The relationship between Interim Dividend Change and Share Price of Listed Firms at the Nairobi Securities Exchange in Kenya.

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DECLARATION

I declare that this research project is my original work and has not been previously submitted for award of a degree in this or any other university.

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DEDICATION

I would like to dedicate this project to my late father Maurice Odundo and my mother Rose Odundo for their financial support and their continuous encouragement throughout the course. To my sisters Lilac, Lorraine, Michelle, Stephanie and my brother Joseph, thank you for your endless support in this journey. Special thanks to my friends, Njoki, Brian, Ivy, thanks so much for your encouragement. Lastly, I dedicate this project to the Strathmore fraternity for regularly assisting us in propelling our careers.

ACRONYM AND ABBREVIATIONS

NSE – Nairobi Securities Exchange

CMA – Capital Markets Authority

EPS – Earnings per share

Anova – Analysis of Variance

ABSTRACT

One of the most contentious debates in finance history is on the influence of dividends on share price of listed firms. Key among the decisions considered on this issue is to determine how much dividends is to be paid to shareholders. Maximising shareholders wealth still is a critical factor and this study investigated how change in interim dividends impacts on share price and the influence it has on investor's wealth. It also sought to determine the relationship that exists between the two variables (interim dividends & share price). Using interim dividends as independent variable and stock price as a dependent variable, this research aimed at deriving a clearer conclusion on this topic that previous researchers have failed to agree upon. Secondary data collected from the Nairobi Securities Exchange for the period between 2014 and 2018 will be used in this research. Data analysis methods such as trend analysis and analysis of variance were also used to determine nature and strength the relationship respectively. This study is of importance because it guides managers and investors on the importance of interim dividends and the resulting effect it has on prices of shares. The researcher found a positive significant relationship between announcement of change in interim dividend and share price of listed firms in the NSE. The researcher recommended that further studies should be made regarding non- financial factors in firms that can influence the share price and also that they should increase the time period of their research for more comprehensive results.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF STUDY

Dividend policy is one of the most researched areas in the field of finance (Arnott, & Asness, 2003), (Farsio, Geary, & Moser, 2004). The dividend policy of a company is a major factor that investors look at when trying to decide on which shares to purchase. Rational investors usually place their focus on stocks that will multiply their investment while having the least possible risks. Researchers such as (Myers, 2003) and (McGuigan & Kretlow, 2003) argue that when a company pays dividends consistently, shareholders wealth is maximised. This causes dividends to be very vital in determining the demand for a firms shares. Firms are constantly faced with the dilemma of whether or not to pay dividends, and if paying, should they pay out cash or share dividends. This is due to the fact that cash dividends are subject to taxation by the Kenyan government which the organisation may seek to avoid in order to save on the costs of distributing profits.

On the other hand, share dividends are not subject to taxation, which makes them a better option if the firm is seeking to save on costs or is facing liquidity issues. Moreover, companies face situations where they choose to hold back current dividend payment hoping that the dividend pay-out will increase in the future. According to (Lintner, 1956) and (Gordon, 1959) shareholders have preference for current gains over long term gains and thus having an adverse impact on the companies' share price. This increases the complexity in structuring the dividend payments by management, because different investors have different views.

(Belke and Polleit, 2006) argue that a rise in central banks rate causes a rise in retained earnings of a firm thus influencing the payment of dividends. In such a situation, a firm can choose to withhold profit in order to reinvest it and maximize the wealth of the shareholders in the future period. This also results in payments of special dividends as a way of rewarding investors for providing capital. This in turn, boosts investor confidence and attracts potential investors to buy the companies' stocks.

In Kenya, it was made a prerequisite that for a firm to be listed in the Nairobi Securities Exchange, it must have a coherent dividend policy (Kenya Gazette Supplement No. 40, 2002). In relation to this, management must always ensure that the policy they use in structuring dividend payment is aligned with those stipulated before listing. Managers are constantly looking at current period retained earnings in order to determine the desired level of dividend to be paid to investors according to (Linter, 1956). They are also tasked with reviewing dividend policies in a bid to maintain share price. This then sends signals to investors on the performance of the company, thus attracting potential investors if the share price is stable hence resulting in increased value of the companies' shares.

However, scholars continue to come up with varying discoveries on whether dividends and the policies that form them, truly affect the share price or not. (Kamunde, 2011) analyzed the telecommunication firms listed in the NSE bourse and found out that dividend payment had no substantial impact on share price. Whereas, studies by (Kamangue and Ngugi, 2013) on unit trusts found a positive relationship between dividends and share price.

(Baker & Kent, 2009) mentions that dividend policy remains to be one of the most significant policies to apply when aiming to maximise shareholder's wealth. In this regard, this research intends to determine whether change in interim cash dividends have an effect on the share price of the firm and the overall value of the firm's stock.

