STRATHMORE UNIVERSITY

Mcom Programme

DETERMINANTS OF DIVIDEND POLICY IN LISTED COMMERCIAL BANKS IN KENYA.

Thesis submitted in partial fulfillment of the requirements for the award of the degree of Master of Commerce (Finance) by Strathmore University.

By MUTISO, Fredrick Mulwa- FOC /047521/06

JUNE 2010

STRATHMORE UNIVERSITY LIBRARY
9131

DIVIDEND POLICY DETERMINANTS

DECLARATION

I declare that this thesis is my original work and has not been submitted to any other college or university for academic award. Other sources have been acknowledged by explicit references.

Signed .....
FREDRICK MULWA MUTISO (FOC-047521/06)

Date .....

This thesis has been submitted for examination with my approval as the Strathmore University supervisor

Signed .....
Prof. Nelson Waweru PhD, CMA

Date 18th May 2010

ABSTRACT

This study examines the determinants of corporate dividend policy within the listed Commercial Banks in Kenya using a paired approach of statistical analysis and questionnaire survey tool. The study spans the period to 2007 from 1998 using information collected from the financial corporate managers and secondary sources of the listed Commercial Banks. The variables and the predicted associations used in the statistical analysis are derived from the prior literature. Both the regression model output and the respondents supported profitability and liquidity as key determinants of the dividend policy. Debt and investment, even though explicitly supported by the respondents, do not appear as significant from the regression output. Size was ranked as explicitly insignificant or weak by both the respondents and the regression analysis.

Dividend policy decisions seem to be supported by clientele effects, signaling, and agency costs theories. Agency cost theory seems to offer remote support to the pecking order and the bird-in-the-hand theories. However, given that taxation on dividend income is a paltry 5 percent and a final tax, the tax clientele does not seem to contradict investors' desire for regular cash dividends. The study finds no potential justification for the dividend irrelevant theories as the interrelationships between investment, financing and dividend policies find overwhelming support.

The study contributes that the empirical findings that profitability and liquidity are significant determinants of dividends, applies to the commercial Banks listed on the NSE as well. Owing to the findings that dividend policy decisions have information content, can affect firm value and in turn or directly affect the wealth of shareholders the dividend policy is worthy every attention by senior management and Board.

TABLE OF CONTENTS

Chapter One

1.0 Introduction 1

1.1 Subject Background 1

1.2 Problem Definition 4

1.3 Research Objectives 7

1.4 Research Questions 7

1.5 Scope of the Study 7

1.6 Justification of the study 8

Chapter Two - Literature Review

2.0 Introduction..... 10

2.1 Dividend Models/Theories 10

2.1.1 Symmetric Information Models 12

2.1.2 Asymmetric Information Models 18

2.2 Other theories & collaborative Literature 22

2.3 Hypotheses Development..... 32

2.4 Theory conclusion..... 38

Chapter Three - Research Methodology

3.0 Introduction..... 40

3.1 Research Design 40

3.2 Population 42

3.3 Data Collection 43

3.4 Data Analysis..... 43

Chapter Four – Results and Findings

4.0 Introduction..... 45

4.1 Regression Analysis..... 45

4.2 Questionnaire Analysis..... 46
4.3 Hypotheses Testing..... 53
4.4 Summary of Major Findings..... 55

Chapter Five

Discussions, Conclusions, Limitations & Recommendations

5.1 Introduction..... 56
5.2 Summary..... 56
5.3 Discussion..... 58
5.4 Conclusions..... 60
5.5 Limitations..... 61
5.6 Recommendations for Policy Makers..... 61
5.7 Recommendations for Further Research..... 62
References..... 63
Appendix1 Letter of Introduction..... 71
Appendix 2 Research Questionnaire 72
Appendix 3 Listed Commercial Banks..... 75

List of Tables

Table 1.1 Authors For/Against various dividend theories.....6

Table 2.1 A summary of relevant prior empirical research..... 30

Table 2.2 A summary of proxy variables and hypothesized predictions..37

Table 4.1 Correlation Matrix of Regression variables.....46

Table 4.2 Analysis of Questionnaire Part I.....48

Table 4.3 Analysis of Questionnaire Part II.....51

Table 4.4 A summary of Regression variables associations.....53

CHAPTER ONE

1.0 Introduction

Black, (1976); in his study described issues on dividends as a puzzle, "The harder we look at the dividend picture, the more it seems like a puzzle, with the pieces that just don't fit together. What should the corporation do about dividend policy? We don't know". This was true then as is now! Almost two decades later Baker, Veit, & Powell, (2002 p.255), conclude, "Despite voluminous amount of research, we still do not have all the answers to the puzzle". Dividend policy remains one of the more perplexing issues in corporate Finance. Studies on the subject branch into two, those that investigate the impact of dividends on valuation and those which attempt to explain the dividend policy in practice. This study belongs to the latter group. Several studies on the dividend theories that help explain the respective payout or no pay policies have been done on the developed and to some limited extent on emerging markets, but little seem to exist for the Listed Commercial Banks (CBs) in Kenya as a developing market, hence the subject matter of this paper.

The paper briefly starts with a review of the historical background of dividends, relevant mainstream theories and the variables that inform dividend decisions by corporate managers is an appropriate preamble to discuss the question; what are the determinants of dividends and the possible theories that help to explain the decision process in the listed CBs business environment. Details of the research methodology and data collection will follow. The penultimate section will contain analyses and results followed by the conclusions of the study, limitations and areas for further research in the final section.

1.1 Historical Background

The word "dividend" comes from the Latin word "dividendum" meaning "the thing to be divided", (Harper, 2001). Credit unions use the term "dividend" for interest payments or profit-sharing payments to their members. As defined by Frankfurter & Wood, (2003), a dividend is a distribution of a portion of a company's earnings (current or past) recommended by management, ratified by the board of directors, and approved by shareholders at an annual general meeting (AGM), to a class of its shareholders. A

dividend distribution can be in the form of cash, shares, properties, or in other forms of financial assets. Whatever the form the distribution of earnings takes; it has an impact on what is retained for reinvestment opportunities available to the firm and on the receiver (shareholder) in terms of tax efficiency, preferences and available investment options.

The dividend policy outlines the framework within which dividends are to be managed covering details of whether to pay or not, what frequency, the modes and types or combinations and indeed the scheduling of events. The policy takes into account the agency relationship between managers (insiders) and the "outside" shareholders, since managers or directors could be shareholders. Dividends are public promises and breaking them could be both embarrassing to management and damaging to share prices states Frankfurter et al., (2003). Graham & Dodd, (1934), posits that increasing dividends is a low cost instrument for restoration of investor confidence. Dividend cuts and/or reductions are deemed as bad news, suggesting impending financial doom. This incongruity was referred to by Black, (1976, p.5) as the "dividend puzzle". Black based his thoughts on a rational investor and advanced his theory to state that high yielding shares are both attractive and safe. The economic person rationality is however not always applicable, mass irrationality could exist. Thus admitting the reality of the words of T.H. Huxley, "the great tragedy of science is the slaying of a beautiful hypothesis by an ugly fact". The investor rationality premise has been challenged in many a fora but the puzzle is yet to be resolved despite the advent of behavioural finance into the subject of dividends and share prices.

