INTERNATIONAL JOURNAL OF INNOVATIVE RESEARCH & DEVELOPMENT

ISSN 2278 – 0211 (Online)

Effect of Dividend Payout on Market Value of Listed Banks in Kenya

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Abstract:
The behaviour of dividend policy is one of the most debatable issues in corporate finance literature and still keeps its prominent place both in developed and emerging markets. Many researchers have tried to uncover the issue regarding dividend behavior or dynamics and determinants of dividend policy but we still do not have an acceptable explanation for the observed dividend behavior of firms. This study sought to establish the effects of dividend payout on market value among listed banks in Kenya. The general objective of this study was to establish the effects of dividend payout on market value among listed banks in Kenya. The study specifically sought to determine whether capital structure, corporate earnings, dividend payout ratio and capital market investments have any effect on market value among listed banks in Kenya. The study adopted descriptive research design. The target population was all the 10 listed banks in Kenya as at December 2010. All the ten banks listed at the period of study were involved in the study. A census survey was adopted as its sampling design. The study used both secondary and primary data. The secondary data was obtained from Nairobi Securities Exchange for the period between 2006 and 2010 while the primary data was collected from senior finance officials through an interview schedule. There was a 70% response rate from the primary data sources. Data collected was analyzed using both descriptive and inferential statistics. Data analysis was done with the aid of Statistical Package for Social Sciences software. The study found a significant and positive relationship between market value and capital structure, corporate earnings, dividend payout ratio and capital market investments in most of the years. It therefore concludes that the dividend policy adopted has a significant impact on market value of banks. The study concludes that there is a relationship between capital structure and market value among listed banking companies in Kenya. The study recommends that commercials banks should consider their profitability, pattern of past dividends, investment opportunities, and capital ownership structure, shareholder's expectations, tax position of shareholders and access to capital markets in designing a dividend policy. The study also recommends that banks should consider the financial needs of the firms when designing the dividend payout policy.

1. Introduction

1.1. Background of the Study

Dividend policy is a one of the most debated topics and a core theory of corporate finance which still keeps its prominent place. Many researchers have presented various theories and uncountable empirical evidences, but the issue is still unresolved and open for further discussion. It is among top ten unresolved problems in finance literature and we have not an adequate explanation for the observed dividend behavior of the firms, (Brealey and Myers, 2005). Due to the economic meltdown, investors have started to desire high current dividends to meet their socio economic needs (Michael, 2011).

The decision to pay or not pay dividends is affected by many reasons. Gill, Biger, and Tibrewala (2010) describe that dividend payout is important for investors because dividends provide certainty about the company's financial well-being, dividends are attractive for investors looking to secure current income, and dividends help maintain market price of the shares. Companies that have a long-standing history of stable dividend payouts would be negatively affected by lowering or omitting dividend distributions. These companies would be positively affected by increasing dividend payouts or making additional payouts of the same amounts because this sends a positive signal to the stock market. Companies without a dividend history are generally viewed favorably when they declare new dividends.

Dividends continue to give mixed signals thus leading to dilemma and uncertainty faced by management in coming up with a dividend policy that is suitable for their organization. For instance, Mumias Sugar Company is one of the highest yielding Kenyan stocks currently at 10.42% but continues to be poorly valued as per stock price currently at 4.40. On the other hand, Loss-making Marshalls defied its poor performance as its share price increased 14.5 per cent to Sh14.2 in the past 12 months (Hoover, 2013). Marshalls did not pay a dividend in the year 2012. National bank of Kenya offers a small dividend but is relatively high priced whereas Housing finance company offers a substantial dividend but its profitability pales next to that of its peers (Hoover, 2013).

1.1.1 Banking in Kenya

The history of banking in Kenya dates back to the colonial period. Colonial rule brought in its wake new forms of banking. British commercial banks started operations in Kenya during the 1890s. The operations of these foreign-owned banks were characterized by high degree of concentration, branch banking, and an almost exclusive concern with financing external trade and for many decades, a lack of interest in, or involvement with, the African population. As Kenya became more and more part of this capitalist world economy, the banks established themselves in the colony to provide services for financing exports and imports. Three British banks dominated banking in colonial Kenya, The National Bank of India, the Standard bank of South Africa and the national Bank of South Africa. Although their primary interest was to finance external trade, as time passed, the banks expanded their function to cover deposit banking, (Ochieng, 2002).

In 1930, the colonial state introduced legislation which allowed for the creation of a land bank. Land and Agriculture Bank were thus established. In the 1950s, new banks, all foreign-owned, began business in Kenya. A Dutch bank, Nederlandsche Handel-maatschapij, opened operations in 1951. In1953, the Bank of India and the bank of Baroda started branches in Nairobi. These India-owned banks were followed, in 1956, by Pakistan's habib bank. In1958 the turkey-based Ottoman Bank started business in Kenya. These banks provided greater alternatives to potential customers in Kenya, but they did not really challenge the dominance o f the 'big three.' The only other bank to start operations in Kenya prior to 1963 was the Commercial Bank of Africa (1962), which was partially owned by interests in Tanzania. Commercial banks operating in Kenya largely ignored the African population for most of the colonial period (Olweny and Shipho, 2011).

After independence, the number of commercial banks operating in Kenya increased as both local and foreign owned banks entered the scene. In 1968, the government established the Co-operative Bank of Kenya to provide specialized banking services for the members of the growing co-operative movement. In the same year the National bank of Kenya wholly owned by Kenya was established. By the end of the 1980s, it had become Kenya's fourth largest commercial bank with branches in the largest cities. In 1974, moreover, two American banks, the first National Bank of Chicago and the first National City Bank of New York, were established. In 1971, significant changes took place in the structure and operations of National and Grinlays bank following agreement with the government, its commercial banking operations came under the control of the newly created Kenya commercial Bank. The government assumed 60% ownership of the Kenya Commercial Bank, and it remained the largest of the country's commercial banks in terms of deposits and number of branches. The merchant banking operations of National and Grindlays were taken up by a new bank, Grindlays bank international (Kenya limited). The Kenya government owned 40% of the latter bank. While Barclays and Standard Chartered remained under foreign private ownership, both undertook the sale of shares to the public in the1980s, thus broadening to some degree, their Kenya ownership. The number of commercial banks by 1980 consisted of 24 fully fledged commercial banks with more than 400 branches, agencies and commercial banking units (Ochieng, 2002).

Kenya has 44 banks, 31 are locally owned and 13 are foreign owned. The locally owned financial institutions comprise three banks with significant shareholding by the Government of Kenya and State Corporations, 27 commercial banks and one mortgage finance institution, Housing Finance. Out of the 44 banks, eleven are listed in the Nairobi Securities Exchange.("Listed companies,"2013). .Banks is the back bone for the economic development of any country. A planned banking system is indispensable for economic growth and development of the country. The development of commercial banks to the current ranks is significant achievement in the economic history of Kenya. The commercial banks play a pivotal role in the economic advancement of Kenya, and that is the force behind the recent witnessed widespread investment activities in the country. The importance, therefore of commercial banks to the economic development of a country cannot be overemphasized (Ongore, 2011).

1.2. Statement of the Problem

Dividend policy has been a subject of debate in recent financial literature. Despite the numerous numbers of researches and studies in this field, no consensus has emerged about the rival theoretical approaches to dividend policy. Researchers Amidu (2007), Lie (2005), Zhou and Ruland (2006), continue to come up with different findings about the relationship between dividend payout and firm performance. A study by Amidu (2007) revealed that dividend policy affects firm performance as measured by its profitability. Howatt, Zuber, Gandar, and Lamb (2009) also concluded that positive changes in dividends are associated with positive future changes in earnings per share. In contrast, Lie (2005) argued that there is limited evidence that dividend paying firms experience subsequent performance improvements.

Management are in a dilemma about whether to pay a large, small or zero percentage of their earnings as dividends or to retain them for future investments. This has come about as a result of the need for management to satisfy the various needs of shareholders as well as uncertainty on the effect the dividend payout ratio will have on the market value of their firms. This is a problem to listed companies in any economy and mostly in developing countries such as Kenya. Since management are dealing with competing interests of various shareholders, the kind of dividend policy they adopt may have either positive or negative effects on the share

prices of the company. They are therefore unable to forecast with certainty to what extent the policy will affect the share prices of their firms. In light of this, the study therefore sought to establish the effect of dividend payout on market value among listed banks in Kenya.

1.3. Study Objectives

The study was guided by the following research objectives:-

1.3.1. General Objective

To establish the effects of dividend payout on market value among listed banks in Kenya

1.3.2. Specific Research Objectives

- To determine the relationship between capital structure and market value among listed banks in Kenya.
- To find out the implications of corporate earnings on market value among listed banks in Kenya.
- To establish the relationship of dividend payout ratio and market value among listed banks in Kenya.
- To determine the relationship of capital market investments with market value among listed banks in Kenya.

1.4. Research Hypothesis

The study tested the following null hypothesis:

- $H0_1$: There is no relationship between capital structure and market value among listed banks in Kenya.
- $H0_2$: There is no relationship between corporate earnings and market value among listed banks in Kenya.
- $H0_3$: There is no relationship between dividend payout ratio and market value among listed banks in Kenya.
- $H0_4$: There is no relationship between capital market investments and market value among listed banks in Kenya

1.5. Significance of the Study

Dividends are one of the key factors that influence the market value of a firm. The relevance of dividend policy on stock price is a matter of considerable importance to the management who sets the policy, to the investors who invest in shares, and to the financial economists who endeavor to understand and appraise the functions of the capital markets. The results of this study are important in that it may enlighten banks management on the efficiency and effectiveness of dividend payout and recommend measures for improvement. The study may also help them in planning and controlling in the implementation of projects and ensure efficient investments of resources.