1.1.1 NAIROBI SECURITIES EXCHANGE

The Nairobi Securities Exchange is one of the fastest growing stock markets in East Africa with close to 10 million in traded shares and 500 million in turnover of equity daily (Ayako, 2015). The NSE is a leading trading facility located in Nairobi that deals with listing equity and debt securities. The bourse enables companies to access capital easily. It consists of 65 listed companies spread across 14 different sectors. The NSE is regulated by the Capital Markets Authority (About NSE, 2019), a regulator established under Act of Parliament, Cap 485 tasked with licensing and monitoring market intermediaries. The CMA is a public company tasked with the duties of monitoring and licensing affairs that occur at the exchange and monitor the central depository system. (About Us, 2019). Firms listed in the NSE are actively involved in maximizing shareholder's wealth by paying dividends, both interim and final, and by trying to realize capital gains for their shareholders. In relation to this, the researcher intends to delve into the intrigues of the Nairobi bourse and find out more about dividends and how they are used by firms to control the share price.

1.2 PROBLEM STATEMENT

Investor behavior is widely witnessed in the securities market where they overreact or underreact to news in the market thus affecting the value of a firm's stocks. This is occasioned by the fact that a number of Kenyan investors do not have money to pay for financial advice, hence, they invest in the securities market without proper analysis. This in turn results into losses when securities do not provide the required return. Investors have with time, had to become quite alert to dividend announcements and the effects it has on share price. These announcements cause share price to either react positively or negatively (Nyabundi, 2013). Research by (Douglas & Frank, 2013), (Nyamosi, 2016), (Sharma, 2011) among others have only dwelled on final dividends as a measure of the change in share price. This research intends to dig deeper and use interim dividends in order to determine whether it has an effect on share price. The change, either positive, negative or no change will be included to determine whether there is a relationship with the share price.

Researchers (Nyamosi, 2016) and (Anwaar, 2016) continue to come up with varying conclusions on the relationship between dividend pay-out on the stock price of the companies. A study done by (Nyamosi, 2016) showed a positive relationship exists between paying of dividends and performance of the company as measured by regression analysis. On the contrary, research done by (Anwaar, 2016) revealed that dividends had no significant effect on share price of a firm. The researcher found out that net profit margin and return on assets have had significant relationship with stock returns whereas EPS has a significant negative impact on stock returns.

It is against this background that this study seeks to probe the effect of change in interim dividend policy on share prices in order to fill the research gap. This study is important because it will investigate whether the reason for contradictory findings between researchers on the effect of change in dividends on share price is due to the fact that they are only using the final dividends in their research. The researcher also intends to find out the benefits companies gain from offering interim dividends and the effect it has on the retained earnings. Current research does not seem to focus on interim dividends and its effect on share price, rather they focus mostly on final dividends and that is the purpose for this research.

1.3 RESEARCH OBJECTIVES

1.3.1 GENERAL OBJECTIVE

To investigate the effect of interim dividends on the share price of listed firms at the Nairobi Securities Exchange.

1.3.2 SPECIFIC OBJECTIVES

i. To analyse the change in interim dividends by firms listed in the Nairobi Securities Exchange.

ii. To assess the effect of interim dividends on the share return of listed firms at the Nairobi Securities Exchange.

1.3.2 RESEARCH QUESTIONS

i. What is the trend in paying out interim dividends by firms listed in the Nairobi Securities Exchange?

ii. What is the impact of interim dividends on the share return of firms listed at the Nairobi Securities Exchange?

1.4 SCOPE OF STUDY

The research will focus on all the firms listed at the Nairobi bourse. The Nairobi Securities Exchange was chosen because it is the main exchange in the researchers' home country. This study will include recent information from between 2014 to 2018 obtained from the Nairobi Securities Exchange. In addition, it will focus on the effect of change in interim dividends on the price of shares of listed companies in the Nairobi Securities Exchange. Methods used in the research will include both dynamic regression and correlation analysis. Modigliani and Miller, signalling and bird in hand theories will be used in the study. Measures such as share return will be used to determine the performance of stocks' prices and the impact interim dividends have on it. The research will make use of secondary data obtained from the Nairobi Securities Exchange and listed companies. The companies that did not trade for all the 5 years and those that were suspended were excluded from the study.

1.5 SIGNIFICANCE OF STUDY

Management

This study is of importance because it will assist the firms' management in understanding whether interim dividends are useful or not, and if useful, how they can be used to maximize shareholder's wealth through capital appreciation of the companies' stocks. In addition, this research seeks to assist management in recognising the best time to declare dividends, whether quarterly or semi-annually.

Investors

This research intends to assist investors in determining the best dividend paying stocks to buy in the Nairobi Securities Exchange. It will help investors identify the stocks that offer interim dividends hence enable them to mitigate risk of incurring loses when the stock prices decline.

Capital Markets Authority

This study is going to investigate on the areas that need more regulation with regard to interim dividend policies and pay-outs and assist the regulator in knowing the areas to tighten the noose.

In addition, the study will look into the relationship between the change in interim dividend and stock price, and form a clear conclusion as to whether positive, negative or no change in dividends has an overarching effect on share price.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This section will focus on the theories encompassing dividends and analyse past studies on dividends and share price and explain the variables used in this research.

