

# THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

## Influence of Dividend Policy on Share Price Movements of Firms Listed on the Nairobi Securities Exchange, Kenya

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### **Abstract:**

*Share price movement (SPM) is a subject whose theoretical and empirical research has increased globally over the years. The main cause for movements in share prices is the perceived value of the firm. The investors' aim of wealth maximization compels the management to work towards this goal. This is then to be conveyed by dividend announcements which express the firm's expected future performance. This often triggers variation in share prices leading the analysts and scholars to consider dividend policy as one of the key determinants of share price movement.*

*Thus, the study examined the empirical influence on share price movement (SPM) by dividend policy constituting of Dividend yield (DY) and Dividend Payout (DPO). The total of 47 firms were purposively sampled from NSE listed firms in the Main Investment Market Segment (MIMS) as at the end of the year 2018 at the Nairobi Securities Exchange (NSE) in Kenya. Annual secondary data chiefly in the annual reports collected from CMA, Kenya Bureau of Statistics and NSE is used covering the period 2000-2018.*

*The Eviews-10 data analysis tool was utilised on the secondary data using panel data analysis technique of ordinary least squares regression. The results showed that share price movement varied from 20 per cent for manufacturing sector to 86 percent for the energy sector firms listed in MIMS. When dividend policy was controlled for by the variables such as earnings volatility, exchange rate risk and firm size, the model could explain 42.26% of the share price movement at Nairobi Securities Exchange. However, dividend pay-out and size are significant whereas dividend yield, earnings volatility and exchange rate risk are insignificant at 5%. The findings imply that listed firms should manage the wealth maximization objective with dividend payout most appropriate for the firm, since according to the results, the larger the firm the more likely its share price movement. Further research is suggested for dividend policy and SPM based on share prices daily data for the listed firms for comparison with the annual data results.*

**Keywords:** Main investment market, Nairobi securities exchange, dividend yield, dividend payout, share price movement

### **1. Introduction**

Among the notable deliberated finance research topics is probably related to dividend policy as it directly affects the value of the company and the wealth of its shareholders (Lintner, 1962; Gulet *et al.*, 2012; Zainudinet *et al.*, 2018). The key role of finance in a business is shareholders' wealth maximization executed by means of managing the trade-off of financing, dividend and investment decisions, which are inter-related. Azhagaiah and Priya (2008) suggest that such wealth data is relayed to parties external to the firm by means of its market share price. Dividend is an appropriation of earnings after tax, with the business retaining some earnings to fund long term projects, a power vested in the firm's board of directors. The ratio of dividend paid to every share of ownership to earnings attributed to each share is known as dividend payout ratio, whereas it is called dividend yield when expressed as a fraction of the share's market price (Ross *et al.*, 2002).

According Khan and Jain (2007) it is believed that diverse opinions exist in regard to payment of dividend. On the one hand, dividend is regarded by some as irrelevant to the firm's valuation. This view considers heavier taxation on dividend paid much earlier in advance of the capital gains tax that is to be paid later. Moreover, in a 2008 study Megginson and Smart claimed that expanding firms pay out fewer dividends as they require funds for development thus creating higher firm value, consequently raising the share price, befitting clientele who do not require cash immediately since they belong to the upper taxes range. Secondly, Clark (2006) believes that the firm should seize opportunities to reinvest cash such as acquiring profitable investments instead of paying out dividend only to seek new funds later (Ndunguet *et al.*, 2014).

The alternative belief opined by Khan and Jain (2007) maintains that the financial health of the company shows in higher pay-out which appeals to investors resorting to dividend for secure cash sources. Firms with a dividend payment track record are favourably affected by raising instead of lowering payouts. The market also appreciates new dividend declarations by companies without a history of paying dividend. The tendency of increased dividend causes upward share price movements as a sign of the firm's improvement (Ben, 2006). Miller and Rock (1985) and Baskin (1989) point out that the payment of dividends has a content that provides investors with positive signs of the company's future earnings. According to Gajewski (1999) all market information is captured in the price of the firm's share in line with Efficient Market Hypothesis.