Academicians and scholars; the study may provide useful basis upon which further studies on dividend policy could be conducted. The study may also add to the body of knowledge in finance discipline. Through the study, the government may advice the various local banks on the best dividend policy in making sound financing and investment decisions. Through the research one can have better understanding of the factors that should systematically affect firms' payout decisions. It also gives insight into what kind of ownership structure is beneficial for the shareholders. The findings may also be useful to the ministry of finance in the accounting of funds given to shareholders. Further, for the dividend policy makers of the Kenya commercial and service sector, the study may prove to be useful for re-sketching their dividend policy keeping in view the analysis, results and discussions to be presented.

1.6. Scope of the Study

The study covered all the ten publicly listed banks at the Nairobi securities exchange between the period of 2006 and 2010. The Nairobi securities exchange was used for this study because it is the only securities exchange firm in Kenya thus the easiest available. It is also the leading securities exchange firm in East Africa and thus capable of exhibiting the most reliable information for this study. Publicly listed banks were used because it is easier to get financial information from publicly listed companies' than it is for private companies since public companies are required by law to disclose their financial information unlike the private ones. The study sampled banks because banks and other financial institutions play a vital role in economic development. Also previous research related to dividend policy in banks is rather sparse when compared to that in non-banking firms. Only a few works have been done to explain the dividend decisions of banking firms in Kenya.

1.7. Study Limitations

This study was limited to publicly listed banks at the Nairobi Securities exchange. Therefore, the findings of this study can only be generalized to companies similar to those included in this research. Another limitation of this study is that some respondents were not willing to give information related to the organization as they regarded it as confidential.

2. Literature Review

2.1. Introduction

This chapter examines literature that is related either directly or indirectly to the study. This was done by reviewing existing theoretical and empirical literature. The chapter also includes the conceptual framework that guided the study.

2.2. Theoretical Literature

There are dividend theories that have been put across by academicians (Stulz, 2000; Pandey, 2003). The theories view dividends as either relevant or irrelevant in making financial decisions. There are three main contradictory theories of dividends (Al-Malkawi, Rafferty and Pillai, 2010). One theory argues that increasing dividend payments increases a firm's value. Another theory claims that high dividend payouts have the opposite effect on a firm's value; that is, it reduces firm value. The third theoretical approach is that dividends should be irrelevant and all effort spent on the dividend decision is wasted. These views are embodied in three theories of dividend policy: high dividends increase share value theory, low dividends increase share value theory and the dividend irrelevance hypothesis. Dividend debate is not limited to these three approaches. Several other theories of dividend policy have been presented, which further increases the complexity of the dividend puzzle. Some of the more popular of these arguments include the information content of dividends (signaling), the clientele effects, and the agency cost hypotheses (Stulz, 2000).

2.2.1. Dividend Irrelevance Theory

Dividend irrelevance theory is one of the major theories concerning dividend policy in an enterprise. It was first developed by Franco Modigliani and Merton Miller in a famous seminal paper in 1961. This theory proposes that in a capital market where there are no imperfections such as taxes, transaction costs, asymmetric information and agency costs, the dividend policy of a company is irrelevant for the market value of its shares. It therefore implies that financial managers cannot alter the value of their firms by changing their dividend policy. They showed that firm value is enhanced by investing in productive assets and not by the way in which income is distributed to shareholders (Stulz, 2000). According to their theory, dividend policy is therefore irrelevant and a rational investor does not have a preference between dividends and capital gains.

MM's dividend-irrelevance theory says that investors can affect their return on a stock regardless of the stock's dividend. For example, suppose, from an investor's perspective, that a company's dividend is too big. That investor could then buy more stock with the dividend that is over the investor's expectations. Likewise, if, from an investor's perspective, a company's dividend is too small, an investor could sell some of the company's stock to replicate the cash flow he or she expected. As such, the dividend is irrelevant to investors, meaning investors care little about a company's dividend policy since they can simulate their own. According to Modigliani and Miller as cited in Stulz, (2000), only the firm's ability to earn money and riskiness of its activity can have an impact on the value of the company.

For investors who do not agree with the dividend irrelevance theory, one point of contention is that by not considering the type of dividend policy that a given company follows, the investor does not have the opportunity to make investment decisions that are in line with his or her financial goals. For example, if the investor wants to create steady cash flow from investments that can be used for day to day living expenses, buying securities where dividends are paid on some sort of consistent basis will go a long way toward establishing that desired cash flow. If the investor does not consider the dividend policy prior to buying the shares, there is a good chance that this goal will not be met, even though the value of the stock may increase as the company diverts resources into expanding the business (DeAngelo and DeAngelo, 2006).

Detractors also point out that investors normally look closely at the dividend policy associated with potential investments, simply because there are tax implications. This means that an investor must determine how the policy connected with a given investment will increase or decrease the taxes owed on investments when taxes become due. If the policy is likely to increase taxes without the opportunity to generate enough return to make the acquisition worthwhile, then the investor will want to look at another stock and determine if the dividend policy associated with that security would be more favorable. If the investor follows the idea behind the dividend irrelevance theory, there may be a large and rather unexpected tax burden that must be settled. This can be handled by selling shares of stock that have appreciated in value, effectively offsetting the additional taxes (Allen, Bernardo and Welch, 2000).

The dividend irrelevance theory is significant to this study as it helps us understand the concept that is based on the premise that the dividend policy of a given company should not be considered particularly important by investors. With this particular financial theory, the idea is that investors can always sell a portion of their shares if they want to generate some amount of cash flow. As with most investment theories, the dividend irrelevance theory has its share of supporters (Stulz, 2000).

2.2.2. Agency Costs Theory of Dividend Policy

Agency theory of dividends claims that the payment of dividends is one of the measures available to managers for controlling agency behaviour. Specifically, it is proposed that by inducing external monitoring, dividends reduce agency costs (Jones and Sharma, 2001), although at the same time increasing the transaction costs associated with raising external funds. Agency costs are defined as the loss to shareholders of controlling agency behavior, through measures taken by them and by managers as well as the costs from any agency behavior that has not been controlled (Manos, 2001).

The agency cost theory suggests that, dividend policy is determined by agency costs arising from the divergence of ownership and control. Managers may not always adopt a dividend policy that is value-maximizing for shareholders but would choose a dividend policy that maximizes their own private benefits. Making dividend payouts which reduces the free cash flows available to the managers would thus ensure that managers maximize shareholders' wealth rather than using the funds for their private benefits (DeAngelo, DeAngelo and Stulz, 2006). The agency costs theory posits that dividends mitigate the cash under management control, and therefore reducing the possibility that managers will use the funds in their own self-interest. Dividends may also curb managers' tendency for overinvesting. In this way, it is suggested that dividends serve to reduce conflict of interests between managers and

shareholders. As dividend payments reduce the overinvestment problem and agency costs, they may have a positive impact on stock price, which is in turn the critical determinant of firm value (Al-Malkawi et al., 2010).

La Porta, Lopez-de-Silanes, Shleifer and Vishny (2000) concluded in their paper that dividend payments are an important device in reducing agency conflicts and therefore agency costs. Even if it is the manager who determines the dividend payout policy, the dividend payments are an important device in mitigating agency costs. Despite managers only having to deal with a part of the total costs, the managers may also suffer from such self-interested behavior (Manos, 2001).

This theory was critical to the study as it helped us understand the concept of agency costs the manner in which the firms can reduce or mitigate agency conflicts. Firms are said to use their policy of dividends to mitigate existing agency conflicts. For instance in cases where managers use the firm's resources for consumption that is in their own interest instead of in the interest of the shareholders.

2.2.3. The Information Content of Dividends (Signaling) Theory

The signaling theory proposes that dividend policy can be used as a device to communicate information about a firm's future prospects to investors. Cash dividend announcements convey valuable information, which shareholders do not have, about management's assessment of a firm's future profitability thus reducing information asymmetry. Investors may therefore use this information in assessing a firm's share price. Dividend policy under this model is therefore relevant (Al-Kuwari, 2009). Myers and Bacon (2004) referred to the importance of dividend cash flow as a signaling device to shareholders. It was also evident in their sample that even with high growth the firm is willing to increase debt to fund increasing dividends. The firms covered in Myers and Bacon (2004) sample desire to "put their money where their mouth is" by sending a strong positive signal to institutional owners to enhance reputation and maintain access to capital. In Baker, Dutta and Saadi (2008) survey, they reported signaling as one of the important factors that affect dividend policy employed by Canadian managers.

2.2.4. High Dividends Increase Stock Value (Bird-In-The-Hand Theory)

One alternative and older view about the effect of dividend policy on a firm's value is that dividends increase firm value. In a world of uncertainty and imperfect information, dividends are valued differently to retained earnings (or capital gains). Investors prefer the "bird in the hand" of cash dividends rather than the "two in the bush" of future capital gains. Increasing dividend payments, *ceteris paribus*, may then be associated with increases in firm value. As a higher current dividend reduces uncertainty about future cash flows, a high payout ratio will reduce the cost of capital, and hence increase share value. That is, according to the so-called "bird-in-the hand" theory (Al-Malkawi et al., 2010). Bird in hand theory proposes that a relationship exists between firm value and dividend payout. It states that dividends are less risky than capital gains since they are more certain. Investors would therefore prefer dividends to capital gains **(**Amidu, 2007). Because dividends are supposedly less risky than capital gains, firms should set a high dividend payout ratio and offer a high dividend yield to maximize stock price.