2.1.1 Dividends

These are distribution of profits paid by companies to shareholders. There are two types of dividends:

- Cash dividends.
- Stock dividends

Dividends can either be final or interim, that is, payment of profits annually at the end of the financial year or within the financial year respectively (Nyamosi, 2016).

2.1.2 Interim dividends

These are dividends that are paid to investors within the financial year of a company. They are usually paid before an annual general meeting. Interim dividends are paid from the retained interim earnings of the firm. There are different forms of interim dividends. These are: cash dividends and share dividends in terms of share buy backs. (IASB, 1998). Interim dividends does not only have positive and negative change but also remain constant. Some companies also choose not to pay interim dividends altogether. (Agyei & Marfo-Yiadom, 2011)

2.1.3 Share price

This is the price of a single share of a company. In the NSE, it is traded in the Kenyan shilling. The price of a share is determined by dividing the value of the company with the total number of shares being issued. Companies with high value, more often, possess a higher share price than others. This phenomenon results in what is commonly known as large cap and small cap shares. Determining the market capitalization requires multiplying price per share with the total number of shares. Large firms generally have large caps and the inverse is true. It results in different investment decisions whereby investors with high risk appetite take on small capitalization stocks in a bid to seek greater return while risk averse ones take on large capitalization stocks. (Abdolmohammadi, 2005).

2.2 THEORETICAL REVIEW

This section will review existing theories on dividend policy and shed light on where the various theories have been applied around the world in order to help create a clear conclusion on whether change in interim dividend announcement affects share price.

There are two main schools of thought when it comes to dividends. Firstly, the theories that state that dividends have an impact on the value of a firm and secondly is that dividends have no impact on firm value, that is, dividend irrelevant theories.

2.2.1 MILLER AND MODIGLIANI'S THEORY

Two scholars, Merton Miller and Franco Modigliani came up with one of the most impactful theory a dividend irrelevance theory that expressed that dividends had no impact on the stock prices (Miller & Modigliani, 1961). It was centred on dividend policy, growth and valuation of shares. The theory assumes that investors are rational and that all dividend policies are equal. Therefore, a firm's decision on which policy to implement will not have an influence on the shareholders wealth. Moreover, it assumes that with perfect market conditions such as perfect information, companies share price will be autonomous and not affected by changes in payments of dividends. Therefore, stock prices fully reflect information available in the market and prices react only to information that is readily available. Emphasis was placed on the assertion that the worth of a firm's stock will be determined by its capital investment decisions. The scholars argued that investors placed more importance on capital gains than dividends thus defending their argument that dividends are irrelevant in relation to a firm's share price. Further claims were made that individuals who are seeking income can just sell their equity shares instead of anxiously anticipating dividend payments. The theory concluded that management should not centre their attention on dividend payments as it has no impact on the value of the company but it should focus more on the sources of cash flows. However, the theory states that unless the conditions for a perfect market are not met, dividends will affect the share price. Some of these conditions are information is equally available to everyone, there are no agency or floatation costs and no taxes or equal taxation on dividends and capital gains.

2.2.2 BIRD IN HAND THEORY

Gordon (1963) came up with the bird in hand theory that states that investors have a preference for dividend payments now as compared to future capital gains which are uncertain. This theory supports the relevance of dividends, in that, it agrees that dividends have an impact on the share price of a firm. The scholars assert that although dividends are taxable income, management still pays out dividends in order to boost investor confidence and portray that the company is performing well. This will in turn result in greater demand for the firm's equity and thus raise the share price hence raising the value of the firm. Risk averse investors would be active in the purchase of such stocks since they place a high value on stocks that pay dividends. Gordon assumed that the market is imperfect, thus investors do not have adequate information. This then causes higher demand for dividend paying stocks since dividends act as a cushion in preventing losses in the event that the share price of the firm drops. In addition, the theory assumes that tax on capital gains is at a lower rate in comparison to the tax on cash dividends. It also proposes that the value of future dividend payments are communicated by the current value of the shares. This theory may be used by managers in determining the amount of dividend to pay or whether to retain earnings for future investment. All this will be evaluated with a view to grow the stock price of the organisation. Moreover, the theory assists management in determining the optimal dividend pay-out ratio that will maximise shareholders wealth. The bird in hand theory has short comings since in reality, the risk of a stock is determined by the firms' cash flows, since dividends are paid from the retained earnings. Thus, if the firm is facing liquidity issues, raising the amount of dividend payments may not result in buying of the stock by rational investors.

2.2.3 SIGNALLING THEORY

This theory was formed by (Bhattacharya, 1979). It states that an increase in dividend payments will be an indication of greater future returns for an investor. This thereby prompts one to purchase the shares. Therefore, management may use dividend declaration as a way to signal to investors about the performance of the company. Investors on the other hand, use these dividend declarations as a means of evaluating a stock especially when there is imperfect information in the market. It proposes that companies that pay high dividends are more profitable than those paying smaller dividends. In addition, the theory assumes that dividends are taxed highly compared to when there is capital appreciation and that companies still pay out dividends to send a positive signal despite the tax obligation. Moreover, the theory also assumes that the market is imperfect where information is not available to all investors and transaction and agency costs exist. Signalling theory suggests that when managers increase dividends, they are communicating to investors of a foreseen future increase in earnings of the firm, since managers have inside information of the companies' performance. Dividends are therefore used as a means to get rid of the imperfect information. The shortcoming of this theory is that it can be used to deceive investors of greater future financial growth in returns yet in real sense, the company is facing liquidity issues.