Research studies carried out in both emerging and developed stock markets have used Baskin's (1989) model. But they yielded mixed outcomes such as significant negative or significant positive association such as Hussainey *et al.*, (2011) and Zakaria *et al.* (2012) respectively; yet Rashid and Rahman (2008) yielded insignificant relationships. Each study was most probably based on a different background thus deviating from the others in, for example industry peculiarity, the economic status or duration covered. Zainudin *et al.* (2018) supports the proposition for studies focused on specific sectors like manufacturing so as to understand dividend and share exchanges price movement better as regards emerging markets. A study conducted at NSE by Muriuki in 2010 established that share price movement was inversely related to residual dividend policy, fixed dividend or fixed payout boosted with extras. Nevertheless, fixed dividend per share was positively associated to share price. The signaling theory was also studied by Mbaka (2010) refuting Muriuki by deducing a direct link between dividend announcement and share price movement at NSE.

This study considers suggestions by earlier studies in developed and emerging economies (such as Zainudin *et al.*, 2018; Baskin, 1989; Rashid and Rahman, 2009; Habib *et al.*, 2012), to analyse the influence of dividend policy on the volatility of the price of shares (SPM) in Kenya, a stock market in a developing country. The research is carried out in Nairobi Securities Exchange (NSE) for listed firms representing all the eleven sectors. The NSE plays an important role in transforming the country towards industrialization as per vision 2030 through intermediation between savers and investors. The NSE 20 showed lowest performance in 2003 and 2009 in contrast to its 2007 peak when it exceeded 5500 points. The economic crisis, subdued activity at the NSE coupled with a long IPO drought, the index fell back to its 2003 levels as a result plus the 2020 pandemic effect (NSE Business, 2020). The results mean decline in dividends paid by listed firms as others such as Mumias, Athi River Mining and Kenya Airways faced solvency crises. Hence despite a robust business most of the last two decades, dividend yield (DY) and dividend payout (DPO) is predictably lean.

Thus, from the perspective of developing economies, stock exchanges such as NSE are clearly hit differently from those in developed countries. Developed markets are less volatile, more efficient and much larger than those in developing countries (Laopodis and Papastamou, 2016; Bekaert and Harvey, 2017; Kumar and Tsetsekos, 1999). As globalization quickly evolved in the past two decades closing the gap amongst diverse economies, developing markets are described as not entirely assimilated into capital markets globally (Bekaert and Harvey, 2017). However, since real economic growth has to be stimulated by liquidity enabled by stock markets their role cannot be compromised hence the continued emerging stock exchanges research interest.

The inconclusive and mixed findings in developed and emerging stock markets form the basis of the objectives of this study which are three-fold. First, to assess the extent of share price movement for companies listed in the Main Investment Market segment (MIMS) of Nairobi Securities Exchange. Second, to analyse the relationship between dividend policy and SPM of companies listed in the MIMS of Nairobi Securities Exchange. Third, to study the moderating impact of three other firm-specific variables, earnings volatility, size and exchange rate risk on firms' share price movement at NSE (see Hussainey *et al.*, 2011).

This study uses 19-year data (2000-2018) to solve some riddles about dividend policy, to establish a pragmatic consistency on dividend policy and SPM in the NSE firms listed in MIMS. The NSE, Kenya is classified as a developing country capital market (stock exchange) with distinctive features compared to developed markets of US, UK and Japan. Kumar and Tsetsekos (1999) state that developing markets are generally smaller, have added instability, and more information inefficient. A better knowledge of how dividend policy and SPM are linked is invaluable for both investors and the firm.

The rest of this work is organized as follows. Section 2 presents a brief review of dividend policy and SPM related literature. Procedures used to collect data are described in Section 3 together with how variables were measured and estimation models. Section 4 discusses the outcomes from the models and conclusions in section 5.

## 2. Review of Related Literature

### 2.1. Theoretical Review

Scholars such as Miller and Modigliani (1961), Lintner (1956); Bhattacharya (1979), Al-Najjar (2009), Hussainey *et al.* (2011); DeAngelo *et al.* (1996), Fama and French (2001) and Al-Malkawi (2007) carried out dividend policy research among others. Accompanying the rich history of finance studies, the related thought process has also evolved along the following theories related to dividend policy.