Linter, (1956), finds management reluctant to increase dividends unless they feel that they can support the increase indefinitely in the future. However, Black, (1990, p.5), foretold the disappearance of dividends: "I think dividends that remain taxable will gradually vanish". But the bird-in-the hand theory proponents posit that owing to uncertainty in the future investors prefer dividends now than the uncertain capital gains. Fama, (1999), in his article in the Economist, disagrees with the theory submission and ascribes that paying dividends is a signal that there is nothing better to do with the money. Miller & Modigliani, (1961),

(MM) submitted that the dividend policy decision is unrelated to financing and investment decisions in their dividend irrelevant theory. This has since been challenged. Peterson & Benesh, (1983), submit that owing to market imperfections (frictions) investment and dividend decisions are interrelated. Indeed the "full payout" proposition by DeAngelo & DeAngelo, (2007) compliments the interdependency submission assertively and continues to echo the significance of dividend policy in corporate financial management.

La Porta, Lopez-de-Silanes, Shleifer & Vishny, (2000a), offers the legal system variable by suggesting that dividend policy variations across countries are explained by differences in their legal systems. They found that firms in countries with better shareholder protections (Common Law) made higher dividends payout than those in civil law countries. Dividend policy for many regulated firms differs from their non-regulated counterparts. Rees, (1997), Aivazian, Booth & Clearly, (2003), in their UK study demonstrates a positive relationship between profitability and the ratio of dividends to total assets for a wide cross-section of emerging markets. Pandey, (2001), suggests that low profitability of Malaysian firms in the services sector is associated with low dividends. However, a low dividend supports asset growth by reducing the financial pressure caused by dividends, Myers, (1984). Adedeji, (1998), in his study on UK submits that prevalence of a financial risk may suggest that firms ought to pay out higher dividends to investors in order to compensate for the risk.

In my experience, having being in the banking industry for over ten years, Kenya as a developing market does not appear immune from the paradox of the dividend policy indeed may be subscribing to the "full payout" doctrine as posed by DeAngelo et al., (2007). For example, Kenya Commercial Bank Limited declared dividends of Kshs 1.4billion in 2007 but later in 2008 went to the market to raise capital of Kshs 5.5billion as per the information bulletin to the Capital Markets Authority. As per its 2009 financial statements and notice to the AGM, the bank proposes a dividend payout of up to Kshs 2.2 billion and yet it intends to go the Capital Markets to raise not less than Kshs

15.5billion in both debt and equity. Barclays Bank of Kenya Limited whilst struggling to meet the regulatory liquidity levels of 20 per cent and borrowing in excess of Kshs 8billion from the Central Bank and other financial institutions in 2007 also went ahead and declared a dividend of Kshs 1.65 per share as per published financial statements for the year ending 2007. Equity Bank's rapid growth and aggressive dividend payout since listing, has had to be sustained by private capital injections and share swaps for a share in Uganda Microfinance Limited (UMFL) at 16 times the P/E as per the Banking survey Journal ,2008.

This study will therefore seek to identify what guides the dividend policy practices from literature review, what dividend theories explain the dividend payout, and to what extent are the determinants statistically interrelated amongst the listed CBs on the Nairobi Share Exchange (NSE). Listed Commercial Banks have been selected as the focus of the study as they are critical to the financial economy as per the NSE information bulletins; the secondary data is readily available and reliable. Further, the entities constitute significantly to the market capitalisation and indices. Owing to their vital role in the monetary policy regulations the Central Bank exercises strict oversight on the capital management of all Banks listed or not. Globally this is being driven under the Basel II/III conventions and Kenya is not being left out due to correspondence banking relations and multinational subsidiaries.

1.2 Problem definition

Theories on dividend policy lead to conflicting conclusions. There are those researchers who advocate that dividends are irrelevant to the financing and investment decisions led by the seminal works by Miller & Modigliani, (1961), others believe that dividends are relevant and not residual to the financing and investment decisions this pack is led by Linter, (1956), and Litzenberger, (1982), among others. The other group led by Harkins, (1971) and Peterson et al., (1983) advocate a trade off amongst the key business decisions and dividend payout. Research on the subject continues by various researchers in markets at different stages of maturity and in different jurisdictions as detailed in the literature

review and summarized in table 1.1. It is therefore not yet clear what determines the dividend policy as was surmised by Baker et al., (2002). Further, most of the research works available have focused on the developed markets which have a different market environment affecting dividend policy. Country specific differences in culture, information disclosure requirements, taxation, and ownership structure influence the dividend policy.

The NSE portrays empirical results consistent with weak-form market efficiencies of the Efficient Market Hypothesis (Muragu, 1990), hence the need for further development on the market efficiencies and investor awareness in the Kenyan business environment. Regulation on the industry focuses on liquidity, protection of customers' deposits, and financial risk management (Banking Act Cap 488) but none directly deals with matters of dividend policy other than imposing mandatory restriction prior to payment. Given these market disparities and economic as well as regulatory deviations it is therefore necessary to research into the determinants of the dividend policy in the context of the listed CBs in Kenya.

As a shareholder and employee in the banking industry I have attended several AGMs where the subject of dividend is regularly discussed by the firms listed on the NSE. The decision to declare dividends lies with the Directors but approval is sanctioned at the AGM or at an extraordinary general meeting as per the Companies Act Chapter 486 of the laws of Kenya. The Banking Act restricts CBs from paying out dividends until adequate provisions for bad debts and other impaired assets are made (Banking Act Cap 488). Other institutions will be required to make provisions on bad debts and other assets prior to payment of dividends, (Finance Bill, 2008). Debt in a firm can have several conditions impacting on the dividend or even the constitution of the directors. Citigroup when it received a capital injection from the US Treasury of US $ 306billion, one of the conditions was that the Bank should not pay a quarterly common share dividend exceeding $0.01 per share for the next three years from 24th November 2008,

(http://www.citigroup.com/citi/fin). Shareholding and preferences of individual shareholders also does influence the dividend decision, (Myers, 1990).

Table 1.1 summarizes the authors for and against various dividend theories

Authors For/Against various dividend theories

Table 1.1

Theory	Authors Supporting	Authors Against/Varying
Dividend Irrelevance	Miller&Modigliani (1961), Myers(1984),Miller&Scholes,(1978), Black & Scholes,(1974), Frankfurter et al., 2003), Partington(1989)	Gordon(1959), Lintner,(1962) Brennan(1970) Graham,Dodd & Cottle,(1962) Peterson et al., (1983), De Angelo et al.,(2007)
Bird-in-the Hand	Graham et al.,(1934) Anerbach(1979) Bradford (1979)	MM,(1961), Bhattacharya,(1979) Baker et al.,(1985)
Clientele effects	Brennan(1970), Litzenberger & Ramaswamy, (1979),Pettit (1977), Bajaj et al., (1990), Myers (1990)	Morgan & Stephen.,(1998), Black et al.,(1974), Shiller,(1990),Fama et al., (1998),Frankfurter et al.,(2003)
Information content	Bhattacharya(1979,MM(1961) Barker(1999),Lintner(1956) John & Williams, (1985),Miller& Rock, (1985) Kalay (1980), Miller,(1987) Nissim & Ziv, (2001),Bajaj et al., (1990) Bali, (2003), Frankfurter et al.,(2003), Shefrin & Statman (1984), Denis , Denis & Sarin, (1994), Yoon & Starks, (1995)	Easterbrooks,(1984), Ambarish, John & Williams,(1987) Conroy, Eades & Harris, (2000), DeAngelo, DeAngelo & Skinner, (1992), Myers,(1984)
Agency costs	Easterbrooks,(1984) Jensen,(1986), Rozeff,(1982), Holder et al., (1998)	Denis et al., (1994), Yoon et al., (1995), Lie, (2000),Myers, (1984)

The research therefore seeks to identify the factors that influence the formulation of the dividend policy, the statistical relationships of the determinants and identifies which dividend theories seem to explain the policy decisions for the CBs quoted at the NSE since 1998 to 31 December 2007. The research output sheds more light in the understanding of the dividend policy challenges and practices in the Kenyan CBs.