2.2.5. Low Dividends Increase Stock Value (Tax-Effect Theory)

The tax-effect hypothesis suggests that low dividend payout ratios lower the cost of capital and increase the stock price. In other words low dividend payout ratios contribute to maximizing the firm's value. This argument is based on the assumption that dividends are taxed at higher rates than capital gains. In addition, dividends are taxed immediately, while taxes on capital gains are deferred until the stock is actually sold. These tax advantages of capital gains over dividends tend to predispose investors, who have favorable tax treatment on capital gains, to prefer companies that retain most of their earnings rather than pay them out as dividends, and are willing to pay a premium for low-payout companies.

Therefore, a low dividend payout ratio will lower the cost of equity and increases the stock price. This prediction is almost the exact opposite of the bird in hand theory and challenges the strict form of the dividend irrelevance hypothesis. In many countries a higher tax rate is applied to dividends as compared to capital gains taxes. Therefore, investors in high tax brackets might require higher pre-tax risk-adjusted returns to hold stocks with higher dividend yield. This relationship between pre-tax returns on stocks and dividend yields is the basis of a posited tax-effect hypothesis (Al-Malkawi et al., 2010).

2.2.6. Clientele Effects of Dividends Theory

In their seminal paper Modigliani and Miller as cited in Guler, (2003) noted that the pre-existing dividend clientele effect hypothesis might play a role in dividend policy under certain conditions. They pointed out that the portfolio choices of individual investors might be influenced by certain market imperfections such as transaction costs and differential tax rates to prefer different mixes of capital gains and dividends. They argued that these imperfections might cause investors to choose securities that reduce these costs. Nonetheless, they maintained that even though the clientele effect might change a firm's dividend policy to attract certain clienteles, in a perfect market each clientele is as good as dividend policy remaining irrelevant.

Allen et al. (2000) suggest that clienteles such as institutional investors tend to be attracted to invest in dividend-paying stocks because they have relative tax advantages over individual investors. These institutions are also often subject to restrictions in institutional charters which, to some extent, prevent them from investing in non-paying or low-dividend stocks. Similarly, good quality firms prefer to attract institutional clienteles (by paying dividends) because institutions are better informed than retail investors and have more ability to monitor or detect firm quality. Since most of the investors are interested in after-tax returns, the different tax treatment of dividends and capital gains might influence their preference for dividends versus capital gains. For example, investors in low tax

brackets who rely on regular and steady income will tend to be attracted to firms that pay high and stable dividends. In addition, some corporate or institutional investors tend to be attracted to high-dividend stocks, (Short, Zhang and Keasey, 2002).

Another argument of the clientele effect is based on the proposition that dividend policy may influence different clienteles to shift their portfolio allocation, resulting in transaction costs. For example, small investors who rely on dividend income for their consumption needs might be attracted to high and stable-dividend stocks, because the transaction costs associated with selling stocks might be significant for such investors. On the other hand, some investors, who do not rely on their share portfolios to satisfy their liquidity needs, prefer low payouts to avoid the transaction costs associated with reinvesting the proceeds of dividends, which they actually do not need for their current consumption, (Bishop et al., 2000).An important implication of the clientele effect hypothesis is that, by changing its dividend policy, a firm's ownership structure might also change. Another implication of clientele theory is that firms should attempt to adopt a stable dividend policy to avoid inducing shareholders to modify their portfolios, entailing transaction costs (Scholz, 2002).

This study was guided by the dividend irrelevance theory which indicates that an issuance of dividends should have little to no impact on stock price. The Dividend Irrelevance Theory as postulated by Modigliani and Miller suggests that a shareholder's value is not affected by a company's dividend policy. The rationale behind this being, investors can create their own dividends by selling shares if they needed income; that is, if owners want a leveraged position, they can make it themselves.

The study assumed dividends are irrelevant based on the assumption that the investors are indifferent between dividends and capital gains. So long as the firm is able to earn more than the equity-capitalization rate, the investors would be content with the firm retaining the earnings. This study was therefore be guided by this theory by implying that the value of a firm is unaffected by the distribution of dividends and is determined solely by the earning power and risk of its assets. Thus the study hypothesis was there is no relationship between dividend payout ratio and market value among listed banking companies in Kenya.

2.3. Empirical Literature

2.3.1. Market Value of a Firm

Researchers have different views about whether dividend payout materially affects the long term share prices. Dhanani, (2005) who used a survey approach to capture managerial views and attitudes of corporate managers regarding dividend policy found that dividend policy serves to enhance corporate market value. However, Farsio, Geary and Moser (2004) argue that empirical studies that conclude a causal relationship exists between earnings and dividends are based on short periods of time and are therefore misleading to potential investors. Therefore, dividends have no explanatory power to predict future earnings.

Naceur, Mohamed and Amel *(*2006) in their study on the determinants of dividend policy of Tunisian stock Exchange found out that the high profitable firms with more stable earnings can manage the larger cash flows and because of this they pay larger dividends. Moreover, the firms with fast growth distribute the larger dividends so as attract to investors. The ownership concentration does not have any impact on dividend payments. The liquidity of the firms has negatively impacted on dividend payments. In Indian case Reddy (2006) show that the dividends paying firms are more profitable, large in size, and growing. The corporate tax or tax preference theory doesn't appear to hold true in Indian context. Amidu and Abor (2006) find dividend payout policy decision of listed firms in Ghana Stock Exchange is influenced by profitability, cash flow position, and growth scenario and investment opportunities of the firms.

Nissim and Ziv (2001) did a study to investigate the relation between dividend changes and future profitability, measured in terms of either future earnings or future abnormal earnings. They found out that that dividend changes provide information about the level of profitability in subsequent years incremental to market and accounting data. They also found out that that dividend changes are positively related to earnings changes in each of the two years after the dividend change. They support "the information content of dividends hypothesis". However, their results were not the same for dividend increases and decreases. They did not find an association between dividend decreases and future profitability after controlling for current and expected profitability, and they assumed that this result is possibly due to the accounting conservatism.

2.3.2. Capital Structure

In finance, capital structure means the manner in which a company finances its assets through some combination of equity, debt, or hybrid securities. A company's capital structure is then the make-up or 'structure' of its liabilities. The Modigliani-Miller (M and M) theorem, proposed by Franco Modigliani and Merton Miller, shapes the basis for modern thinking on capital structure. The theorem states that, in a perfect market, the value of a company is irrelevant to how that company is financed. This result provides the base with which to examine real world reasons why capital structure is relevant. These other reasons include bankruptcy costs, agency costs, taxes, information asymmetry, to name some. This analysis can then be extended to look at whether there is in fact an optimal capital structure: the one which maximizes the value of the company (Stulz, 2000).

Assuming a perfect capital market with no transaction or bankruptcy costs, no taxes and with perfect information companies and individuals can borrow at the same interest rate, and investment decisions aren't affected by financing decisions. M and M made two findings under these conditions. Their first 'proposition' was that the value of a company is independent of its capital structure. Their second 'proposition' stated that the cost of equity for a leveraged company is equal to the cost of equity for an unleveraged company, plus an added premium for financial risk. That is, as leverage increases, while the burden of individual risks is shifted between different investor classes, total risk is conserved and hence no extra value created (DeAngelo and DeAngelo, 2007).

Their analysis was extended to include the effect of taxes and risky debt. Under a classical tax system, the tax deductibility of interest makes debt financing valuable, that is, the cost of capital decreases as the proportion of debt in the capital structure increases. The optimal structure then would be to have virtually no equity at all. Accordingly, if capital structure is irrelevant in a perfect market, then imperfections which exist in the real world must be the cause of its relevance. (Frankfurter and Wood, 2003).

Obradovich and Gill (2013) did a study to find out the relationships between corporate governance, institutional ownership, and the decision to pay dividends in American service firms. A sample of 296 American firms listed on New York Stock Exchange (NYSE) for a period of 3 years (from 2009-2011) was selected. This study applied a co-relational and non-experimental research design. The findings show that the decision to pay dividends is a positive function of board size, CEO duality, and internationalization of the firm, and a negative function of institutional ownership. The results show that when firm size is held constant, the decision to pay an amount of dividends is a positive function of CEO duality, board size, and internationalization, and a negative function of institutional ownership. When firm performance is held constant, the decision to pay dividends is a positive function of CEO duality, and a negative function of institutional ownership. When financial leverage is held constant, the decision to pay dividends is a positive function of CEO duality, board size, and internationalization, and a negative function of institutional ownership. When firm growth is held constant, the decision to pay dividends is a negative function of institutional ownership.

- 2.3.2.1. Equity

In a study by Amidu (2007) which sought to examine whether dividend policy influences firm performance in the Ghana Stock Exchange, it was found out that dividend policy affects firm performance especially the profitability measured by the return on assets. The results showed a positive and significant relationship between return on assets, return on equity, growth in sales and dividend policy. This showed that when a firm has a policy to pay dividends, its profitability is influenced. The results also showed a statistically significant relationship between profitability and dividend payout ratio.