#### 2.1.1. Dividend Irrelevance

The research paper that was written by Miller and Modigliani (1961) [MM] propagated the dividend irrelevance theory by reasoning that dividend policy neither impacts cost of capital or stock prices. Basic income and business risk were submitted by MM to be the primary determinants of firm value. The concept chiefly assumed the certainty of

investment policy that managers act as the owners' best agents, rational investors and the absence of transaction costs or taxation. Hence the irrelevancy of dividend policy was deduced from the stated assumptions (Habib *et al.*, 2012).

### 2.1.2. Bird-in-hand

The theory of the bird-in-hand appreciates that investors rank capital gains after dividend replicating the traditional finance tenet of time value of money (Gordon and Shapiro, 1956; Linter, 1962). However, potential capital gain from retained earnings further into the future is no match for immediate dividend benefits according to Al-Malkawi (2007). Linter (1962) as well as Gordon and Shapiro (1956) have embraced the bird-in-hand argument despite wide criticism from MM in addition to its weak empirical backing. The theory predominantly assumes that dividend is the sign of cash flows anticipated; capital gains are achieved when shares are sold and insufficient firm profitability information is with investors (Al-Malkawi, 2007).

### 2.1.3. Tax Preference

The other main dividend theory is the concept of tax preference, which contrasts the above bird-in-hand fallacy. According to Habib *et al.* (2012), the less taxed capital gains are long term, in addition to tax not being charged neither on retained earnings nor on unsold shares (Habib *et al.*, 2012).

### 2.1.4. Dividends Signaling Theory

According to Zakaria *et al.* (2012), Miller and Modigliani [MM] (1961) theory that dividend is irrelevant does apply for many firms since it is apparent that some of them consistently announce or even increase dividend even when they make loss. Conversely, high-yield companies are averse to increased dividend, meaning that high net profits do not always result to increased pay-out. Irrelevance of dividend was demonstrated by MM for a perfect market set up (no taxes, no transaction costs and other market imperfections). Corporate values were instead only pegged to the risks and future returns on investments to determine the companies' values. Therefore, firms could pay dividend and secure their finances through debt without effect on business value (Zakaria *et al.*, 2012)

Before the dividend model of Miller and Modigliani (1961), Lintner (1956) explained why some firms were so attached to the practice of paying dividends. He found that the unwillingness by companies to cut dividends was due to a possible misinterpretation by investors that their firm was underperforming which could lower its share prices. Bhattacharya (1979) and Miller and Rock (1985) supported the upcoming positive prospects information that dividend announcements conveyed on the companies. Therefore, dividend may be considered to signal a firm's good financial status which will increase the price of its share prices or the converse. Dividend communicates expected future financial projections to investors who possess imperfect information regarding the business's financial strength. Al-Malkawi (2007) also highlights dividend policy as the means by which a firm's directors can address asymmetric information between them and shareholders. (Habib *et al.*, 2012; Zakaria *et al.*, 2012)

## 2.2. Dividend Policy and Share Price Movement

Dividends denote the payment which could be in kind or cash distributed to shareholders of a firm from its earnings after tax. Sometimes, dividends can be disbursed as extra shares fully paid-up, as influenced by industry norms. However, other dynamics for instance, where top shareholders being retirement funds or investment firms enforce a more generous dividend policy (Aron *et al.*, 2014; Aivazian, Booth, & Cleary, 2006; Grennan, 2019). Consequential positive or negative share price movement is often equivalent to the value of the dividend. The firm's management formulates the course of action to follow over several years on distribution of the firm's after-tax profits between payout and retained earnings. The 'ploughed back' profits would make up funding which the firm can utilise to develop new product/s, expand its markets, or acquire other businesses (Wasike and Ambrose, 2015).