2.3 EMPIRICAL STUDIES

The story of dividend relationship with share price has been a long and contentious one. It dates back to 1956 where Lintner suggested that dividends do have an impact on share price. To date the question on whether share price and worth of the firm are influenced by dividend payments still begs. In this section, the researcher is going to take you through an in depth view of the studies that have been done in this area and seek to point out the similarities and variations. This will be done with an intent to form a clear conclusion on this topic.

Researchers (Chen, Huang & Cheng, 2009) studied the reaction of dividends on share price and they arrived at the conclusion that share price had a substantive reaction to dividends. This study was carried out between the years 2000 and 2004. The research was done in China on all the A-listed firms in the Chinese stock markets. The study found a mutual relationship between dividends and share price. It was revealed that when cash dividend, in specific increase, stock prices also increase. The inverse was true that when cash dividends decrease, stock prices also decrease. Similarly, research conducted by (Zakaria, Muhammad and Zulkifli, 2012) in Malaysia concluded that dividend pay-out greatly influenced changes in share price. Moreover, a study done on 29 firms quoted at the NSE by (Matoke & Marangu, 2014) found out that stock price of the firms that paid dividends had a strong relationship with the cash dividends. This study pivoted on the impact of dividend payments on performance of the listed firms.

On the contrary, an inverse association was established between dividend payment and stock market price by (Sharma, 2011). The researcher argued that, at the time the information in the market was perfect hence share price adjusted automatically to available information. This rendered the argument of dividend affecting share price null and void. The study was conducted in India. It notes that dividend announcements have no resulting impression on share price. (Ali & Chowdhury, 2010) studied banks in the Dhaka Stock Exchange, one of the stock exchanges in Bangladesh. The study done on the private banks showed that stock prices of 8 banks remained constant, 6 banks went up while that of 11 banks decreased after announcements of dividend payments. The researchers found that cash dividends have an insignificant impact on stock prices. This conclusion was also accredited to insider trading by brokers thus causing dividend announcements to be inefficient. Another study done by (Bitok, 2011) suggests that announcements of dividends have no effect on share price. However, it is the shareholders reactions to these announcements that affect the share price. Shareholders may overreact and sell shares following a decline in dividends thus reducing demand for the stock, hence the stock prices decline. Therefore, shareholders analysis was known to be the determiner of the share price and not dividends.

A study conducted in Istanbul on dividend change announcements by (Selcuk, 2010) found that an increase in dividend pay-out results in increase in share price. The market was said to have an optimistic reaction to the rise in dividend pay-out. This was because investors believed that the increment in dividends would result in higher earnings in the future. The study focused on 184 announcements amongst 46 companies. In agreement with this (Shisia, Sang, Sirma, & Maundu, 2014) conducted a study of dividend policy on stock price and they discovered that a unit increase in pay-out of dividends resulted in an increase in share price. They advised that companies seeking high stock performance should pay higher dividends since investors are loyal to companies that pay high dividends. Similarly (Douglas & Frank, 2013) concluded that announcement of increase in dividend influenced the rise in share price of 15 firms quoted at the New York Stock Exchange. This study was carried out between November 2008 and July 2012.

The researchers suggested that managers should continue paying cash dividends since the rise in dividend pay-outs, were attracting more and more investors. Study done by (Andres, 2011) found that there was a significant relationship between share price and dividend announcements. It states that investors were excited when an increase in dividend was announced, hence resulted in a rise in share price. The study was conducted in Germany. A similar study on impact of dividend payments on share price was done in Ghana by (Attah-Botchwey,2014) and it found out that when listed firms announced an increase in dividends, there was pressure on the stock price due to increased demand, thereby, causing the share price to increase. The study focused on how dividends assist shareholders in making rational decisions. It was carried out on listed companies at the Ghana Stock Exchange. The findings concluded that firms that pay lower dividends have lower share price. (Khan, 2012) carried out a study in Pakistan on firms listed at the Karachi Stock Exchange (KSE). The study aimed at establishing whether share prices are influenced by cash dividends. It found that there is a significant positive relationship between the two variables. (Yang and Wu, 2014) studied impact of declarations of dividends on stock price of firms listed in the Taiwanese market. The study reported a positive relationship especially on periods after the ex-dividend date.