Mesquita and Lara (2003) studied the relationship between capital structure and profitability of the Brazilian firms. They tried to examine the effects of debt or equity on profitability. Ordinary least square method was used to examine the effect of short and long term financing on return on equity. They concluded that, in the short-run there is possible relationship, while in the long-run there is inverse relationship between debt and profitability. On the other hand, the market also interpreted this as positive sign that a company is anticipating for more returns so result goes up because if a firm needs resources in short term then it tries to take a loan and has no intention of raising equity which is greater than debt. But due to high interest in Brazil, in the long run, debt becomes more costly as compared to equity.

- 2.3.2.2. Debt Ratio

The value of a company comprises the total value of the company's capital structure, including debt holders, preferred-equity holders and common-equity holders. Since both debt holders and preferred-equity holders have first rights to a company's value, common-equity holders have last rights to a company value. Debt comes in the form of bond issues or long-term notes payable. Short-term debt such as working capital requirements is also considered to be part of the capital structure (Akdeniz and Salih, 2007)

A study by Aivazian, Booth and Clearly (2003) which sought to establish whether the emerging market firms follow different dividend policies from U.S. firms identified different drivers of dividend behaviour in emerging markets where the importance of bank debt influence attitudes to the mix of assets in a firm's balance sheet. The study suggests that profitability, market-to-book ratio and debt have different weights when dividends are being calculated. It argues that bank-based ownership means dividends do not act as a signal of high future free cash flows, nor as a constraint on management. It sampled the largest firms' dividend policies for eight emerging markets and the USA, including tangibility, size, debt ratio, return-on-equity and yield, among other variables, and modeled a dividend hypothesis. It Concludes that profitability is particularly significant, as is debt, compared to the USA, and that dividend payments are higher, with significant heterogeneity.

2.3.3. Corporate Earnings

Several papers examined the ability of price and return models to accommodate the return-earnings relation. Auerbach and Hassett (2003) declared that price models are conceptually inferior to return models under the presence of under-developed theories of valuation. Additionally Biddle and Hillary (2006) argue that price models present more econometric problems than return models. Kothari and Warner (2005) documented that the earnings response coefficients are less biased and more economically sensible in the price model compared to the return and differenced models.

Consistent to Kothari and Warner (2005) were the results by Martikainen, Kallunki and Perttunen (2007) and Dumontier and Labelle (2008) in Finland and France respectively. The first used two different measures of the earnings variable, the published earnings numbers and the adjusted earnings numbers, estimated according to the recommendations by the innish Committee for Corporate Analysis (COC). They concluded that the return model specification (using the published accounting data) yields higher and more significant earnings response coefficient's (ERCs) compared to differenced model specification under the adjusted accounting data. Dumontier and Labelle (2008) reached in the same conclusion regarding the ability of the return model to evaluate the return-earnings relation by providing highly significant ERC's. Also their tests indicated that a cross-sectional data cumulating procedure could yield a large increase in the explanatory power of the return model and the significance of the earnings response coefficient.

On the contrary, Vafeas, Trigeorgis and Georgiou (2008) found conflicting evidence for the evaluating ability of the return model in the Cyprus stock market. They concluded that both specifications are important in explaining stock returns but the differenced model

yield higher ERC's compared to the return model. Finally, Pritchard (2002) examined the return-earnings relation in the countries of the Baltic region (Estonia, Latvia, and Lithuania). She documented a substantial difference in the association of the two variables. Lithuania showed the weakest and Estonia the highest value relevance followed by Latvia. In total the return model proved to perform better compared to differenced model specification.

- 2.3.3.1. Earnings before Interest and Taxes (EBIT)

EBIT provides investment analysts with useful information for evaluating a company's operating performance without regard to interest expenses or tax rates. EBIT helps minimize these two variables that may be unique from company to company, and enables one to analyze operating profitability as a singular measure of performance. Such analysis is particularly important when comparing similar companies across a single industry where those companies may have varying capital structures or tax environments (Brennan, 2007). In order to understand the relationship between dividend yields and stock returns, Hull (2010) tested Brennan's model and found no evidence of a tax effect. Their study concluded that low or high-dividend yield stocks do not affect the returns of stocks either before or after taxes.

Litzenberger and Ramaswamy extended Brennan's (2007) model and used a monthly dividend yield definition in classifying stock into yield classes, a positive dividend-yield class and zero dividend-yield class. The results of Litzenberger and Ramaswamy show that the coefficient on dividend yield variable is positive and highly significant.. Therefore, they provided empirical support for Brennan's (2007) model. Litzenberger and Ramaswamy (2009) concluded that, "for every dollar increase in return in the form of dividends, investors require an additional 23 cents in before tax returns". Of interest, the dividend coefficient 2 γ (0.236) obtained by Litzenberger and Ramaswamy is consistent in magnitude with that reported by Hull (2010). The implication of Litzenberger and Ramaswamy's findings is that firms could increase their share prices by reducing dividends.

Miller and Scholes (2009) challenged Litzenberger and Ramaswamy's conclusion, and criticised their short-term (monthly) definition of dividend yield. They suggested that tests employing a short-term dividend yield definition are inappropriate for detecting the impact of differential tax treatment of dividends and capital gains on stock returns. Furthermore, Miller and Scholes argued that the positive yield-return relation was caused by information bias. The reason for this argument is that Litzenberger and Ramaswamy ignored the information effect of dividend omissions. An announcement of dividend omissions (perceived as bad news) may result in an upward bias in the dividend yield coefficient, since it reduces the return of the zero yield-dividend class. Miller and Scholes attempted to correct for the information bias and then re-ran Litzenberger and Ramaswamy tests. They found that the dividend yield coefficient was not statistically different from zero.

2.3.4. Government Regulations

Government intervention and changes in government policy, particularly with tax regulations, have been examined by researchers to determine the effect on the firms' dividend policies. Sanger, Sirmans and Turnbull (2000) examined the effect of the 1976 and 1986 Tax Reform Acts on risks and returns of firms. Ott and Van Ness (2002) study the price effects and risk characteristics of Real Estate Investment Trust following the Taxpayer Relief Act of 1997. Howe and Jain (2004) examine the effect of the Modernization Act of 1999 on the wealth of shareholders and on changes in systematic risk. Noguera (2007) looks at the impact of the Sarbanes-Oxley Act of 2002 on the board structure of organizations and how this affects their performance; and Edgerton (2010) investigates the effect of the Jobs and Growth Tax Relief Reconciliation Act of 2003 (where tax rates on qualifying dividend payments were substantially reduced) on dividend payments by Real Estate Investment Trust. All the above studies found out that government regulations affect the dividends payments.

According to Bank, Steven, Brian and Marc (2006), government regulation is a primary mover of dividend policies. Some governments closely regulate industries and may restrict dividend spending by a percentage to encourage certain types of growth. These regulations can change based on politics and are unpredictable. Taxation policies are a government decision that can restrict the amount of earnings a business has to spare (Gourevitch and James, 2005).

2.4. Summary and Gaps to be Filled

From the above literature review it is clear that dividend policy is a complicated issue which has always been debatable. Out of the several studies on dividend policy topic, under asymmetric information financing decisions would result in signaling of firm value to the market thus impact on the securities value, Woolridge, (as cited in Officer & Shelor, 2011); while according to the irrelevance theory of Miller and Modigliani (as cited in Stulz, 2000) in a perfect capital market where there is no asymmetric information, under a given investment decision, the corporation value is independent from the financing decisions so dividend payouts would not have any impact on the firm value or shareholder wealth.

In an imperfect capital market which is the realistic condition where there exists asymmetric information, transaction and agency costs and taxes and assets are not devisable perfectly, it is probable that there exists a relationship between financial structure of a firm and its investment decisions (Wang, 2010). As a matter of fact, market imperfections have significant impact on the relevance of investment and financing decisions, (Wen and Jia, 2010)

Not only do the amount of money involved and the repetitive nature of dividend payout make this topic important, payout policy has a close relation with most of the firm's investment and other financial policies.The studies also revealed that dividends might also provide misleading signals to the shareholders. Investors might consider a dividends rise as a result of increase in the current income or elimination of cash flow problems or sense it as a negative sign of lack of investment opportunities or absence of growth options. It

is these gaps that the current study intends to zero in by establishing the effects of dividend payout on market value among listed banking companies in Kenya, (Said,2013).

2.5. Conceptual Framework

The conceptual framework below shows how market value is dependent on a number of independent variables; capital structure, corporate earnings, dividend payout ratio and capital market investments.