1.3 Research Objectives

Among the listed commercial banks in Kenya:-

1) Analyse the statistical relationship of the determinants of dividend policy
2) Establish the factors that influence the corporate financial managers in determining the dividend policy.
3) Identify the dividend theories that explain the dividend policy decisions.

1.4 Research questions

The research answers the following questions based on information garnered from the listed CBs in Kenya.

1) To what extent are the determinants of the dividend policy supported by statistical analysis?
2) What factors do corporate managers consider in setting the dividend policy?
3) Which of the dividend theories seem to explain the adopted dividend policy?

1.5 Scope of the study

The study is about what influences a well balanced dividend policy, how the determinants are statistically related and what dividend theories explain why firms pay/not pay dividends for the listed CBs in Kenya from 1998 to 2007. Listing means being on the main investment market (MIM) segment of the NSE for the whole, or part of, the period under study. Listing facilitates trading of shares and scrutiny by the public as well as market analysts thus expanding the stakeholder list beyond the traditional investor and manager.

Commercial banks that were listed since 1998 and have since closed for business are not considered. Building societies, mortgage houses, investment banks and insurance companies are also excluded. Out of the twelve listed Financial Institutions only four are non-bank financial institutions (NBFIs) by end of 2007. Many of the NBFIs have since 1998 converted into commercial banks. The regulation requirements, business and risk profiles, performance trends, and overall size for NBFIs are quite dissimilar to the CBs and bundling them together may skew certain interpretations applicable to CBs only. The evolution of CBs where financial services are being offered in a one-stop shop concept

from banking, mortgage, and investment to insurance services further augments the case for exclusion of NBFIs. Most of the listed CBs are financial supermarkets to the extent that when they publish their financial statements the "Bank" does control all the significant operations.

Dividends payout is taken to mean the distribution of net earnings to ordinary shareholders in cash. Payment of interest to members of a credit union will not constitute the definition of dividends even though an acceptable variant in practice.

1.6 Justification of the study

Most research work available on the subject of study is performed on the developed economies, in unregulated and in pooled industries. Fewer studies also have been carried out on the emerging markets. The study on the listed CBs in Kenya is a unique opportunity from the perspective that Kenya is a developing economy and equity capital dependent as the other capital markets segments are not fully developed. The banking sector in Kenya is regulated, oligopolistic and homogeneous in its business profile as observed in my experience spanning over ten years in the banking industry charged with the planning and strategy formulation of one of the banking entities. The CBs are required in practice to manage and disclose compliance to preset prudential guidelines (also requirements by International Accounting standards-1) on their capital requirements which are directly impacted by dividend payouts. Hence a motivation to research on the subject matter.

About five of the big CBs control fifty percent of the market in total assets, deposits and profit market share- (The Banking Survey -Kenya, 2008). The eight listed CBs as at the close of 2007 constituted 22% of the market capitalization prior to the entering of the Safaricom Kenya Limited through an initial public offering- (NSE Handbook 2008). Again, shares of these CBs are highly traded and participate in almost all the market indices according to records maintained by the NSE. The sector players are technically versed with the issues of money and finance as the senior management entry is vetted by

the regulator. Hence, the dividend trends for these institutions tend to be relied upon to predict the future of the relevant business entities or firms where the institution represents client interest.

The economic importance (macroeconomics and financial policy) and available information content makes the financial sector an attractive area of study. The subject of dividends touches on the wealth of investors, value of the firm and the payment announcements are deemed price sensitive information by the capital markets (Capital Markets Act Chapter 485A). The fact that CBs play a key role in the intermediation of economic factors as submitted by Allen, (2001), which has direct implication on the monetary and fiscal policies and further aids in resolving the traditional agency problem as posited by Jensen, (1986), sums the motivation of the research. The regulator by strictly managing the CBs capital requirements and regular status, as per Banking Act cap 488, indirectly controls the appropriation of net earnings. Financial statements and comparative data are published quarterly. Market analysts and investment bankers have incredible interest in the performance of CBs and occasionally do carry out broad and extensive collaborative reviews of the published information as per various analysts' circulations. The period from 1998 to 2007 is deemed long enough to cause correction of any seasonal cycles and to accommodate different managerial regimes hence effectively isolating the human influence on the dividend and investment decision. The period also spans more than two political generations, which allows for a stabilized legislative and economic environment.

Thus the study helps to explain what determines the decision to pay dividends or not, how the critical inputs in the formulation of the dividend policy are statistically related and establishes the theories that do explain the dividend policy as adopted by the selected clients in a regulated industry within a developing economy. Scholars, researchers, market analysts, investment bankers, investors, capital markets, financial analysts, financial managers, students of Finance and the public in general will find it both informative and useful in their individual circumstances.

CHAPTER TWO

LITERATURE REVIEW & HYPOTHESES DEVELOPMENT

2.0 Introduction

This chapter will compile the relevant literature on the theories relating to dividend policy that will help the respond to the study objectives. Arguments for and against the theories will be reviewed to establish the proper niche for the purpose of this study. The studies on the subject of dividends can be broadly categorized based on the aspects of Informational aspects of dividends symmetry/asymmetry or on the basis of relevance and/or irrelevance. The former category (implicit/explicit information modes) is adopted in this chapter.

Other peripheral dividend policy theories, that do not strictly fit in the chosen classification, are also discussed to enrich the literally background of the study. A summary of the empirical studies and the respective authors is provided at the end of the first part of the chapter. The second part of the chapter deals with the distillation of the factors identified in the literature into variables and/or proxies which in turn facilitate the development of the outlined hypotheses for testing as per the research objective on the statistical relationship of the determinants of dividend policy. At the end of the chapter a summary table of the variables and proxy selections, the regression model and a conclusion are provided.

2.1 Dividend Models / Theories

As business prospers, the share value increases and the appetite for dividends sharpen. Erickson, (1972), observed that in the 1920's the US share prices rose threefold within 5 years' period. Increasing dividends is a low cost instrument of restoring investor confidence as is observed by Graham, et al., (1934). The "controversy" over dividends spans several theories and the debate continues. The literature on dividends can be

categorized by perceptions of various stakeholders into: good, neutral and bad; it can also be grouped into dividend irrelevance and relevance theories but for purposes of this study the proposal is to use the categorization based on the assumed flow of information . Further this study develops hypotheses for further testing from the works of various researchers who have submitted certain relationships of the determinants of dividend policy with the dividend payout. Literature dealing with the dividend puzzle can be grouped into two distinct categories:

(i) those based on the implicit assumptions of symmetric information, and

(ii) those based on the explicit assumptions of asymmetric information.

