends and earnings retention.

The influence of earnings retention on share prices should therefore be a function of the profitability of corporate investment opportunities, *ceteris paribus*, in view of the fact that external equity financing is generally not a completely satisfactory substitute for internal financing. When this corporate rate of profit exceeds the minimum rate required by stockholders, price should increase as the proportion of earnings retained increases. Conversely,

---

when the corporation's profit rate is less than the market rate, price should decrease with increasing earnings retention.

Akhigbe, Borde, and Madura (1993) measure the common share price response to dividend increases for both insurance firms and financial institutions relative to unregulated firms. They find that insurance firm's stock prices react positively to increases in dividends over a four-day interval surrounding the announcement, but that these reactions differ depending on the insurer's primary line of business. They divide the sample into these three segments: life, property and casualty, and other. Their results show that the market reaction for each segment is greater than the market reaction for financial institutions. By contrast, the market reaction for life insurers is lower than that for industrial firms, while the reactions for property and casualty firms and other insurers are both higher. However, they note that the reaction is not related to firm-specific variables like profitability, leverage, or firm size.

At present, the information-signaling hypothesis is widely recognized, if not accepted, in financial management. However, there has been little or no empirical evidence of why Kenyan listed companies pay dividends. This study sets out to fill in this apparent gap.

### *2.1 The Nairobi Stock Exchange*

The objectives of any stock exchange include two interlinked concepts. Their primary market role is to facilitate the movement of capital from savers to investors. In process of the primary market activities they will often aggregate the resources of small individual savers into sufficiently large capital sums that they can be successfully invested by commercial companies. In their secondary market role, by facilitating transactions between willing buyers and sellers they establish fair market prices for existing shares (the efficient markets hypothesis). In turn, this secondary market role of share pricing enables (primary market) new share issues to be priced at, or close to, fair market prices, thus militating against disadvantaging the issuers or the buyers of those new shares. The two roles are, therefore, interdependent.

The nature of the stock markets of developed countries needs no rehearsal here: suffice it to say that the stock exchanges of New York, London, Tokyo and so on have been material positive factors in the burgeoning economies of the USA, Europe and certain parts of Asia for many years.

Some parts of the developing world have also used stock exchanges as vehicles of development, with perhaps China and India being the most obvi-

---

ous recent examples. The Shanghai Stock Exchange (SSE) was founded on 26<sup>th</sup> November 1990 (Devonshire-Ellis, 2007). At the end of 2005, the SSE boasted 1069 listed securities and 834 listed companies, with a combined market capitalization of RMB 2,310 billion (SSE, 2005). In 2005, listed companies raised RMB 3 billion on the SSE through Initial Public Offerings (IPO) and share placements (SSE, 2005). There were a total of 131 new listings between 2003 and 2005 (SSE, 2005)

Stock exchanges in Africa appear to have missed out on many of the opportunities seized elsewhere. Although there is a long history of stock exchanges in African nations, some going as far back as colonial times, their growth rates have generally been slow, or even stagnant, and their role in capital mobilization appears, in many cases, to have been negligible.

Quoting data from the World Bank's Financial Structure database, Honahan and Beck (2007) list fifteen stock exchanges active in sub-Saharan Africa (i.e. ignoring the substantial and active stock exchanges in Mediterranean Africa, such as those in Morocco, Tunisia and Egypt).

**Table 1: Stock Exchanges in (Sub-Saharan) Africa: 2005**

Country:	Number of listed firms	Market Cap.% of GDP	Value Traded % of GDP	Turnover %	Zero return weeks	Concentration of firms % of total
Botswana	25	27.2	0.6	2.1	–	0.21
Côte d'Ivoire	39	12.3	0.3	2.5	–	0.21
Ghana	30	23.7	0.8	3.2	70	0.12
Kenya	47	26.1	2.1	7.9	41	0.20
Malawi (2002)	8	9.2	1.3	14.1	–	
Mauritius	41	36.0	1.6	4.4	48	0.12
Mozambique	1	30.0	0.0	0.0	–	–
Namibia	13	6.9	0.3	4.7	57	0.39
Nigeria	207	16.7	2.3	13.9	67	0.08
South Africa	403	170.5	76.5	44.9	13	0.06
Swaziland	6	8.3	0.0	0.0	–	–
Tanzania	6	6.2	0.2	2.5	–	–
Uganda	5	1.4	0.0	0.2	–	–
Zambia	13	8.0	0.1	1.5	–	–
Zimbabwe	79	41.3	2.9	7.0	37	0.08

(Source: Honahan & Beck, 2007, p. 52).