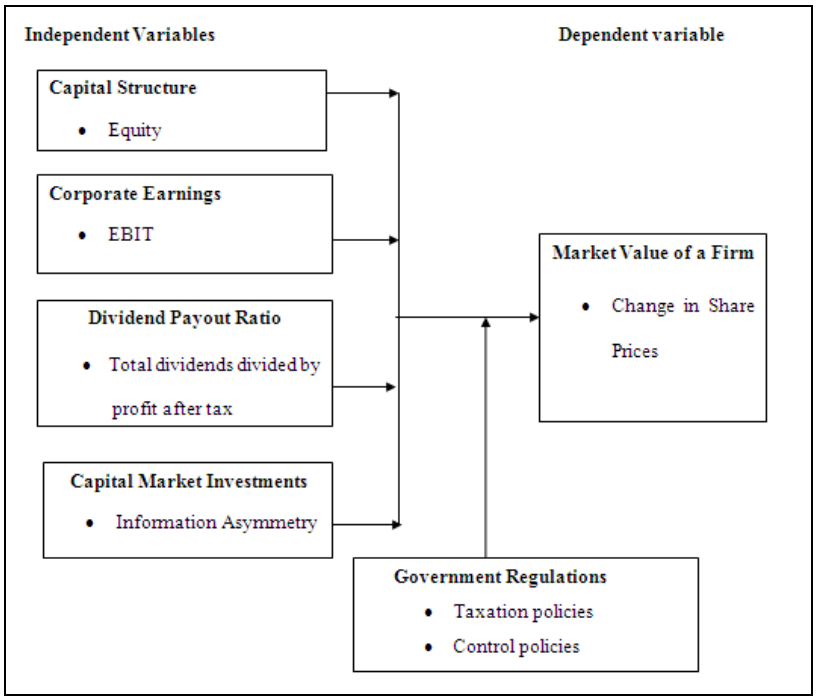

Figure 1: Conceptual Framework
Source: Author, 2014

Dependent Variable	Data to Measure
Market Value of a Firm	Change in Share prices for the Listed banks
Independent Variables	
Capital Structure	Debt divided by market value of equity
Corporate Earnings	Earnings before interest and taxes
Dividend Payout Ratio	Dividends paid at period
Capital Market Investments	Predicted return deviation to real return.

Table 1: Variables Summary
Source: Author, 2014

3. Research Methodology

3.1. Introduction

This chapter presents the methodology of the study i.e. the research design, target population, sample selection, data collection instrument, data collection procedures and methods of data analysis and presentation.

3.2. Research Design

In this study descriptive research design was employed. This is because the design can be extensive and cross-sectional dealing with relatively large number of cases at a particular time as well as provide an exhaustive analysis of the variables under study thus making it possible to achieve the objectives of this study. The researcher established the relationship between dividend payout and value of the firm using secondary data obtained from the Nairobi securities exchange and primary data obtained from senior financial managers in the sampled banks.

3.3. Target Population

The study was conducted in Kenya and the target population was all the 10 listed banks in Kenya as at December 2010. The study covered a period of 5 years from 2006-2010. The study restricted itself to listed banks because they pay dividends and their market

value was easier to determine using the value of the share prices. It was also easier to obtain data from public companies as compared to private ones.

3.4. Sample selection

The researcher conducted a census survey of all the banks listed as at December 2010. The banks that are listed between 2006 and 2010 include, Equity bank, Co-operative bank of Kenya, Barclays bank Ltd, CFC Stanbic Holdings Ltd, Diamond trust bank Kenya, Housing Finance Company Ltd, Kenya Commercial Bank Ltd, National Bank of Kenya Ltd, NIC Bank and Standard Chartered Bank Ltd.

3.5. Data Collection Instrument

In order to achieve the set objectives of the study, both secondary and primary data were used. The secondary data were obtained from the Nairobi Securities Exchange secretariat informational database. The data was derived from the annual reports of listed banks on the NSE. An interview schedule was also used to obtain primary data from finance managers in the banks to supplement the secondary data collected.

3.6. Data Collection Procedure

The study collected annual reports and share prices of the banks listed in the Nairobi Securities Exchange. On the other hand, an interview guide was used to conduct interviews on senior finance managers in the listed banks. The researcher made appointments with the selected interviewees to conduct the interviews at their earliest convenience. All the ten listed commercial banks were considered for the study. For each of the listed bank, the study targeted one senior finance officer. The researcher personally conducted the interviews in the banks.

3.7. Data Reliability and Validity

The researcher pre-tested the interview schedule in order to enhance the reliability and validity of the research instrument. The pre-test was carried out on three employees working at three commercial banks who were among the listed commercial banks. Validity of the instrument was established by the researcher reviewing the items and data collection instrument. The reliability of the research instrument was measured by conducting Cronbach's alpha test, whereby a Cronbach's alpha value of 0.7 and above implied that the instrument was sufficiently reliable for the measurement (Jasper, 2010). The objective of pre-testing was to allow for modification of various questions in order to rephrase, clarify and or clear up any shortcomings in the schedule before administering them to the actual respondents.

3.7.1. Test of Multicollinearity

If two explanatory/independent variables are highly correlated with each other, they can cause problems during multivariable analysis because they are explaining almost the same variability in the outcome. Therefore, it is beneficial to examine associations/correlation between explanatory variables and exclude one of a pair of highly correlated variables before conducting multivariable analysis, (Garson, 2012). To check for multicollinearity, the study used tolerance and Variance Inflation Factor, VIF as measurements. When tolerance is close to 0, most of the variability for the variable can be explained by other independent variables. Hence, there is high multicollinearity. A VIF of 1 means that there is no correlation among the k^{th} predictor and the remaining predictor variables, and hence the variance of b_k is not inflated at all. The general rule of thumb is that VIFs exceeding 5 warrant further investigations, while VIFs exceeding 10 are signs of serious multicollinearity requiring correction. For regression model to be used, it is assumed that the residuals are uncorrelated with one another. If the errors are correlated with one another, it can be stated that they are serially correlated and this can be an indication that the coefficients estimates derived using OLS regression model are still unbiased, but they are inefficient. The presence of serial correlation in the regression model was examined by Durbin Watson (DW) Test.

3.8. Data Analysis and Presentation.

The unit of analysis for this research was all the ten listed banks as at December 2010. The data collected was analyzed using Statistical Package for Social Science (SPSS) version 20. This study adopted regression model in order to effectively analyze the impact of dividend payout on the market value of the firm. Content analysis was used for qualitative analysis. The regression was calculated using the regression model:

$$MVA=\beta_0 +\beta_1 CS + \beta_2 CE + \beta_3 DP +\beta_4 CM + e$$

Where: CS is the Capital Structure, CE is the Corporate Earnings, DP is the Dividend payout, CM is the Capital Market Investments and MVA is the market value.B_0 is a constant which is the value of dependent variable when all the independent variables are 0.$\beta_{1\text{-}n}$ is the regression coefficients or change induced by CS, CE, DP and CM on MVA. It determines how much each (i.e. CS, CE, DP and CM) contribute to MVA. e is the error of prediction.

The dependent variable is the market value of the firm represented by share price. Independent variables include capital structure, corporate earnings, dividend paid and capital market investments. Capital structure was measured using the debt/equity ratio. Corporate earnings were measured using Earnings before interest and tax, Dividend payout was measured using Dividend payout ratio. Capital market investments were measured using information asymmetry. To measure information asymmetry, predicted return

deviation to real return was used as a quantity criterion for the measurement. This is the difference between the last period return (predicted) and the present period (real return) divided by the real return.
The significance of the variables in the regression model was measured or determined by the p-value; whereby, if the p-value of the variable is 0.05 (5%) and below, then the variable was deemed significant while where the p-value co-efficient of the variable is above 0.05, then the relationship of the variables was deemed to be insignificant. The beta explains whether the relationship between the dependent and the independent variable is high or low, positive or negative; this was revealed by the value of the beta co-efficient. The study generated qualitative data from the interviews conducted. Before processing the responses, the secondary data was edited for completeness in a manner that will facilitate the analysis. Qualitative data provided the views feelings and attitudes of the respondents and helped the researcher draw inference that enabled the study make sound conclusion on the study area.

4. Research Findings

4.1. Introduction

This chapter presents the findings of the study based on the study objectives. The study sought to establish the effects of dividend payout on market value among listed banks in Kenya. The study obtained secondary data from Nairobi Securities Exchange. This was supplemented by primary data which was collected through an interview schedule. The data was analyzed and presented in form of tables and graphs.

4.2. Descriptive Statistics

This section presents findings and results from the primary data collected from finance managers in the listed commercial banks. A total of 7 responses were successfully received out of the possible 10 from the finance managers in the listed banks which translates to a response rate of 70%. The response was adequate for the study to continue and provide reliable results as guided by Mugenda and Mugenda (2003) who revealed that a fifty percent response rate is adequate, sixty percent good and above seventy percent rated very well.

4.2.1. Number of Years Listed in the NSE

In this section, the study sought to establish the number of years the commercial banks had been listed in the Nairobi Securities Exchange. The results are presented in table 2 below**.**

Duration	Frequency	Percent
Below 5 Years	-	-
5-10 Years	2	28.6
Above 10 years	5	71.4
Total	7	100.0

Table 2: Number of Years Listed in the NSE
Source: Author, 2014

Results show that majority of the commercial banks (71.4%) had been listed in the NSE for a duration of more than 10 years while 28.6% had been listed for a duration of 5-10 years. This shows that majority of the respondents had paid dividends for a longer duration thus they understood well the influence their dividend payout policy had on the companies' market value.

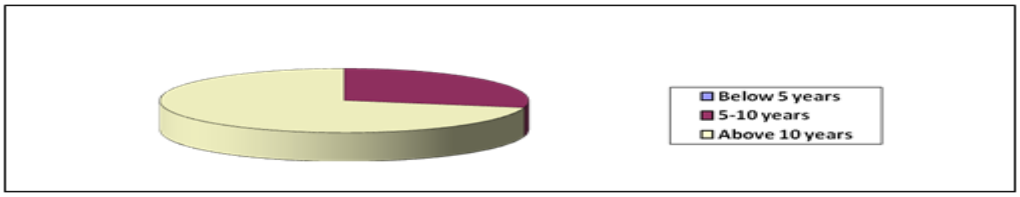

Figure 2: Number of years Listed in the NSE
Source: Author, 2014

4.2.2. Dividend Payout Policy

Responses	Frequency	Percentage (%)
They do Influence	5	72
They do not influence	2	28
Total	7	100

Table 3: Factors influencing dividend policy
Source: Author, 2014

Majority of the respondents (72%) indicated that cash flow, annual sales growth and return on assets influenced dividend payout policy in the banks. They explained when considering the payment of cash dividends, the firms cash flows must be taken into account not to bring liquidity constraints. They also revealed that the sales growth and return on assets also determines the designing of the dividend payout policy.