Information about the firm's flow of funds and property for the market to evaluate the organization's present earnings is conveyed by annual reports and financial statements (Miller and Rock, 1985). From the trend reported by the company's financial statements, Habib *et al.* (2012) documented consequent matters which could determine dividend policy such as whether to make pay-outs constant or to vary them from year to year or even to pay according to members' category whether new or old. At NSE, for example, in order to stick to its long-term constant dividend policy per share of KES 5.20, the NSE-listed BOC Kenya Plc made lower profits but had to fall into its reserves to finance the distributions partially (Habib *et al.*, 2012; Juma, 2018).

Nazire *et al.* (2010) analysed the dividend policy and movement in share prices relationship from 2003 to 2008 for a sample of 73 Karachi Stock Exchange (K-100) listed companies. They analysed panel data using random effect and fixed effect techniques. They concluded that stock price movement is significantly negatively related to dividend payout and dividend yield. In addition, they reported that leverage and size negligibly affect share price movement negatively (Zakaria *et al.*, 2012; Zainadun *et al.*, 2018). These findings are contradictory to Rashid and Anisur Rahman (2008), whereby a positive significant relationship is found for both DY and DPO. Thus, in Pakistan information effect, duration effect and arbitrage effect are existent consistent with Asamoah (2010) in Ghana.

In analysing dividend policy and SPM, Baskin (1989) incorporated other variables to moderate the relationship, which were growth, debt, firm's size and earnings volatility. These variables could influence either the dependent or independent variables under study. Regarding size for example, low SPM tends to be attributed to bigger firms compared to smaller ones since bigger firms can more easily accommodate product diversification. A major model used by Baskin, incorporated in the current study, is information asymmetry theory on dividend policy and SPM (Baskin, 1989).

So far, the influence of a corporations' dividend policy on its share prices has remained an unresolved subject, requiring further studies to investigate the matter in great depth. A famous all-inclusive research was conducted by Baskin in 1989. His research covered the years 1967-1986 on 2344 companies in USA. Baskin (1989) recommends that managers can control SPM of the firm by using dividend policy. Growth opportunity possibly necessitate low dividend payouts and low dividend yield considering the effect by rate of return on the firm's assets. Announcing of earnings and dividend can be understood to indicate the firm's stability. He found that SPM was significantly negatively related to dividend yield, exceeding the association between the other variables and SPM. A standard deviation of price movement of 2.5% could be attributed to 1% rise in dividend yield (Baskin 1989; Hashemijoo *et al.*, 2012).

Hussainey, *et al.* (2011) basing their research on Baskin (1989) examined the link between dividend policy and share price changes in the UK stock market. They used multiple regression on 123 companies over the period 1998-2007 to explore the association between share price changes and both dividend yield and dividend payout ratio. A positive association was found between dividend yield and share price movement, but a negative relation between dividend payout ratio and stock price movements. They also proved that a company's growth rate, debt level, size and earnings explained movement in prices. The research supports the fact that dividend policy was relevant in determining share price changes for a sample of firms listed in the London Stock Exchange. Hussainey contrasts Rono and Omoro (2020) who examined SPM and Dividend policy for the insurance sector in Kenya over a period of ten years. They applied ordinary regression and Pearson rank correlation. They reported the variables were positively related with the association with DPO being positive whereas it is negative for DY. The current paper uses similar variables to assess replicability at NSE (Hussainey, *et al.* 2011).

The research by Suleman *et al.* (2011) addressed the relation of dividend policy and movement of share prices in Pakistan. Karachi Stock Exchange 2005-2009 data for five main segments was analysed using the multiple regression technique. Their results contrasted those of Baskin (1989), by indicating that movement in share prices was significantly positively linked to dividend yield. They also stated that movement in share prices was significantly negatively linked to growth (Suleman *et al.*, 2011).