---

The Nairobi Stock Exchange (NSE) was established in 1954: among sub-Saharan African stock exchanges only those of South Africa (1887) and Zimbabwe (1896) are longer established. The remaining exchanges were all established in the last 25 years of the 20<sup>th</sup> century. Of those fifteen stock exchanges South Africa's burgeoning exchange is clearly an outlier while Kenya is typical of the other fourteen. These all share the following features: a limited number of stocks are listed, market capitalization is a small percentage of GDP, value traded is a small percentage of GDP, turnover is low, the concentration of firms is low and few bonds are listed. Parkinson (1984) examined the NSE in the context of development in Kenya. He reported that the NSE failed to make enough initial public offerings to satisfy savers' demands. Earlier Yacout (1980) had noted the heavy oversubscription of new issues in Nigeria and concluded that; there too, available savings were greater than new stock market issues. One of the dimensions of any stock exchange is its relationship to the economy in which it operates. Useful comparative statistics are somewhat problematical here, but one useful source is the World Bank Data which shows the market capitalization of stock market securities by country, area and for the world as a whole.

*"Definition: Market capitalization (also known as market value) is the share price times the number of shares outstanding. Listed domestic companies are the domestically incorporated companies listed on the country's stock exchanges at the end of the year. Listed companies do not include investment companies, mutual funds, or other collective investment vehicles."* (World Bank, 2007).

Honahan and Beck (2007, p. 51) indicate that, for the eight most active stock exchanges in Africa other than Johannesburg (that is: Botswana, Côte d'Ivoire, Ghana, Mauritius, Mozambique, Namibia, Nigeria and Zimbabwe) the stock market capitalization as a percentage of GDP rose from about 13% in 1994 to about 23% in 2005.

Kenya is a country with one of the lowest ratios of stock market capitalization to GDP. In 2000 it was 10.1%, compared to 89.3% for the world as a whole: by 2005 it had increased to 26.1%, which, though a substantial increase over 2000, and also higher than in the rest of developing Africa, was still a small fraction of the 137% recorded for the world as a whole (World Bank, 2007). The logical conclusion is that while the role of stock markets generally is on a growth trajectory everywhere, including Africa, the NSE plays a comparatively minor role in the economy of Kenya.

Fifty listed companies are included in the NSE 2007 Yearbook. The "Main Investment Market Segment" (MIMS) includes 43 companies (Agriculture: 4; Commercial & Services: 9; Financial & Investment: 13; Industrial & Allied: 17). The MIMS represents the main quotation market and has more stringent

---

eligibility, listing and disclosure requirements (Wangacha, 2001). A further 7 companies were included in the "Alternative Investment Market Segment", (AIMS) which has lower entry and continuance requirements with respect to minimum assets, share capital and shareholders.

### 3. FACTORS INFLUENCING DIVIDEND PAYMENTS ON THE NSE

To investigate the factors that influence dividend payments we considered all the 50 companies listed on the Nairobi Stock Exchange during the period 1998 to 2007. Data was obtained from the NSE handbooks for the period 1998-2007. Since some firms were not listed for the entire period of the study, we used firm-year observations. The final sample consisted of 419 firm-year observations over the ten year period, which represents 83.8% of the total expected 500 firm-year observations. The data obtained included;

- Dividend paid: This is the total dividend paid by a company in any particular year. We observed a general decrease in dividend payments during the review period.
  - Annual net income: In this study the income after tax was used as a proxy for the firm's profitability. Frankfurter et al (2003), Amidu and Abor (2006) and Al-Malkawi and Nizar (2007) have found a significant relationship between dividend payout and profitability. In this study we expect a positive relationship between dividend payouts and profitability. As was the case with dividends paid, there was also a general decrease in the profitability reported by the companies during the seven year period.
  - Lagged net income: These are the profits that are that were earned by the company during the last financial. As in the case of net income above, we expect a positive relationship between dividend payouts and retained earnings.
  - Liquidity: This is defined as the net of current assets and current liabilities. High liquidity increases the company's ability to pay dividends. Franfurter *et al* (2003), Adedeji (1998) and Omran and Pointon (2003) have found a positive relationship between liquidity and dividend payout. We therefore expect that high liquidity is associated with higher dividend payouts in Kenya.
  - New investments: This was measured by the value of fixed assets purchased during the year. Since investments reduce cash-flow, and hence the amount available to pay dividends, we expect a negative relationship between dividend payout and the investments made during the year.
  - Industry: We used an industry dummy 1 where a firm belongs to the fi-
-