(Selcuk, 2010) studied market reactions to declarations of dividends and they found a positive relationship between declarations of decline in dividends and drop in share price. That is, decline in dividend payments resulted in a reduction in share price. The study was carried out in Turkey on the announcements of 46 companies. It stated that, the Turkish market reacted negatively to decreases in dividends. Researchers (Günalp, Kadıoğlu and Kılıç, 2010) studied 83 companies quoted in the Istanbul bourse and concluded that there is a substantial negative relationship between cash dividends and share price. The research was conducted on 321 dividend announcements of the listed companies and made use of least square regression method. (Hussainey, 2011) studied pay-out ratio in relation to share price. In the study, the researcher found a significant negative relationship between stock price and dividend pay-out. (Campbell and Ohuocha,2011) found that for firms whose share is traded less often, it will experience low share price if they announce reduction in dividends especially outside the announcement window made by the Nigerian Stock Exchange.

In addition, (Muriuki, 2010) found a static relationship between dividends and share price when he used a constant pay-out ratio. He found out that share price declines when the dividend payments remain constant.

In summary, different researchers, have come up with varying findings. On one hand, there are those that propose that dividend declaration and payment have an effect on the share price, (Khan, 2012), (Matoke & Marangu, 2014), (Zakaria, Muhammad and Zulkifli, 2012) whereas on the other hand, researchers found that the relationship is insignificant (Selcuk, 2010), (Hussainey, 2011), (Bitok, 2011).

These previous studies have made use of final dividends as part of their research and are still resulting in differing conclusions. This study is going to make use of interim dividends in order to determine whether announcement of change in dividends affects the share price or not. Interim dividend will be used in a bid to determine a clearer conclusion on this relationship.

2.4 Conceptual Framework

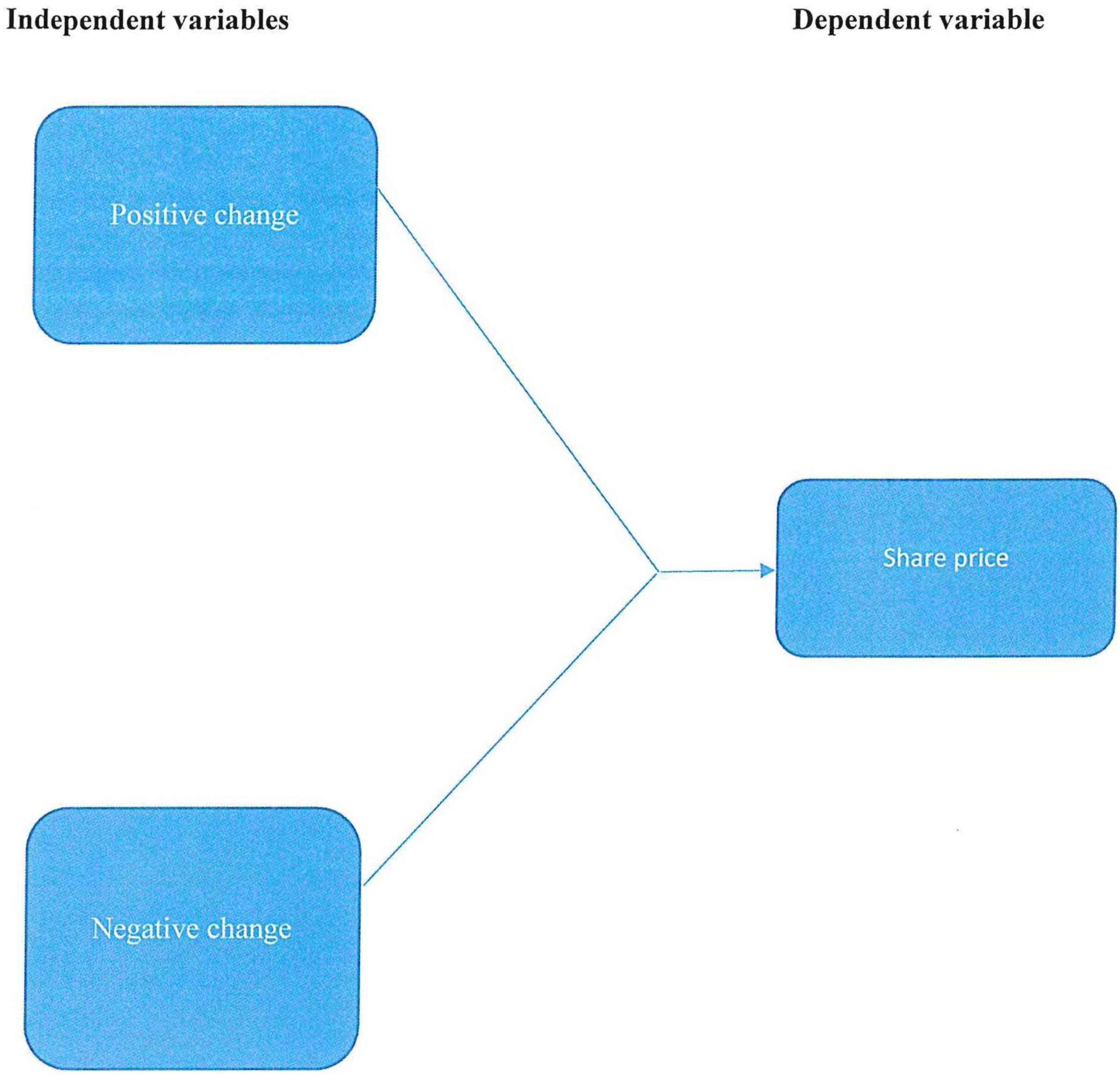

Figure 2.0: Conceptual Framework

2.5 OPERATIONALIZATION OF VARIABLES

This research will incorporate a variety of variables that seek to determine the effect on stock returns. They include:

i. Share price. Total share return will be used to measure the change that has been experienced in the share price overtime. In this research, share return will focus on capital appreciation, both in terms of capital gains and in cash dividends. This research will use the ex-dividend period date to determine the growth in share price. It will be measured by calculating the difference between the purchase price and current price. Dividends will then be added to the resulting value and, thereafter, divided by the original purchase price. The answer will then be multiplied by 100 in order to determine the percentage change in share price.

$$\text{Share return} = \frac{(\text{Current price} - \text{Purchase price}) + \text{Dividends}}{\text{Purchase price}} * 100$$

ii. Interim dividends. The change in dividends will be collected and used to analyse relationship with share price using correlation analysis. Dividends can either have positive change, negative change or no change at all.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter will consist of the research design to be used by the researcher. It will also contain the data collection method, population of the study, sampling design and data analysis.

3.2 Research Design

This study took up event study research methodology as done by (Otieno, 2013). It sought to investigate the effect of interim dividend announcements on share price of all listed firms at the NSE for the period between 2009 and 2018. The study will probe the impact of interim dividends on share price through the use of trend analysis and analysis of variance. The sample cuts across six sectors of the Kenyan economy. This design is similar to one used by (Kibet, 2016)

3.3 Data collection

Cross-sectional data on share price and dividends per share was used in this research. This research made use of secondary data, that is, audited financial statements of listed companies that will be collected from the sampled company's websites and information on share price will be collected from the NSE website. Data on share return was collected and formed the input for determining whether interim dividend's influence on share price.

3.4 Population of the study

The target population for this research was all the 67 listed companies at the Nairobi Securities Exchange. (Listed companies, 2019). The populace consists of firms from 13 sectors of the Kenyan economy. These sectors include agricultural, banking, commercial and services, construction and allied, energy and petroleum, insurance, telecommunication and technology among others. The research will make use of the audited financial statements of these firms from 1st January 2014 to 31st December 2018. This time period can be justified by the numerous events that have happened at the bourse over the years. For example, the admission of Commercial bank of Africa as a trading participant or the Initial public offering by the NSE itself on 23 July 2014 (History of NSE , 2019).

3.5 Sampling design

The sampling style involved purposive sampling. The sampling was heterogeneous, having studied 17 of the listed companies. This sample was adequate for the research since it excluded companies that had been suspended, delisted or recently listed, for which the information is not available. The sample is also justified because it incorporated firms from diverse sectors of the economy. Similar research done by (Kibet, 2016) applies this kind of sampling.

3.6 Data analysis

Analysis such as trend analysis and analysis of variance (Anova) was used in this research to determine whether or not interim dividends affect share price. Anova was also used to determine the strength of the relationship between interim dividends and share price while on the other hand, data collected was organised and used in the trend analysis as taken up by (Kiprop, 2017) because this approach gives a more elaborate and clear outcome (Lee, 2010). Variable factors such as share return was collected for ten days before announcement and ten days after announcement and was subjected to a t-Test for a pair of two sample for means. The data was then arranged in charts and tables to present a visual representation of the trend of interim dividend pay-outs. This gave a clear conclusion as to whether announcements of change in interim dividends of either positive or negative status, have an impact on prices of stocks of listed companies.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter displays secondary data that was collected and analysed during the study and the results that were derived. The chapter consists of three sections, which are: sample representation, results on the change in interim dividend and the effects of interim dividend change on share price return.

4.2 Sample representation

The study was done on 17 out of 67 listed companies in the population. The number of companies studied reduced since there was unavailability of data regarding interim dividends for the companies not covered by the study during the period 2014-2018. The companies studied were from the following sectors: 35% from banking, 23% from manufacturing & allied, 12% from construction & allied, 12% from energy & petroleum, 12% from commercial and services and 6% from agricultural sector as represented in Table 4.1.

Sector	**Percentage (%)**	**Number of Companies**
Banking	35	6
Manufacturing & Allied	23	4
Construction & Allied	12	2
Energy & Petroleum	12	2
Commercial & Services	12	2
Agricultural	6	1
Total	100	17

Table 4.1: Sample presentation

4.3 Change in interim dividend

To analyse the change in interim dividends, data on company returns and market returns was collected. It included share returns for ten days before announcement of interim dividends and ten days after announcement of the interim dividends. This data was then used to compute the abnormal returns of the company's stocks. The average abnormal returns were compared with the periods before, during and after the announcements in order to find out how the share returns were affected by a change in interim dividends as observed in Figure 4.1. This study observed 52 interim dividend announcements of the sample companies. Data of share return was then obtained ten days prior and ten days after these interim dividend announcements of each company.