In line with the Australian outcomes by Allen and Rachim (1996), (Hussainey *et al.*, 2011) for UK and Kenyora *et al.* (2013) for Kenya established a significant negative relationship between the movement of share prices and the payout. Dividend yield and SPM were also negatively related. Share price movement is mainly determined by dividend payout. Amongst the control variables debt and size have the strongest association to price movement. On the other hand, disagreeing with Allen and Rachim (1996), Hussainey *et al.* (2011) have shown that the size of a company has a significant negative influence on stock price movements. In addition, they identified debt to have a significant positive connection with movement of stock prices (Hashemijoo *et al.*, 2012; Zainadun *et al.*, 2018)

The diversity of association between dividend policy and SPM argued by scholars above warrants further debate and additional research though they all seem to agree that there is an unsettled relationship as recommended by Sew *et al.* (2015). The period from the turn of the century has seen major economic, political and social changes that have affected Nairobi Securities Exchange like other capital markets globally. The NSE 20 share index which could indicate economic health of firms as represented by share prices, attained a number of lows such as 2003 and 2009, with the highest being in 2007. The world economic recession and global oil price movements adversely impacted the economy, firm performance, dividend payment and SPM. The above studies of dividend policy had different outcomes dependent on the environment where the research was carried out, period covered, when, methodology and the context (Zainadun *et al.*, 2018)

### 3. Research Methodology

#### 3.1. Data and the Study Model

The study used data from the annual reports and financial statements of listed firms from the companies' official websites, Nairobi Securities Exchange (NSE) business share price information as per website/handbooks and the CMA library from 2000 to 2018. Triangulation has also been done by use of a survey questionnaire. Secondary data included Total Operating Income, Earnings per Share, Dividend per Share, Total Assets, Market for firms' product/s and Share Prices (high, low and closing) annually for each company according to its financial year-end. The research design was panel data covering both time series and cross-sectional analysis. The researcher used unbalanced panel data on the sample of 47 companies in the Main Investment Market Segment (MIMS) purposely selected from the 67 listed firms in thirteen sectors at NSE at the end of December 2018 (CMA Report, 2017, NSE website, 2018). The Eviews-10 software was utilised to analyse data basing on the ordinary least squares' regression technique. A basic test of the link amongst share price movement (SPM) and dividend policy is deduced from dividend yield and dividend payout ratio. This association between the dependent and independent variables used the Zakaria *et al.* (2012) regression equation No 1 below:

$$SPM = a + b_1DY + b_2DPO + \varepsilon \dots\dots\dots \text{(Equation 1)}$$

From the aforesaid, considering the fact that DPO and DY as measures of dividend policy it is possible to encounter autocorrelation in the process as the variables could be inter-related. Additional variables also affect SPM and dividend policy. Thus, to minimize potential anomalies as in Zakaria *et al.* (2012), we added Earnings per share, exchange rate risk and total assets to the original predictor variables giving the regression equation No 2 below:

$$SPM = a + b_1DY + b_2DPO + b_3EXCHRISK + b_4EPS + b_5ASSETS + \varepsilon \dots\dots\dots \text{(Equation 2)}$$

### 3.2. The Study Variables

- *Share Price Movements (SPM)*: To compute SPV the researcher first divided the range of the share price by the average of the same, that is, the firm's low and high share prices during each financial year. The summation of the squares of the results so obtained was then divided by the total observations thus yielding each firm's variance/annual average (Kenyoru *et al.*, 2013, Hussainey *et al.*, 2011)
- *Dividend yield (DY)*: To compute DY the researcher divided dividend per share by closing market price of the share at the end of the firm's financial year (Habib *et al.*, 2012).
- *Dividend Payout (ratio) (DPO)*: The DPO is derived from dividing earnings per share into the dividend paid for every share of ownership (Habib *et al.*, 2012).
- *Exchange rate risk (EXCHRISK)*–the EXCHRISK is the extent to which the firm's revenues are linked to currency other than the Kenya Shilling. This, based on the financial statements, was ranked on a scale of 1 to 5, with 5 exhibiting the highest risk exposure and 1 considered the lowest, proxy for market country risk for the firm's product (Umar and Sun, 2015).
- *Size (ASSETS)*: The study considered ASSETS to represent the size of the firm. This being computed from the natural logarithm of Total Assets in the balance sheet (Kouki and Guizani, 2009; Zakaria *et al.*, 2012).