financial sector, otherwise 0. Financial sector firms are subjected more regulations than other firms in Kenya. We therefore expected their dividend policy to differ from those of other firms.

The data was analyzed using pooled data multiple regression model. The general form of the OLS regression model is shown below.

$$Y = B_0 + BX_1 + BX_2 \dots\dots + e \quad (1)$$

Where:

Y is the dependent variable; dividend paid

$B_0$  is the constant while the  $B_1$ ,  $B_2$ , etc. are the regression coefficients

$X_1$ ,  $X_2$ ,  $X_3$  and  $X_4$  are the observed values of net income, lagged net income, liquidity, new investment during the year, and industry, while e is the error term.

The aim was to test for any significant relationship between the dividend payments (dependent variable) and the independent variables (net income, lagged net income, liquidity, new investments and industry) during the 10 year period. The descriptive statistics are shown in Table 1.

**Table 2: Descriptive Summary Statistics (figures are in Million KSHS)**

Variables	Mean	Std Dev)	Minimum	Maximum
Dividend paid	319	118	0	2170
Net Income	388	423	-319	6130
Lagged Net Income	332	327	-239	5390
New Investments	4	3	-19	53
Liquidity	8	4	-4	22
Industry	0.211	0.408	0	1

*This table provides summary statistics for the data employed in the analysis. The panel provides mean, minimum, maximum and standard deviation. Unlike the other variables which are reported in Kshs. million, the industry variable is either 0 or 1.*

Our initial analysis indicated that there is a high correlation between net income and lagged net income ( $R= 0.84$ ), an indication that the two variable are measuring the same thing. This high correlation could also suggest the presence of multicollinearity in our data. Furthermore according to Tibachnick and Fidell (1996), one should think carefully before including two variables with a bivariate correlation of 0.7 or more in the same analysis. We therefore dropped the lagged net income variable from our analysis. The correlation results are shown in Table 2 below.

**Table 3: Correlation Matrix**

	DIV Paid	Net Income	New Investment	Liquidity	Industry Dummy
DIV paid	1.0000				
Net Income	0.5440	1.0000			
New Investment	0.0031	0.0966	1.0000		
Liquidity	0.4580	0.4919	-0.0252	1.0000	
Industry Dummy	0.1557	0.1334	-0.0977	0.3346	1.0000

This table provides the correlation between the dependent variable (dividend paid) and the independent variables, net income, new investments, liquidity and the industry dummy.

The independent variables are correlated at a magnitude not exceeding 0.544 which is the correlation between dividend paid and net income. Since the correlations among variables are fairly low, the discrete effect can be estimated.

**Table 4: Multiple Regression Results**

Variable	Coefficient	t-value	P-Value
Constant	9.73	3.84***	0.000
Net Income	0.509	18.56***	0.000
New Investments	-10.27	-1.87*	0.001
Liquidity	5.09	2.77**	0.006
Industry Dummy	3.30	0.62	0.536
Adjusted R <sup>2</sup>	0.57		
F	136***		

This table shows the regression estimates of the equation  $Dividend\ paid = a + b_1(Net\ income) + b_2(New\ investments) + b_3(Liquidity) + b_4(Industry\ dummy) + e$ . \*\*\*, \*\*, \* indicates significance at 1, 5 and 10% respectively.

The results indicate a significant positive relationship between dividend paid, annual net income, liquidity and new investments. Dividend payments were best predicted by the company's annual net income followed by liquidity. According to the results, the three independent variables together explain 57% of the variance in the dependent variable. The findings support the idea that dividend payments in Kenya are based on the annual results. Further, the results show a significant negative relationship between dividend payout and new investments, an indication that companies that have

high investment opportunities may tend to lower their dividends. There is no significant relationship between dividends payment and the industry an indication that dividend payments in Kenya are not affected by whether or not they are in the financial sector.