Figure 4.1: Change in interim dividend 2014-2018

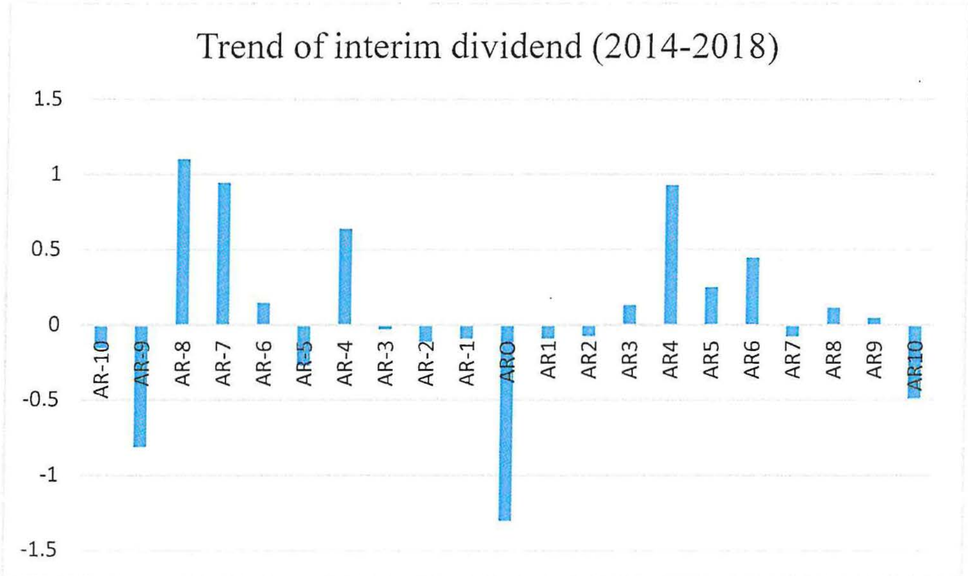

Figure 4.1: Change in interim dividend 2014-2018

From figure 4.1, it is observed that share returns fluctuate periodically due to the market forces of demand and supply. This is supported by the fact that on both day 9 and 10 before announcement i.e. (AR-9 & AR-10) respectively, it can be noted that share returns were low. However, on day 7 and 8 before announcement the share returns were as high as 1. The share return then kept fluctuating between the negative and positive marks during the 10 days that preceded interim dividend announcement. During the date of announcement, average abnormal share return was observed to decrease to close to -1.5. The average abnormal return gradually increased after announcement of interim dividends to as high as 0.93 for the ten day period after announcement as observed in the chart.

4.4 Interim dividend on the share return

The effect of change in interim dividend on share return was obtained by calculating the average abnormal return ten days before announcement and ten days after announcement. This data was then subjected to a t-Test of the two samples, that is, 10 days before and 10 days after for the period 2014-2018. This was done to determine whether there was any overall effect on share price after announcements of interim cash dividends.

4.4.1 Test for multi-collinearity

	Variable 1	*Variable 2*
Mean	0.138279	0.11986
Variance	0.348274	0.141738
Observations	10	10
Pearson Correlation	0.419435	
Hypothesized Mean Difference	0	
Df	9	
t Stat	0.105705	
P(T<=t) one-tail	0.459068	
t Critical one-tail	1.833113	
P(T<=t) two-tail	0.918135	
t Critical two-tail	2.262157	

Table 4.2: t-Test: Paired Two Sample for Means

From table 4.2, it is observed that the mean of the abnormal returns of the companies' stocks reduced after announcement of interim dividends from 0.1383 to 0.11986 indicating that the overall abnormal share returns of all the firms reduced after announcement. The variance of abnormal returns also reduced from 0.3483 to 0.1417. Correlation of the returns before announcement and returns after announcement was at 41.94%. Results indicated that (P>0.05) suggests that there is a significant relationship between interim dividends and share price. This occurred when using one tail (data before announcement) and also two tail (both before & after announcement).

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter will include findings, conclusion and recommendations. It will review and compare the findings with those indicated in the empirical studies. It will also discuss the results in line with the objectives that were set out, which are: analysing the changes in interim dividend (trend) and the effect of interim dividend change on share price.

5.2 Discussion

This study sought to establish the effect that change in interim dividends announcements had on share price of firms listed at the NSE. The objectives of this study included analysing changes in interim dividend and the effect of interim dividend change on share price

5.2.1 Change in interim dividend

As represented in figure 4.1 above, the average abnormal returns of shares can be observed increasing steadily after announcements of interim dividends. This indicated that there is an overall demand in shares of a company after dividends are announced, thus resulting in increase in share price which in turn results in a rise in share return for the investor. This finding was in agreement with that of (Selcuk, 2010) who indicated that the Istanbul investors would react positively to an announcement of dividends thus overall share return would increase. This would occur because investors would buy the shares of these companies that paid out dividends, with the hope that the share return would be greater in future.