### 3.3. Earnings Volatility (EV)

The standard deviation of percentage of the firm's profit before interest and taxation to total assets was used for EV (Rashid and Rahman, 2008; Naziret *et al.*, 2010 Wild *et al.*, 2007; Marshall *et al.*, 2011).

## 4. Results and Discussion

### 4.1. Descriptive Statistics Summary

Table 1 displays the descriptive statistics of the variables utilised in the research covering the period 2000 to 2018 based on secondary data. The SPM of firms in the MIMS varied on average from 20% in the manufacturing and allied sector to 86% in the energy and petroleum sector. Specific companies' SPM fell between 15.6% and 150%. In the UK, Hussainey *et al.* (2011) reports only 29.4 percent volatility whereas Zakaria *et al.* (2012) has 94.4 % SPM for construction and material firms in Malaysia. Rono and Omoro (2020) found that share price movement in the insurance sector to be 160%. With most investors being risk averse they would tend to be more confident choose low price variation shares as per Onchiri (2013).

<b>Sector</b>	<b>SPM (%)</b>	<b>KPS (KES)</b>	<b>DPO(%)</b>	<b>DY(%)</b>	<b>Exch_Risk</b>	<b>E_Vol</b>	<b>Tot_Asset (KES)</b>
<b>Manufacturing</b>	<b>20.00</b>	<b>7.20</b>	<b>69.00</b>	<b>5.46</b>	<b>2.50</b>	<b>183.55</b>	<b>11,775,405,570</b>
<b>Agricultural</b>	<b>23.00</b>	<b>6.29</b>	<b>21.00</b>	<b>4.81</b>	<b>5.00</b>	<b>78.43</b>	<b>5,377,199,421</b>
<b>Commercial</b>	<b>23.00</b>	<b>4.10</b>	<b>31.00</b>	<b>2.88</b>	<b>2.42</b>	<b>261.99</b>	<b>19,821,412,920</b>
<b>Banking</b>	<b>23.00</b>	<b>11.22</b>	<b>39.00</b>	<b>5.17</b>	<b>4.00</b>	<b>118.37</b>	<b>143,867,127,600</b>
<b>Construction</b>	<b>26.00</b>	<b>5.71</b>	<b>45.00</b>	<b>3.67</b>	<b>4.00</b>	<b>357.72</b>	<b>13,680,476,230</b>
<b>Automobiles</b>	<b>29.80</b>	<b>2.76</b>	<b>27.00</b>	<b>3.20</b>	<b>4.00</b>	<b>68.86</b>	<b>3,697,488,053</b>
<b>Insurance</b>	<b>50.00</b>	<b>7.15</b>	<b>24.40</b>	<b>2.75</b>	<b>2.00</b>	<b>188.25</b>	<b>30,363,719,320</b>
<b>Telecommunications</b>	<b>51.00</b>	<b>0.64</b>	<b>64.00</b>	<b>4.24</b>	<b>2.00</b>	<b>199.85</b>	<b>128,604,467,000</b>
<b>Investments</b>	<b>52.00</b>	<b>3.82</b>	<b>32.00</b>	<b>2.51</b>	<b>4.00</b>	<b>114.22</b>	<b>16,796,618,000</b>
<b>Energy</b>	<b>86.00</b>	<b>7.20</b>	<b>22.00</b>	<b>2.94</b>	<b>2.94</b>	<b>860.88</b>	<b>224,686,113,800</b>

Table 1 Descriptive Statistics Mean According to Sectors

Source: Researcher, 2020

### 4.2. Share Price Movements

The extent of share price movements results obtained from the survey is provided in Figure 1 below. Figure 1 shows the year on year share price movements for the NSE listed firms during the years 2000 to 2018 based on responses from the survey. It is shown that less than 50% fluctuations are documented by 80.9% of the firms as the highest share price movement in NSE, the interval of 50-99% fluctuations were displayed by 17 % of the listed firms whilst no firms experienced share price fluctuations in the range of 100-149%. Meanwhile, 150-199% share price fluctuations are experienced by 2.1% of the listed firms in the NSE during the period under study. The high or low volatility in share prices are attributed to various reasons such as lack of interest or neglect by investors for counters in question.