The symmetric information milieu is led by the seminal work by Lintner, (1956). According to Lintner's model, current dividends are predicated upon past dividends and current profits. The two variable models of Fama, et al., (1968), empirically supported Lintner.

Theories based on the supposition of asymmetric information include agency, pecking order, and most profoundly, dividend-signaling theories. Agency theory explanations of dividend policy build on the works of Easterbrook, (1984) and Jensen, (1986). The pecking order, which contends that management will select from the least expensive sources of funds to the most expensive to finance its planned activities, is espoused by Myers & Majluf, (1984). The pecking order is consistent with the observable behaviour, but the agency cost theory is not as it posits the paying out of all free cash flows (operating cash flow less capital expenditure) as dividends as suggested in the recent studies by De Angelo et al.,(2007,p18), "to payout the full present value of the free cash flow to maximize the shareholder wealth". Signaling theory as first proposed by Bhattacharya, (1979 & 1980), asserts that "good" firms are able to signal their expected fortunes via the disbursement of dividends, the tax costs are fully recovered by ensuing share price increases. At the core of these models are the notions of market imperfection and tax impetus.

Other schools of thought group dividend theories into those that are neutral, good and bad from an investor perspective. Dividends are neutral for they neither increase nor decrease value of the firm. Shareholders are therefore indifferent between receiving dividends and enjoying price appreciation. This neutrality, advocated principally by Miller and Modigliani, (1961), is based on the assumptions that there are no taxes on dividends and capital gains, and that raising new capital is free of transaction costs. Dividends are bad and destroy value, as tax on dividends is higher than that on capital gains. Share prices decline by less than the amount of the dividend on the ex-dividend day, suggesting that shareholders in most firms consider dividends less attractive than equivalent capital gains. Dividends can be value adding where the investor clientele prefers dividends to capital gains -Brennan, (1970). Payment of dividends reduces conflicts of excess free cash flow. Shareholders are better off with the cash than being in sub-optimal investments. Irrespective of the classification, the true submission is that the ultimate dividend policy requires a certain degree of trade off.

2.1.1 Symmetric Information Models:

The researchers on these theoretical models agree on the impact of tax on the corporate dividend policy and develop their models on tax-adjustment or tax avoidance. The tax adjustment divides the investors into dividend tax clienteles as is proposed in the seminal work of MM, (1961). In later works, however, Modigliani, (1982), finds that the clientele effect has a nominal impact. Masulis & Trueman, (1988) models cash dividend payments as products of deferred dividend costs. Investors with differing tax liabilities will have diverging preferences as to the optimal firm investment/dividend policy. Differences are minimized by the segregation of investors into clienteles. The model by Farrar & Selwyn, (1967), submits that the preferred payment is the one with the least tax liability. Hence, no dividends should be paid if the tax burden is to be increased. Tax-adjusted models are criticized as incompatible with models of rational (economic) behaviour. Miller, et al., (1978), proposes shareholders could purchase dividend-paying shares, receive the distributions and then simultaneously borrow funds to invest in tax-free senior securities. The interest charges on the loan are used to offset the tax liability and consequently do not

increase the investor's taxable income. The firm's value is independent of its dividend policy because of investor indifference between capital gains and dividends. The results of the empirical studies are diverse. Naranjo, Nimalendran & Ryngaert, (1998), states that the dividend yield effect is independent of tax effects. These diverse results raise questions of the appropriate method of analysis.

Other authors investigate share price changes during the period surrounding the ex-dividend date to determine whether the tax on dividends is priced. This theory is inspired by the early works of Campbell & Beranek, (1955), who posits that the share price tends to decline less on the ex-date than the amount of the dividend payment. Nevertheless, the dividend/price decline differential is not so pronounced even though supported by Durand & May, (1960). The differential is further found to apply only to a nominal shareholder community, Elton & Gruber, (1970). According to the tax-adjusted model, a change in the tax rate should cause a change in the demand curve for dividends and change in pricing. Alternatively, no change in the pricing of dividends should occur under the tax-avoidance model. The tax adjusted model is better supported than the alternative tax-avoidance model. Under the tax-adjusted model, high dividend yield shares with high tax liabilities are priced to increase the pretax expected returns. The theory that rational shareholders require a higher return from dividend-paying shares is logically consistent. Haugen & Senbet, (1986), shows the supportive evidence of the tax clientele hypothesis, by documenting the differences in the ex-dividend day return performance on high-yield and low-yield shares. Despite the numerous studies and theories to inform on each hypothesis, more seem to inconclusively explain why dividend policies do not follow financial economics rationally.

a) Clientele effects hypothesis

The clientele effect is the tendency of a firm to attract the type of investor who likes its dividend (payout) policy. The existence of clienteles supports the dividend irrelevance theory. Investors are attracted to types of shares that match their consumptions/savings preferences. That is, if dividend income is taxed at a higher rate than capital gains,

investors in higher tax brackets may prefer non-dividend or low-dividend paying shares, and vice versa. Tax impacts various types of investors differently; hence some investors may be attracted to firms that have different dividend policies appropriate because of their particular tax circumstances. This affiliation causes the tax clientele effect, where other things being equal, shares with low payouts should attract investors in high tax brackets, leaving high payout shares to investors in low or zero tax brackets. Because of the relative tax disadvantage of dividends compared to capital gains, investors require a higher before-tax risk adjusted return on shares with higher dividend yields- Brennan, (1970). Low dividend payout ratios lower the required rate of return and increase the market valuation of a firm's shares. Morgan et al., (1998), oppose this theory. In Kenya dividend income is taxed at source at a rate of 5% and is a final tax, but capital gains are not taxed.

A study by Pettit, (1977) finds that older and poorer investors are more likely to hold shares than the younger and wealthier investors are. Black et al., (1974) in their study of the clientele effects find no significant statistical relationship between dividend yields and total returns. Litzenberger et al., (1979) contests these results by finding a strong positive relationship between total returns and dividend yields, supporting the hypothesis that investors are averse to dividends. The presence of transaction costs may create certain clienteles. For example, to avoid the transaction costs associated with selling shares, small investors (e.g. income oriented) who rely on dividend incomes to satisfy their liquidity needs may prefer to invest in steady and high dividend paying shares. Similarly, wealthy investors who are not relying on dividend income may be attracted to low-payout shares.

Shareholders prefer dividend payments despite the tax liability, (where applicable). Dividend payments are in reality an unwritten contract between shareholders and corporate management, and, therefore, are "sticky" - Myers, (1990,p5). Current models mostly ignore behavioural and social-economic influences on managerial and shareholders activities and unless these are included, it will remain elusive to explain corporate activities and dividend policy determination- Shiller, (1986). Dividend policy is influenced by the same fads and fashions that affect share prices because the managers

who determine dividend policy are motivated by behavioural and social-economic influences, Shiller, (1990). Until the inclusion of modern financial theories and behavioural and psychological influences is made in the models that seek to explain the corporate dividend, the theories will remain both inconclusive and inconsistent, Frankfurter, et al., (2003). There are numerous empirical studies on the clientele effects hypothesis but the findings are mixed.

b) Dividend Irrelevance Theory

This theory purports that a firm's dividend policy has no effect on either its value or its cost of capital. Investors are indifferent to dividends and capital gains.