#### 4. DIVIDEND POLICY SURVEY

There were 50 companies listed on the NSE as at December 31<sup>st</sup>, 2007. A questionnaire was mailed to each of them asking about their motivation for paying dividends. Of these, 25 companies (50%) responded. The questionnaire was addressed, in each instance, to the chief executive officer or managing director, as listed in the NSE handbook, 2007. To put the questions in context, the dividends paid by the company for the period 1998 to 2007 were listed in the questionnaire. A telephone request was made three months later to all the non-respondents, but no further responses were received.

The popular approach to assessing non-response bias is to compare the average characteristics of the first tranche of responses with the average characteristics of responses received later as a result of a reminder, using Cronbach's Alpha to test for their similarity. As there were no late responses in this study, that could not be done in this instance. In any event, a response rate of 50% to a mailed survey is quite high in comparison with other published studies of this type.

**Table 5:**

*Question 1: How would you describe your decision about paying dividends? Please indicate your agreement or disagreement by ticking the relevant box.*

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Dividend is a constant monetary amount each year	10	9	3	3	0
Dividend is a constant percentage of earnings	6	9	6	1	3
Dividend is a percentage of earnings with a lagged adjustment	4	4	4	13	0
Dividend is what is left over after investment needs are met	4	1	5	7	8

Nineteen respondents (76%) either disagreed or strongly disagreed that dividends were set at a constant monetary amount. Fifteen respondents (60%) either disagreed or strongly disagreed that dividends were a constant percentage of earnings. Thirteen respondents (52%) agreed that dividends were a percentage of earnings with a lagged adjustment. while 15 respondents (60%) either agreed or strongly agreed that dividends were what were left over after investment needs are met. We therefore conclude that dividend payments in Kenya are mainly influenced by what is left after investment needs are made.

**Table 6:**

*Question 2: The following factors may influence your dividend payment: please rank them in order of importance.*

	Highly Unimportant	Unimportant	Neutral	Important	Highly Important
Level of current earnings	0	0	0	10	14
Level of expected future earnings	0	1	5	14	4
Stability of earnings	0	3	4	12	5
Pattern of past dividends	0	3	4	15	2
Company's liquidity position	1	0	0	8	14
Company's cash flow	1	0	0	9	13
Needs and expectations of the share holders	0	1	2	20	1

The highest response rates (all over 20 responses) were that the level of current earnings, the company's liquidity position, the company's cash flow and the needs and expectations of shareholders were factors affecting the dividend decision. The second highest group of responses (15 to 19) recognized the level of future earnings, the stability of earnings and the pattern of past dividends as factors affecting the dividend decision.

*Question 3: Which company officers are involved in the dividend decision?*

Two responses indicated a single individual: either the managing Director or the Director of Finance & Administration. Three responses indicated that there was a joint decision by the CEO/MD and the CFO/FD. Twelve responses included the Board of Directors as well as the CEO/MD and the CFO/FD. The remaining four responses included management as well as the board of directors, the CEO/MD and the CFO/FD.

*Question 4: Do you believe that dividends influence the market price of your shares? If yes, please describe how.*

There were 5 non-responses to this question. Thirteen respondents (65%) of respondents believed that the dividend had some positive influence on the share price while six (30%) of respondents believed that the dividend had no effect on the share price. One (5%) respondent did not know.

## 5. DISCUSSION

There is a lot of agreement between the survey results and the statistical results. Both agree that current net income and liquidity are factors that positively affect the dividend and that the availability of investment opportunities has a negative effect on the amount of the dividend. Unfortunately multi-co linearity prevented us from testing the effect of lagged net income on dividends. Respondents mostly agree that dividends have a positive effect on share prices. These findings are in line with traditional finance theory, and should not be a surprise. The fact that so many of the companies made the dividend decision within a tight group of managers was surprising.