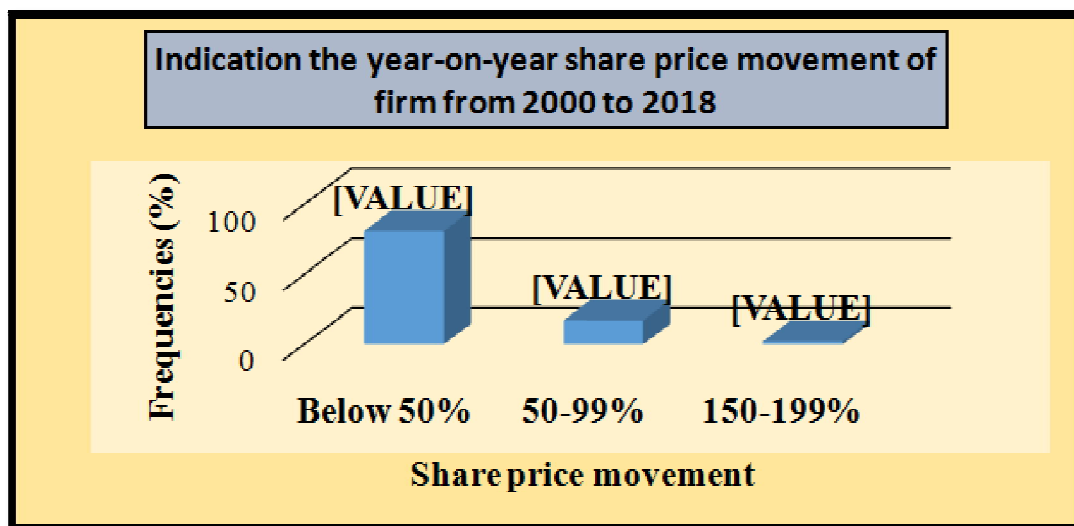


Figure 1: Year-On-Year Share Price Movements of the Firm since the Year 2000 to 2018  
Source: Researcher, 2019

#### 4.3. Dividend Policy and Share Price Movement—with Earnings Volatility as Control Variable

Table 2 below gives a summary of the main outcomes for Model 1. In Model 1 dividend payout (DPO) has t-statistics of 7.131 and  $\rho$ -value of 0.006 which means that the relationship between DPO and share price movement (SPM) at Nairobi Securities Exchange is significant. Similarly, dividend yield (DY) has t-statistics of 1.968 and  $\rho$ -value of 0.0494 implying that the association between DY and SPM is weakly significant at 5% level. Form the model earning volatility (EV) was insignificantly linked to SPM. Moreover, dividend payout was the variable that is negatively associated with SPM as conveyed by Hussaineyet *al.*(2011).

Dependent Variable: SHARE_PRICE_MOVT (SPV) 2000- 2018				
Method: Least Squares				
Date: 04/10/20 Time: 11:56				
Sample (adjusted): 1 777				
Included Observations: 774 after Adjustments				
Independent Variables	Coefficient	Std. Error	t-Statistic	Prob.
DIV_PAYOUT	-0.281738	0.039508	7.131128	0.0062*
DIV_YIELD	0.002411	0.001225	1.968263	0.0494**
EV	0.001744	0.001230	1.417936	0.1566
Adjusted R-squared	0.233421			
F-statistic	6.145842			
P(F-statistic)	0.0039			

Table 2: Dividend Policy and Share Price Movement—Model 1

Source: Researcher, 2020

Note\* \*\* \*\*\* Indicates Significance at 1%, 5% and 10% Level Respectively

On the overall, model 1 helps to explain 23.34% of the variations in share prices based on the sample. Zakaria *et al.* (2012) suggest that DY (based on stock market information) could be more realistic compared to DPO that is computed from accounting numbers (internally generated in the firm). The outcome of analysis of dividend payout (DPO) and dividend yield (DY) as independent variables, controlled for volatility of the firm's earnings (EV), both DPO and DY are significant at 5%. On the other hand, it can be concluded that SPM is not influenced by EV ( $\rho$ -value = 0.15). Consequent to Model 1 outcome, which explains so low SPM, Model 2 is developed to seek more explanatory power. The output from data analysis incorporating the five variables using Model 2 is summarized in Table 3 below.