MM, (1961), demonstrates under the assumptions of a rational investor and a perfect capital market, the market value of the firm is independent of its dividend policy. Dividend is indeed irrelevant. Under their assumptions, the value of the firm is determined solely by its earnings power and investment decisions. Investment decisions are independent of financing decisions such as debt or dividends because in perfect capital markets, the value of a firm is affected only by its investment decision. In addition, both the financing decision and dividend policy are irrelevant in the process of determining the firm's value. The net payout is the difference between earnings and investment, and is simply a residual Empirical support for the dividend irrelevance theory is limited as the real world is full of irrationality and the markets are neither perfect nor efficient. Baker, et al., (2000), in their research through interviews of the corporate decision managers, finds that the "factors" influencing dividend decisions are consistent with Lintner's, (1956) findings. That is, the level of current and expected future earnings and pattern of continuity are the most important determinants of dividend policy.

In their empirical analysis, Frankfurter, et al., (2003), conclude that dividend payments are significantly related to earnings, free cash flows, beta (a measure of how volatile the price of a security is, compared to overall market) and firm size. More importantly, perhaps, they help to demonstrate that dividends are not influenced by investments and debt,

consistent with the irrelevance proposition of MM, (1961). The research also provides evidence that current dividend payments are very much influenced by the consistency of past dividend payments and by the contemporaneous factors, such as earnings and free cash flows. The conclusion by MM, only investment policy (payout policy is irrelevant) affects value has been challenged by De Angelo, et al., (2007), who in their full payout model posit that both the investment and payout policy matter in that not all feasible payout policies yield identical wealth to the shareholder. De Angelo, p.17 "it is not enough for managers to choose an optimal investment programme- they must also choose an optimal payout policy, i.e., they must also follow the "full payout" prescription.

c) Bird –in-the-hand theory

The theory asserts that in a world of uncertainty and information asymmetry dividends are valued differently to retained earnings (capital gains). Because of uncertainty of future cash flow, investors often tend to prefer dividends to retained earnings. Higher payout ratio reduce the required rate of return (cost of capital), and hence increase the value of the firm. Models for the "bird-in-the-hand" work on the implicit assumption that there are two opportunity rates (marginal rates of investment): one for the firm and another one for the investors. If the firm's opportunity rate is higher than that of the investors', then the firm should retain 100% of its earning. If the investors' opportunity rate is higher than the firm's is, 100% of the earning should be paid out as dividends. MM, (1961) however dismisses the theory as a fallacy and so does Bhattacharya, (1979) by arguing that the riskiness of a firm is determined by its cash flow and not by consistency of dividend payout. Increasing dividend today will not increase a firm's value by reducing the riskiness of future cash flows. Miller & Scholes, (1982), report that a firm's value is independent dividend policy. The Enron scandal and other corporate abuses shook investor confidence- Julio & Ikenberry, (2004). In Kenya the collapse of Nyaga, Francis Thuo share brokers and Uchumi supermarkets resonates with more dividends and stringent governance.

Bird-in-the-hand theorists would argue that the market anticipated this dividend announced as early as 1970! Promoters of the signaling theory would argue the change in dividend policy is a signal to the market that FedEx's future is bright and shiny and that it can maintain or possibly increase dividend payouts in the future ad infinitum. Some others would argue that the payment of dividends is lack of nothing better to do with its funds or the firm is invoking a market price prop-up strategy through dividend policy. Whatever dividend strategy the firm adopts, untold number of event studies have statistically shown that the market "punishes" firms that either reduce dividends or skip payments altogether, Frankfurter, et al., (2003). Forbes & Hatem, (1998), examining the connection between share price and dividend amount on the New York Share Exchange (NYSE) and American Share Exchange (AMEX), finds that although predominantly low-priced shares do not pay dividends during the 1970s and 1980s, the pattern changes, with more firms beginning to pay dividends by end of 1993. Microsoft Apple Computers, despite the rich cash reserves, has never paid a dividend. Duff McDonald of IPO.com writes, "Only 8% of high technology firms pay dividends compared to 50% of non-technology firms". Intel Computers started paying dividends about 20 years ago but they are appealing against the law that requires institutional investors to invest in firms that pay regular dividends. There are benefits of being on the "legal listing" such as low interest rates on public debt, ceteris paribus.

Many firms in the USA were paying dividends for two reasons before the global financial crisis as submitted by Frankfurter et al., (2003):

(i) to bolster their share price, and

(ii) to get rid of excess cash.

From the premise of the "spendthrift agent", the second reason makes payment of dividends urgent and indeed in lots. It, however, does not lend credence to nonpayment of dividends or glorify that shareholders are demanding for dividends vociferously. The contradictions are as many as the supportive evidence. Possible explanations could be implicit in the asymmetric information studies.

2.1.2 Asymmetric Information Models

MM acknowledges that dividend changes influence share prices and attribute that phenomenon to the "informational content of dividends". The free cash flow hypothesis, a variant of the agency cost theory as posited by Jensen, 1986 combines the attributes of the signaling and agency cost paradigms to further align the interests of managers and the shareholders which is the premise of information asymmetry models.

a) Information Content of Dividend

In their seminal work, Miller & Modigliani (MM), (1961), argues that the share price is independent of dividend policy; the value of a share reflects both the future cash flow streams and growth opportunities. The Signaling hypothesis states that investors regard dividend changes as signals of management's earning forecasts. Managers (insiders) have more private information about the current performance, and future fortunes of the firm than the outside investors do and direct information to the market by profit dividing as submitted by Bhattacharya, (1979), Miller et al., (1985), John et al., (1985) . Dividend growth is a clear signal of confidence in increasing value (risk reduction and steady cash flow). Dividend decline leads to decrease in value through both the signal itself and through loss of credibility, high risk information and lowered perception of management quality. This endorses the fact that a change in dividend is a clear signal to the market (Barker, 1999). Regardless of the precise information contained in the dividend signal the signaling hypothesis is valid submits Allen & Michaely, (1995). Unexpected dividend changes typically result in share price changes; this does not mean that dividend policy per se is relevant. Current and future dividend projections represent the embedded expectations of the market. Lintner, (1956) finds management reluctant to increase dividends unless they feel that they can support the increase indefinitely in the future.

A change in share price following a change in dividend payout because of the information content of dividends represents differences in the private information known by corporate managers and the information available to the public. Only unexpected changes on the dividend levels and the release of new information should affect share prices under perfect market assumptions as posited by MM, (1961). Unexpected changes in dividends

convey additional information about the prospects of a firm, over and above the ones provided by earnings. In 1977, Leland & Pyle suggests that the higher the equity stake held by a manager entrepreneur reduces the informational asymmetries. Hence, firms with strong concentration of ownership or control, the dividend policy may be less informative to the market.