## References

- Adedeji A., 1998, "Does the Pecking Order Hypothesis explain the dividend payout ratio of firms in the UK?", *Journal of Business Finance and Accounting*, Vol. 25, pp. 1127-1140.
- Akhigbe A., F.B. Stephen and J. Madura, 1993, "Dividend Policy and Signaling by Insurance Companies", *The Journal of Risk and Insurance*, Vol. 60, pp. 413-428.
- Al-Malkawi H.N and H.A. Nizar, 2007, "Factors Influencing Corporate Dividend Decisions: Evidence from Jordanian Panel Data", *International Journal of Business*, Spring, pp. 1-17.
- Alli K.L. and Q. Khan, 1993, "Determinants of Corporate Dividend Policy: A Factor Analysis", *The Financial Review*, Vol. 28, No. 4, pp. 523-547.
- Amidu M. and J. Abor, 2006, "Determinants of Dividend Payment Ratios in Ghana", *The Journal of Risk Finance*, Vol. 7, No. 2, pp. 136-145.
- Ball R., P. Brown and F. Finn, 1979, "Dividends and the Value of the Firm", *Australian Journal of Management*, Vol. 4, pp. 13-26.
- Baskin J., 1989, "Dividend Policy and the Volatility of Common Stock", *Journal of Portfolio Management*, Vol. 15, spring, pp. 3-18.
-

- Baker K.H., T.E. Viet and E.G. Powell, 2004, "Factors Influencing Dividend Decisions of NASDAC Firms", *The Financial Review*, Vol. 38, pp. 19-38.
- Bhattacharya S., 1979, "Imperfect Information, Dividend Policy, and the 'Bird In The Hand' Fallacy", *Bell Journal of Economics*, Vol. 10, pp. 259-270.
- Black F., 1976, "The Dividend Puzzle", *Journal of Portfolio Management*, Vol. 2, No. 2, pp. 5-8.
- Benartzi S., R. Michaely and R. Thaler, 1997, "Do Changes in Dividends Signal the Future or the Past?", *The Journal of Finance*, Vol. 52, No. 3, pp. 1007-1033.
- Bernhart D., A. Douglas and F. Robertson, 2005, "Testing Dividend Signaling Models", *Journal of Empirical Finance*, Vol. 12, pp. 77-98.
- Brickley J., 1983, "Shareholders Wealth, Information Signaling, and the Specially Designated Dividend: An Empirical Study", *Journal of Financial Economics*, Vol. 12, pp. 187-209.
- Cragg J. and B. Malkiel, 1968, "The Consensus and Accuracy of Some Predictions of the Growth of Corporate Earnings", *Journal of Finance*, Vol. 23, pp. 67-84.
- Darling P.G., 1957, "The Influence of Expectations and Liquidity on Dividend Policy", *Journal of Political Economy*, Vol. 65, No. 3, pp. 209-224
- DeAngelo H., L. DeAngelo and D.J. Skinner, 1996, "Reversal of Fortune: Dividend Signaling and the Disappearance of Sustained Earnings Growth", *Journal of Financial Economics*, Vol. 40, pp. 341-371.
- Devonshire-Ellis C., 2007, "Shanghai & Bombay Stock Exchanges: Different Aspirations?", Available online: <http://www.2point6billion.com/2007/06/20/shanghai-bombay-stock-exchanges-different-aspiration>
- Dickson J.P. and K. Muragu, 1994, "Market Efficiency in Developing Countries: A Case Study of the Nairobi Stock Exchange", *Journal of Business Finance and Accounting*, Vol. 21, pp. 133-150.
- Douglas B. and A. Watz, 1995, "A Tax Based Dividend Signaling Hypothesis", *American Economic Review*, Vol. 85, No. 3, pp. 532-551.
- Egu K.F., 2009, "Dividend Payments and Share Prices in Ghana", Available on-line: <http://www.ghanaweb.com/GhanaHomePage/NewsArchive/artikel.php?ID=158225>, Retrieved on 26<sup>th</sup> February, 2010.
- Fama E.F., 1991, "Efficient Capital Market: II", *Journal of Finance*, Vol. 46, pp. 1575-1617.
- Fama E.F., 1974, "The Empirical Relationship between the Dividend and Investment Decisions of Firms", *American Economic Review*, Vol. 64, No. 3, pp. 304-318.
- Fama E.F. and K.R. French, 2001, "Forecasting Profitability and Earnings", *Journal of Business*, Vol. 73, pp. 161-175.
- Fama E.F. and K.R. French, 1992, "The Cross-Section of Expected Stock Returns", *Journal of Finance*, Vol. 47, 427-65.
- Franfurter M., G.B. Wood and W.J. Wansley, 2003, *Dividend Policy: Theory and Practice*, Elsevier Science, CA, USA.
-