This finding was also consistent with that of (Chen, Huang & Cheng, 2009) who studied announcement effect of cash dividends on share prices in Chinese stock markets. The researcher found that a positive significant relationship exists between the share price and dividend announcements. (Chen, Huang & Cheng, 2009) conclusion is synonymous with this studies' findings in that it observed an increase in share prices when dividends are announced.

5.2.2 Interim dividend change and share price

As indicated in table 4.2, the overall mean of the firms share return after dividend announcements reduced. This could be attributed to the decrease in amount of dividend paid out in comparison with the previous interim dividend paid out. It indicated that a decrease in interim dividend payments results in a decrease in share price of a firm. The ($P>0.05$) indicated that there is a significant relationship between interim dividends and share price. It explained that there is no significance between share returns before announcements and after announcements. This informed the researcher that the share price was responsive to announcement of interim dividends since returns after announcement were not similar to returns before announcement.

This finding concurred with that of (Kiprop, 2017). The study had a p value of 0.8321 ($P>0.05$) that also suggested that an announcement of cash dividends had a positive significant effect on the share price of listed firms at the NSE. It stated that a decrease in the amount of dividends resulted in a similar decrease in the share price and share returns of firms. Similar conclusions were found by (McGuigan & Kretlow, 2003). They found that the more a company consistently and progressively pays out dividends, the share price also increases. This asserts our findings that change in interim dividends has an effect on share price of the firm.

5.3 Conclusion

The first objective in this study was to analyse the change (trend) in interim dividends. From the findings, the researcher concluded that announcement of change in interim dividends resulted is very essential to companies. It was found that firms were very unwilling in reducing the interim dividends as it sends a negative signal to investors that the firm is facing financial constraints. On average, the interim dividends for most firms increased periodically with a few of them keeping interim dividends constant.

Other firms completely chose to not pay out interim dividends to shareholders and were excluded from the study. This may be due to insufficient retained earnings, shareholder's decision, legal implications, debt agreement or the companies' dividend policies.

The second objective was to establish the effect of interim dividend change on share price. The researcher arrived at a conclusion that announcement of change in interim dividend had a significant effect on the share price of firms. The increase in amount of interim dividend paid out resulted in an increase in the share price. The inverse was also true. The findings in the study were in tandem with the Signalling theory, in that announcement of interim dividends resulted in increased returns for shareholders since it signalled that the future earnings of the firms would increase. Moreover, the study also supported the Bird in hand theory evidenced by increased share returns, showing that investors prefer current dividend payments to future capital gains.

5.4 Policy Implications and Recommendations

This study will enable investors to be rational in terms of the firms that they choose to invest in. It advocates for investors to buy shares in firms that pay interim dividends in order to increase the return that they obtain from the stock market. Investors will have the advantage of obtaining current rewards through interim dividends and also capital gains from the sale of shares. This will result in maximum wealth maximization.

This study also recommended that firms' management place huge focus on interim dividends as a way of increasing shareholders wealth which is their fiduciary duty. In doing so, the value of the company will also increase and this will cause the firms shares to be in high demand and potentially enables the firm to raise more capital when it issues another public offering. Penetration into new markets will be very easy due to availability of capital and moreover, it increases the reputation of the firm.

This study recommended that the Capital Markets Authority should provide a framework for companies on payment of interim dividends and also for potential investors who seek to win big on interim dividends but could not because of the ex-dividend date. Perhaps, they could be able to purchase the stocks at a premium in order to obtain the interim dividends.

The researcher also recommended that future researchers increase the time period of their studies in order to obtain more comprehensive results. In addition, they should include positive and negative change of the interim dividends in their studies in order to form clearer observations. Moreover, researchers can conduct a qualitative study and form insight into investors view on the factors considered when evaluating companies that pay interim dividends.

5.5 Limitations

Restrictions such as inadequate information with regard to interim dividends were faced. This is because a good number of listed firms do not pay interim dividends, therefore, the researcher had to exclude them from the study. Another restriction is that non-financial factors such as mismanagement, competition, government influence can affect the investors' decisions that in turn affect the share price. Thus, interim dividend change would not be the main factor affecting share price of such a firm. Researchers can look into how non- financial factors in a firm influence the share price as further areas of study.

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APPENDIX 1: FIRMS INCLUDED IN THE STUDY

CONSTRUCTION & ALLIED	**BANKING**	**AGRICULTURAL**
BAMBURI CEMENT	BARCLAYS BANK	SASINI TEA & COFFEE
E.A CABLES	STANDARD CHARTERED BANK	LONGHORN PUBLISHERS
MANUFACTURING &ALLIED	I&M BANK	**COMMERCIAL & SERVICES**
BRITISH AMERICAN TOBACCO	STANBIC BANK	NATION MEDIA GROUP
EAST AFRICAN BREWERIES LIMITED	KENYA COMMERCIAL BANK	**ENERGY & PETROLEUM**
B.O.C KENYA	NCBA BANK	KENYA POWER & LIGHTING COMPANY
CARBACID INVESTMENTS		KENOLKOBIL

Interim Dividends on Share price

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