- 4.2.3.2 Firm-Specific Factors that Impact on the Amount of Dividends Paid Out

On the pattern of past dividends majority of the respondents (85%) indicated that it did influence the payment of dividends in the subsequent years as policies made were constant to a specific period of time as also guided by the company's strategic plans and investments needs. Most respondents (70%) also acknowledged that the company's current earnings also had an impact on the amount of dividends paid out by the banks. They explained that the availability of profits is a big determinant of dividend policy. Moreover, majority of the respondents (60%) also revealed that, the level of expected future earnings, availability of alternative sources of capital, expected rate of return on the firm's assets and desire to maintain a target capital structure also had an impact on the amount of dividends paid out by the companies. 80% of the respondents were of the view that the concern about affecting the stock price is significant in the choice of dividend policy to be adopted. These findings are shown in table 4 below.

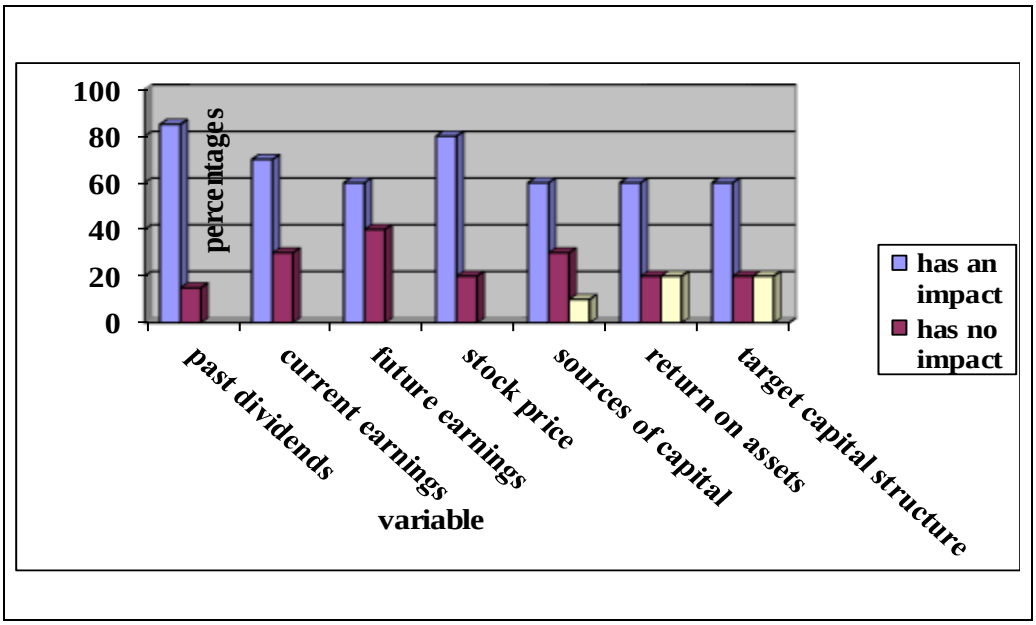

Figure 3: Firm specific factors that impact on dividend paid out
Source: Author, 2014

4.2.3. Debt Equity Ratio and Company Market Value

Responses	Frequency	Percentage
Highly affects	6	86
Does not affect	1	14
Total	7	100

Table 4: Debt equity ratio
Source: Author, 2014

Majority of the respondents (86%) indicated that the debt to equity ratio is a very important variable for the determinants of dividend paid out and the company's market value. The respondents indicated that when the level of the debt is high this means that the firm is at a higher risk in terms of cash flows. This will result to negative impact on dividends payments and thus less payout to stockholders. This is consistent with the study by Aivazian, Booth and Clearly (2003) which concluded that profitability is particularly significant, as is debt and that dividend payment are higher, with significant heterogeneity.

4.2.4. Corporate Earnings and Market Value of the Banks

Responses	Frequency	Percentage
Earnings influence the amount of dividends paid	7	100
Earnings do not influence the amount of dividends paid	0	0
Total	7	100

Table 5: Corporate Earnings and Market Value of the Banks
Source: Author, 2014

The respondents (100%) indicated earnings showed the availability of profits to pay dividends and thus influenced the amount of dividends paid out by the banks. They explained that that the high profitable firms with more stable earnings are believed to be capable to manage the larger cash flows and because of this they pay larger dividends. Moreover, the firms with fast growth distribute the larger dividends so as to attract investors. These findings are in line with those of Kothari and Warner (2005), Martikainen, Kallunki and Perttunen (2007) and Dumontier and Labelle (2008) who concluded that the return model specification yields higher and more significant earnings response coefficients' compared to differenced model specification under the adjusted accounting data.

4.2.5. Capital structure and Market Value of the Banks

Responses	Frequency	Percentage
Capital structure have an effect on the market value	5	71.4
Capital structure does not have an effect on the market value	2	28.6
Total	7	100

Table 6: Capital structure and Market Value of the Banks
Source: Author, 2014

Results shows that, majority of the respondents (71.4%) revealed that the company's ownership or capital structure did not have an effect on dividend payout and the market value of the company. The respondents explained that in most companies, there were legal and contractual constraints for instance through the articles of association which imposed constraints and guidelines for the directors decisions regarding the payment of dividends.
The above findings agree with those of Naceur, Mohamed and Amel *(*2006) ho revealed that the ownership concentration does not have any impact on dividend payments. However, the findings contradict those of Obradovich and Gill (2013) whose findings show that the decision to pay dividends is a positive function of board size, CEO duality, and internationalization of the firm, and a negative function of institutional ownership. The results show that when firm size is held constant, the decision to pay an amount of dividends is a positive function of CEO duality, board size, and internationalization, and a negative function of institutional ownership. When firm performance is held constant, the decision to pay dividends is a positive function of CEO duality, and a negative function of institutional ownership.

4.2.6. Payout Ratio and Company Future Earnings Growth

Responses	Frequency	Percentage
Dividends payout ratio affect the company's future earnings growth.	7	100
Dividends payout ratio do not affect the company's future earnings growth.	0	0
Total	7	100

Table 7: Payout Ratio and Company Future Earnings Growth
Source: Author, 2014

The respondents (100%) indicated that the dividends payout ratio had a significant impact on the company's future earnings growth. They indicated that high dividends paying companies are believed to be more profitable, having greater cash flows and thus some growth opportunities. On the other hand, companies with earning instability are believed to be the ones having difficulty to pay dividend. Thus the dividends payout ratio is believed to influence the company's future earnings growth. This is in line with the findings of Nissim and Ziv (2001) who investigated the relation between dividend changes and future profitability, measured in terms of either future earnings or future abnormal earnings and found out that that dividend changes provide information about the level of profitability in subsequent years incremental to market and accounting data. They also found out that that dividend changes are positively related to earnings changes in each of the two years after the dividend change.

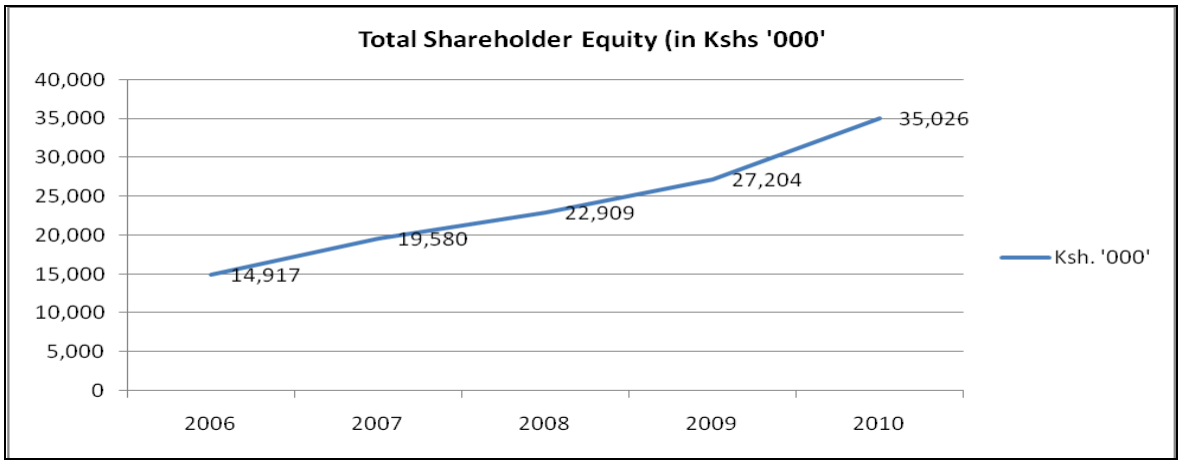

Figure 4

4.2.7. Total Shareholders' Equity

Source: (Author, 2014)

Figure 4 above shows that the total shareholders' equity grew from Kshs. 14,917,000 in 2006 to Kshs. 19,580,000 in 2007, Kshs. 22,909,000 in 2008 and to a high value of Ksh. 35,026,000 in the year 2010. According Amidu and Abor (2006) dividend payout policy decision of listed firms is influenced by profitability, cash flow position, and growth scenario and investment opportunities of the firms. Thus the changes in returns of the listed banks in Kenya may have also influenced their payout policy decision.