## 4.4. Dividend Policy and Share Price Movement –with Three Control Variables

Dependent Variable: SHARE_PRICE_MOVT (SPV) 2000 -2018				
Method: Least Squares				
Date: 04/10/20 Time: 12:37				
Sample (adjusted): 2 775				
Included Observations: 774 after Adjustments				
Independent Variables	Coefficient	Std. Error	t-Statistic	Prob.
DIV_PAYOUT	-0.281738	0.039508	7.131128	0.0062*
DIV_YIELD	-0.082202	0.106348	-0.772957	0.4745
EV	-0.013281	0.029856	-0.444822	0.6750
EXCHRISK	0.080936	0.055750	1.451779	0.2063
LNASSET	0.140587	0.043327	3.244764	0.0228**
Adjusted R-squared	0.422661			
F-statistic	11.63782			
P(F-statistic)	0.0000			

Table 3: Dividend Policy and Share Price Movement–Model 2

Source: Researcher, 2020

Note \* \*\* \*\*\* Indicates Significance at 1%, 5% and 10% Level Respectively

When dividend policy (with DY and DPO as proxy) is controlled for by other variables such as earnings volatility (EV), exchange rate risk (EXCHRISK) and firm size (LNASSET) we could explain 42.26% of the share price movement at Nairobi Securities Exchange which is better than for model 1 that achieves only 23.3%. Hence model 2 is better fitted than model 1. Nonetheless, dividend pay-out and size are significant whereas dividend yield, earnings volatility and exchange rate risk are insignificant at 5%. The outcomes from the model 2 are in line with other analyses carried out at the NSE for example the research done by Kibet *et al.* (2016), yet for EV contrasts Gworo (2019).

## 5. Conclusion

This research study set forth to analyse the influence of the company's dividend policy, that is dividend yield (DY) and the dividend payout (DPO) on the share price movement (SPM) of Nairobi Securities Exchange listed companies. The research covers a duration extending nineteen years (2000 to 2018). From the data analysis it is concluded that dividend policy is the key factor of SPM at Nairobi Securities Exchange ( $p$ -value of 0.0062). The association of DY and SPM was negative and insignificant ( $p$ -value of 0.4745).

This is despite the fact that there is only 42.27% of the deviation in share price fluctuations explained by the model. This is close to Rono and Omoro (2020) where 43.1% variation was explained by the variables in the insurance sector only. The SPM of firms in the MIMS varied on average from 20% in the manufacturing and allied sector to 86% in the energy and petroleum sector. The SPM for specific firms ranged from 15.6% to 150%. Our study differs from most previous scholars in that the study is based on firms listed in the MIMS over a period of 19 years. The study also cuts across the period in Kenya's history where the stock exchange was impacted by key political, legal and economic spurts locally and internationally. The empirical result suggests that there is a significant positive relationship between a company's DPO and SPM. The trend in SPM is negative to and not correlated with DY.

This result corroborates the findings documented in the literature (e.g., Hartono, 2004; Al-Deehani, 2005; Uwuigbeet *et al.*, 2008; Naziret *et al.*, 2010; Agbetonyo *et al.*, 2019; Khan, 2019; Camilleri *et al.*, 2019) that dividend payout is a major determinant of SPM. This is also consistent with other scholars like Hussainey, *et al.* (2011), Habib *et al.* (2012) and Aiyabeiet *et al.* (2019). However, they contrast the Baskin (1989) theoretical model and Rashid and Anisur Rahman (2008). The findings also appear to be theoretically inconsistent with the results of Khan *et al.* (2018) and Pandey and Narayani (2019) amongst others that there is no relationship between dividend policy and SPM for firms listed at Nairobi Securities Exchange. Among the three control variables only firm size exhibited a strong association with its SPM. The larger the company, the more the likelihood of exposure to price instability of its shares. Our results do not show significant association of SPM with EPS and exchange rate risk.

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