Myers, (1984), explains that the market reaction to the announcement of changes in dividend is rational. The market price of the shares should increase (decrease) from raised (lowered) expectations. Reluctance on the part of managers to reduce dividends is a necessary condition for dividend use as a credible signal, says Kalay, (1980). Managers are reluctant to cut dividends because they believe that it hurts a firm's reputation. Managers, too, do not increase dividends unless the new level of dividends can be sustained at least in the near future, submitted Lintner, (1956). The results of early empirical attempts to support the information content of dividends hypothesis are ambiguous. Inconsistencies in the results can be traced to differences in data, sample period, methods of analysis and model misspecification. Ambarish, et al., (1987), submits that prudent corporate managers use dividends as a signal as it has lower costs than alternatives (e.g. advertising or public relations campaigns). If the least profitable firms pay zero dividends, the dividends and earning relation will be linear. Announcement of dividend increase is taken as good news and accordingly the share price reacts favorably, and vice versa. Signaling hypothesis is supported by Nissim, et al., (2001) and by Bali, (2003), and it is rejected by Conroy, et al., (2000), among others.

Other theorists who argue against the signaling effect see the dividend as increasing shareholder tax liabilities and constraining the firm's liquidity. The model by Kumar, (1988), implies that although dividends increases (decreases) signal important positive (negative) information about the firm's prospects, dividends are poor predictor of corporate earnings because of the smoothing process applied by managers. According to Easterbrook, (1984), increase in dividend may be an ambiguous signal unless the market can distinguish between growing firms and those that lacking in investment opportunities,

hence disinvesting. In the model by Kale & Noe, (1990), dividend increases signal increased future cash flow stability and decreased riskiness of the cash flows. In their model, dividends are positively correlated with share price returns and are inversely related to expected cash flow variance and underwriting costs.

A large number of studies using diverse sample periods find that unexpected changes in dividend policy relay information, which is not trivial. Earnings and dividends announcements are not perfect substitutes each convey unique information. Changes in regular dividends provide more information than special dividends. Several other studies show contrasting results. Sung & Urrutia, (1995), states that although dividend changes and share price movements show contemporaneous causality, the relationship is stronger over a long-term horizon due to the effects of extraneous factors. An interesting empirical study by De Angelo, et al., (1992), finds increased earnings following dividend decreases. Dividend cuts could occur for strategic reasons, but most often occurs at the lowest point of a firm's financial health. Corporate restructuring and a rebound in the firm's operations soon follow, Jensen & Johnson, (1995). The major drawback of testing signaling models is that the variables specified in the theoretical framework are not directly observable. Signaling cannot totally explain the continued existence of dividends. Future research efforts will likely be more successful in explaining why dividends cannot be used as signals rather than why they can, Miller, (1987).

On May 31, 2002, FedEx Corporation declared a 5-cent per share dividend, the first dividend in the firm's long history. A day before the announcement, FedEx was selling $53.79 per share. Since then, the price has been moving around $56 reaching a 12-month high of $61 on March 5, 2003. Things have changed following the global financial crisis but the share is still holding. Frankfurter et al., (2003 p.187), submitting that signaling is a miracle remarks, "the market behaves, the market rewards (the righteous) and the market punishes (the unjust)". The case of supporting share price, if it is successful, is akin to an attempt to "fool mother nature". The market "sees through" the machinations of those who try to manipulate it and punishes the wicked severely. The idea of signaling is to

convey information to the market that otherwise the market would have missed (although the market is omnipotent and an avatar of God). Signals are associated with ambiguity and make the investor's preference less certain. Hence, no single economic rationale can explain the dividend phenomenon, but a combination of factors.

b) Agency Theory

The theory is premised on the separation of ownership and control (Jensen, 1986). Managers may conduct business in accordance to their own self-interest that may not necessarily be beneficial to the shareholders. For example, managers may spend lavishly on perquisites or over-invest to enlarge the size of their firms beyond the optimal size.

The agency costs thesis, posits that the excess cash flow under management control can be reduced through dividend payments hence forcing the management into capital markets thus putting them under scrutiny of the capital suppliers. Lenders prefer firms accumulate cash than pay dividends. Indeed some leverage may have special clauses to sanction retention or payments beyond a certain thresholds. However, paying dividends may have a positive impact on the firm's value because it reduces over-investment. Many researchers have supported the agency explanations for why firms pay dividends – Rozeff, (1982), Easterbrook, (1984), Lloyd, Jahera & Page, (1985), Jensen, Solberg & Zorn, (1992), and Holder, et al., (1998). Others provided little support or rejected the hypothesis Denis, et al., (1994), Yoon, et al., (1995), Lie, (2000).

The study by Al-Malkawi, (2007), on the determinants of corporate dividend in Jordan demonstrated that much of the existing theoretical literature on dividend policy could be applied to an emerging market such as Jordan. The factors such as firm's age, size, profitability and state ownership (controlling shareholder) affects the amount of dividends positively and are the same as those found in developed capital markets.

According to the monitoring rationale of dividends and concentration control, there is a negative linear relationship between the level of dividends and the level of concentration of control. As such, dividends and control concentrations are substitute monitoring

mechanisms. Widely dispersed shareholding can give rise to severe agency costs; higher dividend payout can also reduce agency costs, by increasing the likelihood that the firm has to raise outside financing and, in turn, be subject to scrutiny of the capital markets for new funds thus reducing the risk of suboptimal investment. Following Rozeff, (1982) and Easterbrook, (1984), concentrated holdings can mitigate the need for costly dividends to reduce agency costs. Rozeff, (1982), finds support for the role of dividends in resolving agency costs in minority-manager-controlled firms. His analysis shows a negative relationship between dividends payout and the percentage of insiders. Given a lower percentage of outsiders, less need exists to pay dividends to reduce agency costs. However, Morck, Shleifer & Vishny, (1988) suggests that once control goes beyond a certain threshold, the point of entrenchment, the controlling shareholder might treat himself preferentially at the expense of outside minority shareholders. The impact of agency costs is examined using the estimation method that permits the establishment of how much the level of dividend changes following a change in the ownership structure.

2.2 Other Theories and Collaborative Literature

a) The Free Cash Flow Hypothesis

This is just a minor variant of the agency argument. All else being equal, firms pay dividends from cash flows that cannot be reinvested in positive net present value projects (free cash flows) DeAngelo, et al., (2007). Prudent corporate managers working in their shareholders' best interest should invest in all profitable opportunities. However, management and owner separation affords corporate managers the temptations to consume or otherwise waste surplus funds. Berle & Means, (1932), are the first to recognize the inefficient use of funds by management in excess of profitable investment opportunities. In 1986, Jensen coins the free cash flow hypothesis by combining the agency theory with the market information asymmetries. The funds remaining after financing all positive net present value projects cause conflicts of interest between managers and shareholders. Dividends and debt interest payments decrease the free cash flow that managers otherwise use to investment in marginal net present value projects and

perquisite consumptions. Barber & Castanias, (1992), empirical research results opines that the free cash flow hypothesis and the signaling are complementary rather than competing.