- 
- Gordon M.J., 1962, *The Investment, Financing, and Valuation of the Corporation*. Homewood, Ill.: R.D. Irwin.
- Honahan P. and T. Beck, 2007, *Making Finance Work for Africa*, The World Bank.
- Julio B. and D.L. Ikenberry, 2004, "Reappearing Dividends", *Journal of Applied Corporate Finance*, Vol. 16, pp. 89-100.
- Kao C. and C. Wu, 1994, "Test of Dividend Signaling Using the Marsh-Merton Model: A Generalized Friction Approach", *Journal of Business*, Vol. 67, No. 1, pp. 45-68.
- Kimura J.H and Y. Amoro, 1999, "Impediments to the growth of the Nairobi Stock exchange", Discussion paper, Institute of Policy Analysis and Research, Nairobi, Kenya.
- Lintner J., 1956, "Distribution of Incomes of Corporations among Dividends, Retained Earnings, and Taxes", *American Economic Review*, Vol. 46, pp. 97-113.
- Miller M.H. and F. Modigliani, 1961, "Dividend Policy, Growth, and the Valuation of Shares", *Journal of Business*, Vol. 34, pp. 411-433.
- Miller M.H. and K. Rock, 1985, "Dividend Policy under Asymmetric Information", *The Journal of Finance*, Vol. 40, pp. 1031-1051.
- Myers S. and S. Majluf, 1984, "Corporate Financing and Investment Decisions When Firms Have Information that Investors Do Not Have", *Journal of Financial Economics*, Vol. 13, No. 2, pp. 187-221.
- Nairobi Stock exchange (NSE), 2004, *The NSE Handbook*, Nairobi, Kenya.
- Omran M. and J. Pointon, 2003, "Dividend Policy, Trading Characteristics and Share Prices: Empirical Evidence from Egyptian Firms", *International Journal of Theoretical and Applied Finance*, Vol. 7, pp. 121-133.
- Parkinson J.M., 1987, "The EMH and the CAPM on the Nairobi Stock Exchange", *East African Economic Review*, Vol. 3, No. 2, pp. 105-110.
- Parkinson J.M., 1984, "The Nairobi Stock Exchange in the Context of Development in Kenya", *Savings and Development*, Vol. 8, No. 4, pp. 363-371.
- Parkinson J.M. and N.M. Waweru, 2008, "The Nairobi Stock Exchange and New Equity Capital: 1998 to 2004", *Journal of International Business Research*, Vol. 7, No. 2, pp. 75-88.
- Partington H.G., 1989, "Variables Influencing Dividend Policy in Australia: Survey Results", *Journal of Business Finance and Accounting*, Vol.16, No. 20, pp. 165-182.
- Ross S.A., R.W. Westerfield and J. Jaffe, 2005, *Corporate Finance*, McGraw Hill, Boston, USA.
- Shanghai stock Exchange (SSE), 2005, *The SSE Fact Book*, China.
- Watts R., 1977, "The Information Content of Dividends", *Journal of Business*, Vol. 46, pp. 191-211.
- Wangacha M., 2001, "A Survey of Enterprise Attitudes Towards Kenya's Capital Market", Discussion Paper, Institute of Policy Analysis and Research, Nairobi, Kenya.
-

World Bank, 2007, Data and Statistics: <http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/>.

Yacout N.H., 1980, *Capital Markets in Developing Countries*, Unpublished PhD thesis, University of Birmingham.

### Résumé

La Bourse de Nairobi (NSE - Nairobi Stock Exchange) a, à partir de 2007, 50 sociétés cotées. En général, la NSE ne semble pas être un facteur important dans l'économie du pays. Nous avons examiné les facteurs qui pourraient avoir motivé les dirigeants des sociétés cotées à payer des dividendes. Cela a été fait par l'analyse de régression multiple des dividendes versés, ainsi que par une enquête auprès des gestionnaires de l'entreprise. Les dividendes sont fortement liés à un bénéfice net et à la liquidité et ils sont négativement liés à l'existence d'opportunités d'investissement. Ces résultats sont en accord avec la received finance theory, mais ils n'ont pas été examinés précédemment dans le contexte kenyan.

**Mots-clés:** dividendes, la politique de dividendes; Bourse de Nairobi, Kenya.