4.2.8. Performance of Commercial Banks

Figure 4 shows the performance of the banks listed in the NSE. The performance indicators were return on equity (ROE) and Return on Assets (ROA).

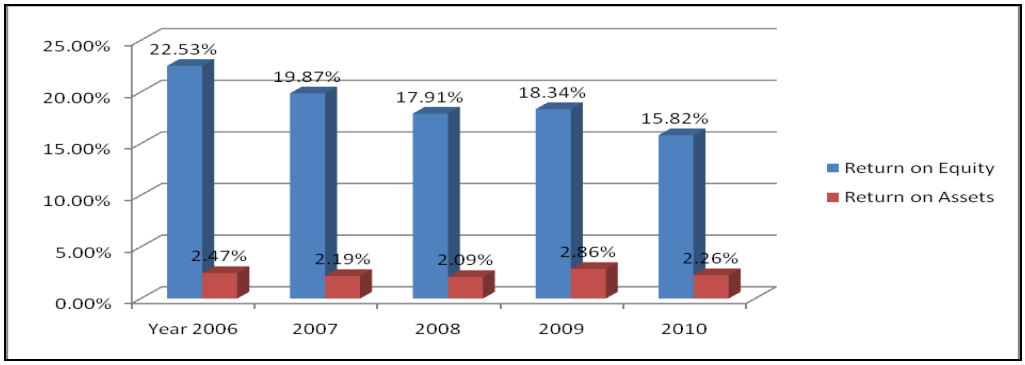

Figure 5: Performance of commercial banks
Source: Author, 2014

The results show that in 2006, the commercial banks had a return on equity of 22.53%. However, the return on equity declined to 19.87% in 2007 and 17.91 in the year 2008. The banks registered a return of 15.82% in the year 2010 which was the lowest in the 5 year duration. On the other hand, the data shows that the banks registered 2.47% re4turn on assets in the year 2006, which further declined to 2.19% in 2007 and 2.09% in 2008; however, the banks registered a high return on assets of 2.86% in the year 2009. According to Amidu (2007), dividend policy affects firm performance especially the profitability measured by the return on assets. The results showed a positive and significant relationship between return on assets, return on equity, growth in sales and dividend policy. This showed that when a firm has a policy to pay dividends, its profitability is influenced.

4.2.9 Earning Per Share

Figure 6 below presents results on the Earnings per Share of the five top commercial banks listed in the NSE.

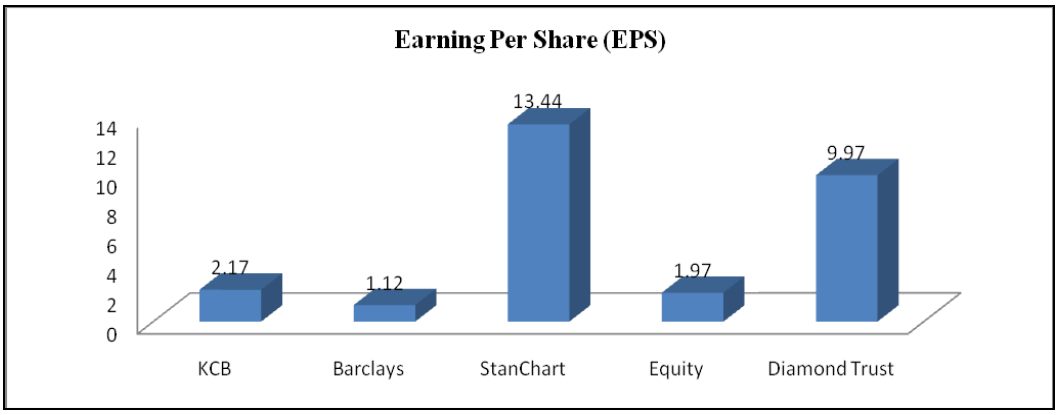

Figure 6: Earnings per share
Source: Author, 2014

4.3. Inferential Analysis

The study tested for multi co linearity of the data. This is the undesirable situation where the correlations among the independent variables are strong. The results show that all the four variables had a variance inflation factors (VIF) of below 5. This implies that there was no co linearity with the variables thus all the variables were maintained in the regression model. Durbin-Watson statistic was also conducted to test for autocorrelation in the residual from the regression analysis. The Durbin-Watson statistic show a coefficient of 1.617405 which implies that there is a positive autocorrelation. However, since the coefficient is nearing the 2.0 mark, the co-efficient is deemed appropriate for the study to continue.

	Co linearity Statistics	
	Tolerance	VIF
Capital structure	0.208	4.806
Capital market investments	0.420	2.384
Corporate earnings	0.136	3.380
Dividend payout ratio	0.682	1.466

Table 8: Co linearity Statistics

Test Equation:				
Dependent Variable: RESID^2				
Method: Least Squares				
Included observations: 60				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	-1.963644	0.790380	-2.484429	0.0146
LOG(CS)	0.131143	0.051997	2.522127	0.0132
CE	0.001029	0.000804	1.279464	0.2036
DP	-0.000830	0.000253	-3.277640	0.0014
CM	0.000140	0.000371	0.376804	0.7071
R-squared	0.152103	Mean dependent var		0.015250
Adjusted R-squared	0.119174	S.D. dependent var		0.023348
S.E. of regression	0.021912	Akaike info criterion		-4.758334
Sum squared resid	0.049456	Schwarz criterion		-4.634161
Log likelihood	261.9500	Hannan-Quinn criter.		-4.707986
F-statistic	4.619239	Durbin-Watson stat		1.617405
Prob(F-statistic)	0.001802			

Table 9

4.3.1. Regression analysis

In this section, the study sought to establish the relationship between capital structure, capital market investments, corporate earnings, dividend payout ratio and market value among listed banking companies in Kenya. A regression model was applied to determine the relative importance of each of the four variables with respect to market value of listed commercial banks.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.897(a)	0.805	0.681	4.223

Table 10: Model Summary for Year 2006

a Predictors: (Constant), capital structure, capital market investments, corporate earnings, dividend payout ratio
Adjusted R^2 is called the coefficient of determination and tells us how the market value of listed banks varied with capital structure, capital market investments, corporate earnings and dividend payout ratio. The value of adjusted R^2 is 0.681. This implies that, there was a variation of 68.1% of market value of the listed banks with the predictors- capital structure, capital market investments, corporate earnings and dividend payout ratio.

Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.833	3.156		1.839	0.000
	Capital structure	2.771	0.061	0.097	0.097	0.038
	Capital market investments	0.216	0.018	0.094	0.094	0.023
	Corporate earnings	0.358	0.311	0.090	0.090	0.078
	Dividend payout ratio	0.574	0.418	0.097	0.097	0.037

Table 11: Coefficients Results for Year 2006

b Market value
From the data in the above table 4.2, the following equation was established:

Y= 5.833 + 2.771CS + 0.216CM + 0.574 DP

There is a positive relationship between market value of listed banks and the predictor factors capital structure, capital market investments, corporate earnings, dividend payout ratio. This implies that holding all factors constant, the market value of listed banks would be 5.833. It was further established that a unit increase in capital structure would cause an increase in market value of listed banks by a factor of 2.771, a unit increase in corporate earnings would cause an increase in market value of listed banks by a factor of 0.358, a unit increase in dividend payout ratio would cause an increase in market value by a factor of 0.574.
The study further shows that there is a significant relationship between market value of listed banks and capital structure ($p= 0.038 <0.05$), capital market investments ($p= 0.023<0.05$), and dividend payout ratio ($p=0.037<0.05$). However, the study found an insignificant relationship with corporate earnings ($p=0.078>0.05$). The study therefore rejects the following null hypotheses and accepts the alternative hypotheses: there is no relationship between capital structure and market value among listed banks in Kenya; there is no relationship between dividend payout ratio and market value among listed banks in Kenya; and there is no relationship between capital market investments and market value among listed banks in Kenya. However, the study accepts the null hypothesis that there is no relationship between corporate earnings and market value among listed banks in Kenya

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.798(a)	0.637	0.572	3.441

Table 12: Model Summary for Year 2007

a Predictors: (Constant), capital structure, capital market investments, corporate earnings, dividend payout ratio
Table 4.11 above shows that the value of the co-efficient of determination (adjusted R^2) is 0.572. This implies that, the independent variables (capital structure, capital market investments, corporate earnings and dividend payout ratio) explained of 57.2 % of market value of listed banks at a confidence level of 95%.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.441	3.156		1.839	0.000
	Capital structure	0.386	0.067	0.095	0.095	0.048
	Capital market investments	-0.142	0.051	-0.091	-0.091	0.005
	Corporate earnings	0.215	0.411	0.094	0.094	0.913
	Dividend payout ratio	0.374	0.518	0.093	0.093	0.014

Table 13: Coefficient's Results for Year 2007

a Market Value of listed banks
The fooling equation was established:

Y= 3.441 + 0.386 CS - 0.142CM + 0.374 DP

Results show that holding capital structure, capital market investments, corporate earnings and dividend payout ratio constant, market value of listed commercial banks would be 3.441. A unit increase in capital structure would cause an increase in market value of listed commercial banks by a factor of 0.386, also a unit increase in corporate earnings would cause an increase in market value of listed banks by a factor of 0.215 while a unit increase in dividend payout ratio would cause an increase in market value of listed banks by a factor of 0.374. However, a unit increase in capital market investments would cause a decrease in market value of listed banks by a factor of 0.142.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.856(a)	0.733	0.624	4.605

Table 14: Model Summary for Year 2008

Predictors: (Constant), capital structure, capital market investments, corporate earnings, dividend payout ratio
A correlation value of 0.856 was established which shows a high relationship between dependent and independent variables. This is also shown by a coefficient of determination value of 0.624 which implies that the regression line accounts for 62.4% of the total observations. This is to mean, the independent variables (capital structure, capital market investments, corporate earnings and dividend payout ratio) explained 62.4% of the dependent variable (market value listed banks).