Neither the information content hypothesis, nor the agency cost theory sufficiently explains the existence and persistence of corporate dividend policy. The free cash flow, a variant of the agency costs and the signaling theories, explain the corporate dividend policy more adequately than either of the theories singly, Frankfurter, et al., (2003). The pecking order hypothesis of Myers, et al., (1984), directly contradicts the free cash flow hypothesis. The optimal dividend policy is that which strikes a balance between the current dividends and future growth that maximizes the firm's share price. Share price volatility can greatly affect return on investment for dividend shares and destroy value. Long-term view by investors can help stem share price volatility. Well-managed firms continue to pay high yield dividends (between 6-26% of the share price).

b) Pecking Order Theory

The theory as developed by Myers, et al., (1984); states that companies prioritize their sources of financing (from internal financing to equity) according to the law of least effort, or of least resistance, preferring to raise equity as a financing of means of last resort. Hence, internal funds are used first, and when that is depleted, debt is issued, and when it is not sensible to issue more debt, equity is issued. The theory maintains that firms adhere to a hierarchy of financing sources and prefer to issue debt than equity, if internal finance is insufficient. The theory lays out the linkages between the firm's capital structure, dividend and investment policies. As postulated by Myers et al., 1984, firms prefer to use internal equity to pay dividends and finance new investments. Internal equity is ranked at the top of the pecking order, followed by debt and then hybrids of debt-equity, with external finance at the bottom of the pecking order.

Donaldson (1961) suggests that internal equity is preferred because firms want to avoid flotation costs which usually accompany external finance. Raising debt is also cheaper

than external equity funding. Myers (1984) disagrees with the notion of floatation costs and argues that the net benefits of debt financing in terms of tax shield and risk of financial distress are likely to outweigh floatation costs. Firms rely on internal funds to maximize existing shareholders wealth. The sale of new shares is not in the interest of existing shareholders because it usually leads to decrease in the market price of the existing shares, as evidenced by Masulis & Korwar, (1986). Despite the differing reasoning between Donaldson and Myers, they conclude that firms relate their profitability and growth opportunities to their long term target dividend payout ratios in order to minimize the need for external finance. Persistent earnings shortages or change in growth opportunities will also influence the dividend decision.

Concerns about control and earnings per share also do bias firms against the use of external equity. The pecking order may be changed by various other arrangements like the level of interest rate and government interventions in situations of financial crises. The tax system may encourage firms to use more or less debt before internal equity. Whatever the choice, the strategy should be to shield earnings from taxations and hence improve the shareholders wealth through the best investment and financial leverage interrelationships, (Adedeji, 1998). Pecking order proposition simplifies the otherwise complex structure in reality. The theory is supported as is opposed widely. Issues of the firm size and preference of equity over debt in view of various costs such as floatation, information, etc are still far from concretized.

c) Catering Theory of Dividends

Catering theory of dividends as per Baker & Wurgler, (2002&2004) stipulates three assumptions:

(i) There is demand by investors for cash dividends.

(ii) There are arbitrage limitations that allow this demand to influence the current share price.

(iii) When managers decide on the dividend policy, they rationally weigh the impact of the immediate dividend distributions decision on the share price against the long-term costs.

The model posits two types of investors "category" and "arbitrageurs" who have a level of risk aversion that remains constant over time. "Arbitrageur" investors are rational investors equipped with full knowledge about the cost of the dividends per share while the "category" investors are assumed irrational investors who lack any knowledge of the cost of the dividend per share. The propensity to pay dividends depends on dividend premium (or sometimes discount) in share prices. Managers cater to investors by paying dividends when investors put a share price premium on payers, and by not paying when investors prefer non-payers is the cardinal premise of the catering theory. Management makes decisions that are rational responses to security mispricing or the perception of it. The essence of the catering theory is that managers give investors what they currently want submits Baker et al., 2002. When investors put a relatively high share price on dividend payers, managers initiate dividends and tend to omit dividends when investors prefer non-payers.

Catering theory focuses on the discrete decision whether to pay dividends, and not how much to pay. For example, managers cater to investors who categorize dividend-paying shares more or less together and pay less attention to whether the yield on a particular share is three or four per cent. Once dividends are initiated, variations are governed more by firm-level profitability than by the relative valuations of payers and non-payers posits Baker et al., 2004. The catering theory takes seriously the possibility that investors' demand for dividends is affected by sentiment, a behavioral finance aspect which may not fit within the rational dividend clienteles. Market imperfections such as transaction costs, taxes, and institutional investment constraints lead to the payers' categorization and consequently dividend clienteles. The objective of catering is to capture the share price premium associated with the characteristics investors currently favour. Managers tend to initiate or continue paying dividends when investors put a higher price on payers, and avoid initiating them when investors favour non-payers. Catering maximizes the short-

run price while the long-run price deal with market fundamentals concludes Baker et al., 2004.

d) Herding Theory of Dividends

This theory derives its name from the animal "herd" instincts. In financial markets, people observe actions of others, derive information from them and then, seemingly disregarding their own information, follow the majority actions- Banerjee, (1992). Applying this to the financial markets could mean movements by visible traders induce others to follow. The persistent price spikes and crashes, generally "crazy" market behaviour and linked movements across national boundaries can be partially explained by herding. Baker & Smith, (2005), explicitly examines the herding behaviour within dividend policy. They observe that herding is the tendency of other firms to make similar decisions as the "market leader" or "first declarer" of the cash dividend.

The herding behaviour leads to higher price volatility, lower liquidity, and it causes strong short-term deviations in the price discovery process. The flip side of herding is contrarianism, a situation in which people act against the crowd.

e) Ratio Analysis:

Study of the various ratios around the subject of dividends also does contribute to research particularly in the area of data interpretation, influencing factors and the determinants interrelationships. The ratios too do contribute directly to the theories of dividends and stakeholder behaviourial responses. Ratios are arithmetical relationships between sundry pairs of related figures computed using mathematical operators. The analysis does contribute heavily to the knowledge of the underlying parameter relationship and thereby improving the predictive ability. This complements the signaling theory as a backbone of the dividend policy. The literature on ratios will be limited to the Dividend payout which is the dependent variable in the study.

e.1) Dividend payout ratio

Shaffer, (2001), examined why firms pay dividends even with certainty of double taxation and the famous neutrality result of MM, (1961). He concluded that there is evidence that dividend paying shares often trade at a premium over the shares that offer only capital gains, agreeing with the views of Shefrin , et al., (1984) and Bailey, (1998). Jim Mueller, in his paper, "The importance of dividends" observed that high growth companies rarely offer dividends because all their profits are reinvested to help sustain higher than average growth. Undoubtedly, cash dividends are used to finance consumption; cash too is obtained from selling share despite the monitoring and transaction costs. Specific pattern of dividends facilitate a form of portfolio insurance if investors buy risk free bonds with dividends.

The dividend payout ratio as defined by Frankfurter et al., (2003), is a measure of the dividend paid as a percent of the net income of the firm. The ratio is used to estimate dividends for the future and as a measure of what is retained. The dividend payout ratio tends to track the lifecycle of a firm, starting from zero when the firm is in high growth and gradually increasing as the firm matures and its growth prospects decreases. Dividends lag behind the earnings, Fama, et al., (1968); increase in earnings may be followed by increase in dividends and vice versa sometimes. Earnings are used to fund dividends hence a positive correlation. However, dividends are less volatile than earnings owing to the reluctance of the firms to increase them until they feel able to sustain as reducing may have dire consequences. Standard Chartered Bank of Kenya, however, reduced dividends from Kshs 11 to Kshs 8.25 for the year ended 2001 citing harsh economic environment and signaling difficult years ahead but 2002 was not that bad!, as per the respective year's published financial statements. Lintner, (1956), noted three consistent patterns of how firms set dividends:

(i) Set target payout ratio in the long term

(ii) Adjust dividends to match the sustainable long term earnings projections

(iii) Managers are more concerned about changes in dividends than the levels of the dividends.