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.918	1.715		3.133	0.002
	Capital structure	0.579	0.057	0.095	0.093	0.026
	Capital market investments	-0.200	0.063	-0.091	-0.094	0.035
	Corporate earnings	0.755	0.610	0.094	0.092	0.189
	Dividend payout ratio	0.332	0.670	0.093	.091	0.031

Table 15: Coefficient's Results for Year 2008

a Market Value of listed banks
The study established the following equation:
Y= 3.918 + 0.579 CS -0.200CM + 0.332 DP
Holding all independent variables constant, market value of listed banks would be 3.918. Further, a unit increase in capital structure would cause an increase in market value of listed banks by a factor of 0.579, a unit increase in corporate earnings would cause an increase in market value of listed banks by a factor of 0.755, while a unit increase in dividend payout ratio would cause an increase in market value of listed banks by a factor of 0.332. However, a unit increase in capital market investments would cause a decrease in market value of listed banks by a factor of 0.200.
The study found out that there was a significant relationship between market value of listed banks and three of the variables: capital structure ($p=0.026<0.05$), capital market investments ($p=0.035<0.05$), dividend payout ratio ($p= 0.031<0.05$). The study rejects the null hypotheses and accepts the alternative hypotheses of the following hypothesis: there is no relationship between capital structure and market value among listed banks in Kenya; there is no relationship between dividend payout ratio and market value among listed banks in Kenya; and there is no relationship between capital market investments and market value among listed banks in Kenya.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.778(a)	0.605	0.554	0.31207

Table 16: Model Summary- Year 2009

a Predictors: (Constant), capital structure, capital market investments, corporate earnings, dividend payout ratio
From the regression model summary above, the value of adjusted R^2 (coefficient of determination) is 0.554. This implies that capital structure, capital market investments, corporate earnings and dividend payout ratio explained 55.4% of market value of listed banks; the remaining 44.6% would be explained by other variables not included in the study.

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	2.821	0.604		4.673	0.000

Capital structure	0.157	0.110	0.191	1.424	0.165
Capital market investments	-0.332	0.067	-0.717	-4.946	0.000
Corporate earnings	0.084	0.072	0.155	1.162	0.055
Dividend payout ratio	0.034	0.106	0.040	0.322	0.049

Table 17: Coefficients Results- Year 2009

a Dependent Market value of listed banks
The following equation was established:
Y= 2.821 - 0.332CM + 0.034DP
The study shows that there was a positive relationship between the market value of listed banks and capital structure (r=0.157, corporate earnings (r=0.084), dividend payout ratio (r=0.034); however, the study shows a negative association between market value of listed banks and capital market investments (r= -0.332).
The study further established that at there was a significant relationship between market value of listed banks and the predictors: capital market investments p=0.000 (<0.005) and dividend payout ratio (p=0.049 <0.005). The study rejects the null hypotheses that: there is no relationship between capital structure and market value among listed banks in Kenya; there is no relationship between dividend payout ratio and market value among listed banks in Kenya; and accepts the alternative hypotheses.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.854(a)	0.729	0.689	0.257

Table 18: Model Summary for Year 2010

a Predictors: (Constant), capital structure, capital market investments, corporate earnings, dividend payout ratio
In the analysis for results of 2010, the study established an adjusted R^2 value of 0.689. This implies that capital structure, capital market investments, corporate earnings and dividend payout ratio explained 68.9% of market value of listed banks.

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	0.124	0.186		0.623	0.005
Capital structure	0.582	0.068	0.559	8.478	0.000
Capital market investments	-0.232	0.043	-0.257	-3.676	0.000
Corporate earnings	0.114	0.024	0.139	2.115	0.084
Dividend payout ratio	0.037	0.001	0.505	7.097	0.000

Table 19: Coefficients Results for Year 2010

a Dependent Variable: Market value of listed banks
The following equation was established:
Y= 0.124 + 0.582CS - 0.232CM + 0.037DP
The regression analysis findings show that there is a positive relationship between market value of listed banks and the predictors; capital structure (r= 0.582), corporate earnings (r= 0.114), dividend payout ratio (r=0.037) but a negative relationship with Capital market investments (r= -0.232). The study further shows that there is a significant relationship between market value of listed banks and the three variables as shown; capital structure (p= 000<0.05), capital market investments (p= 000<0.05), and dividend payout ratio (p= 000<0.05). Thus the study rejects the null hypotheses and accepts the alternative of the following hypotheses: there is no relationship between capital structure and market value among listed banks in Kenya; there is no relationship between dividend payout ratio and market value among listed banks in Kenya; and there is no relationship between capital market investments and market value among listed banks in Kenya.

5. Summary, Conclusions and Recommendations

5.1. Introduction
This chapter is a synthesis of the entire report and contains summary of findings, conclusions arrived at, policy recommendations and recommendations for further studies.

5.2. Summary of the Study
The study found out factors such as cash flow, annual sales growth and return on assets influenced dividend payout policy in the banks. Managers explained that when considering the payment of cash dividends, the firms' cash flows must be taken into account not to bring liquidity constraints. They also revealed that the sales growth and return on assets also determines the designing of the

dividend payout policy. The pattern of past dividends majority of the respondents indicated that it did influence the payment of dividends in the subsequent years as policies made were constant to a specific period of time as also guided by the company's strategic plans and investments needs.

On the company's current earnings and the amount of dividends paid out by the banks, the respondents indicated that the availability of profits to pay dividends is a big determinant of dividend policy. It was also found out that the level of expected future earnings; availability of alternative sources of capital, expected rate of return on the firm's assets and desire to maintain a target capital structure also had an impact on the amount of dividends paid out by the companies.

On debt equity ratio and company market value of the listed banks, majority of the respondents indicated that the debt to equity ratio is very important variable for the determinants of dividend paid out and the company's market value. It was established that when the level of the debt is high its mean the firm is more risky in the cash flows that will result negative impact on dividends payments and less payout to stockholders.

On the effect of corporate earnings and market value of the banks, it was established that earnings showed the availability of profits to pay dividends influence the amount of dividends paid out by the banks. The high profitable firms with more stable earnings are believed to be capable to manage the larger cash flows and because of this they pay larger dividends. Moreover, the firms with fast growth distribute the larger dividends so as attract to investors. The respondents also indicated that the dividends payout ratio had a significant impact on the company's future earnings growth. However, the respondents indicated that the company's capital structure did not have an effect on the market value of the company as there were legal and contractual constraints directors decisions regarding the payment of dividends.

On the inferential statistics, in the year 2006 results, the study found a high value of coefficient in 2010. This shows that the variation between capital structure, capital market investments, corporate earnings and dividend payout ratio in the respective years as high.

In the years 2006, the study found a positive and significant relationship between market value of listed banks and capital structure, capital market investments, and dividend payout ratio. In 2007, the study found a positive and significant relationship capital structure and dividend payout ratio. However, the study found a negative but significant relationship with capital market investments.

In the year 2008, results shows that there was a significant relationship between market value of listed banks and three of the variables: capital structure, capital market investments, dividend payout ratio. The same results in the year 2010 where it was found that there is a significant relationship between market value of listed banks and the three variables as shown; capital structure capital market investments and dividend payout ratio. In 2009 only capital market investments and dividend payout ratio had a significant relationship.

5.3. Conclusions

The study concludes that there is a relationship between capital structure and market value among listed banking companies in Kenya. This implies that ownership concentration have an impact on dividend payments.

The study also concludes that corporate earnings have a positive effect on market value among listed banking companies in Kenya. Earnings determine availability of profits to pay dividends. The high profitable firms are more stable earnings are believed to be capable to manage the larger cash flows and because of this they pay larger dividends thus they attract investors.

The study also concludes that there is positive and significant relationship between dividend payout ratio and market value among listed banking companies in Kenya. Dividend payout ratio affects firm market thus this is contrary to theories that view dividend policy as irrelevant.

5.4. Recommendations

The study recommends that commercials banks should consider their profitability, pattern of past dividends, investment opportunities, and capital ownership structure, shareholder's expectations, tax position of shareholders and access to capital markets in designing a dividend policy.

The study further recommends that banks should consider the financial needs of the firms when designing the dividend payout policy. They should recognize the importance of retained earnings as means of financing the investment decisions of the firms. Moreover, when considering the payment of dividends, the company should make sound decisions on whether to pay cash dividends so as not to create liquidity constraints in the companies.

5.4.1 Suggestions for Further Research

The research design was based on banks. Future researches can be carried out on other financial institutions in Kenya. The study limited itself to the banking sector in Kenya, future research can be carried out and include other industrial sectors in the study and other countries. The study focused on secondary data sources which were audited accounts for a five year period ended 2010. Future studies should focus and compare on relationship between dividend payout and market value of a firm for longer periods

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