The corporate traditions of paying dividends is the sum total of more than 300 years of evolutions (Frankfurter et al., 2003). Despite individual differences in policy, consistent, identifiable patterns of dividend payment recur through corporations. Managers are reluctant to reduce dividend payments, even in periods of financial distress. Moreover, dividends are increased only if a corporation's management is confident that the higher levels can be maintained. Executives seem to believe that shareholders expect significant dividends to be paid, and shareholders believe that they deserve these dividends. Myers, (1990), surmises that dividend payments are in reality an unwritten contract between shareholders and corporate management. Silva, Goergen & Renneboug, (2003), further posits that payment of dividends is a ritual performed by managers to show good faith towards the owners. Shareholder dividend desires and management need to have retained earnings for investment opportunities conflict, Harkins & Walsh, (1971). Although costly, dividend payments are important.

Baker, et al., (1985), in a survey finds that most Chief Finance Officers (CFOs) believe that the share prices are affected by the dividend policy. The amount of dividend is less important than the consistency of payment. Marsh & Merton, (1987), posits in support of Baker, et al., (1985), that managers also believe that share price is affected substantially by dividend policy and that shareholders use dividend payments as a major input in firm valuation. Behavioural influences affect shareholder attitudes towards dividend payments. Dividends and capital gains are not perfect substitutes in the eyes of the investor. Brav, Graham, Harvey & Michaely, (2004) in their paper concludes that the management focus is not on the level of dividends but on the volatility of dividends.

Changes in dividend payout are frequently associated with changes in market price. Miller & Modigliani, (1961), summarized this phenomenon as the information content in the following way:

> "That is, where a firm adopts a policy of dividend stabilization with a long established and generally appreciated 'target payout ratio', investors are likely to (and have no good reason to) interpret a change in the dividend rate as a change in

management's view of future prospects for the firm. The dividend change, in other words, provides that price change though not its cause, the price still being solely a reflection of future earnings and growth opportunities".

In summary, one can submit that firms pay dividends to:

(i) protect the share price

(ii) increase the share price, in order to make management share options more valuable

(iii) pacify the shareholders who were educated on the value of dividends since time immemorial

(iv) dispose of excess funds

(v) indicate the decline stage in a firm's life cycle (when they stop to pay or reduce amounts)

The dividends history has undergone many cycles and to quote Warren Buffet's aphorism, "if history would be a decisive factor in the share markets, then librarians would be the richest persons on earth".

Table 2.1 gives a summarized version of the results of empirical research.

A Summary of Results for Prior Empirical Research **Table 2.1**

Authors	Sample Characteristics	Firm Characteristic	Results and conclusions
Rees,(1997)	A general UK sample	Profitability	Supported the payment of dividen for value creation-Signaling theory
Yoon et al.,(1995)	A general US sample of regular dividend payers	Opposed the Free Cash Flow	Opposed Agency theory ai supported Signaling. Divider changes do not reflect changes in tl level of wasteful investments
Lie,(2000)	A specific US sample of regular dividend payers	N/A	Special dividends signal excesses p industry norm. Regular divider increases tend to be small to suppo the agency hypothesis
La Porta, et al.,(2000)	A general global sample from 33 countries	Legislation, Growth	Supported agency theory using leg provisions and particularly whe reinvestment opportunities are poor.
Fama, et al., ,(1998)	A general US sample	Profitability, Debt	No support for the Clientele Effec theory on tax. Investors prefer highe dividends irrespective of ta Profitability is strongly conveyed b dividends and debt more than by wide range of control variables.
Aivazian et al.,(2003)	A general US versus 8 Emerging countries	Short term Debt, profitability, size effect not significant nor consistent	Dividend policies for Emergin countries react to the same variable as in the US but sensitivities var across countries. Financiall constrained firms are less likely t pay dividends.
Lintner, (1956)	A general US sample	Target payout ratio, Profitability	Dividends is a function of pas ,current and future earnings as well a past dividend trends
Harkins, et al.,(1971)	A US Conference Board Panel sample	Profitability and cash flow	Highlights conflict in tha shareholders desire dividends anc managers need higher retentions
De Angelo et al.,(1992)		Profitability	Current income remains a critica determinant of corporate dividenc even though earnings have been notec to increase after decreased dividends- mixed signal
Frankfurter et al.,(2003)	A general US sample	Liquidity (Free Cash Flow)	Supports the free cash flow (FCF) theory which is a hybrid of agency and signaling. The FCF explain the corporate dividend better than either singly.
Myers, (1984)		Growth	Opposes the agency /signaling theories and submits dividends is a residual phenomenon

DIVIDEND POLICY DETERMINANTS

Authors	Sample Characteristics	Firm Characteristic	Results and conclusions
Partington, (1989)	A general Australian sample - Sydney Share Exchange companies excluding Financial sector	Investment (Growth)	Asset expansion has the potential influence the level of dividen However, investment and divide policies are not necessari interdependent as external funds c be raised to pursue either polic Dividend irrelevance theory suppo Other studies suggest interdependen
Baker, et al., (2000)	A US –NYSE study	Profitability	Dividend is determined by curre /future and stability of earning Regular dividends are mo important. Supporting the Informatic content theory
Al–Malkawi, (2007)	A Amman Share Exchange Companies study in Jordan	Age, size, profitability, debt and Ownership	Like in the developed markets tl existing theoretical literature c dividends applies to emergir markets. Supports Agency cos theory.
Adedeji,(1998)	A general UK sample	Liquidity, Size, Earnings and Investment	Maximize the shareholder wealt through financial risk management
Omran, et al., (2003)	A general sample of Egyptian Firms	Debt, Liquidity, Profitability and Firm size	Does not find support for the peckin order theory. Retentions are mor significant to value creation. Sma firms payless and retain mor Supports Signaling theory
Baker et al., (2005)	A general Canadian sample from the Toronto Share Exchange (TSX)	Industry and Profitability	Signaling and life-cycle are the mos important explanations for dividend Trends of dividends payouts an earnings influence dividend decisions
Ramcharran (2001) and Glen, Karmokolias, Miller & Shah , (1995)	A general Us and Emerging markets sample	Size, Industry and Legislation	Dividend payout ratios wer comparable to US markets with n variations on sensitivities a submitted by Aivazian et al., (2003 they used the same database Enhancing the dividend issu controversy!
Marsh et al.,(1987)	A general US sample	Investment	Signaling /agency theories canno explain the practice of corporate dividend policy systematically.

Authors	Sample Characteristics	Firm Characteristic	Results and conclusions
Bajaj et al., (1990)		Profitability	Dividend increases are favorat received by the market becau investors have greater preference f dividend income. Higher th expected dividends are bad nev When the dividends are high with lc profits then the share price tumbles.
Pandey,(2001)	A general sample from the Kuala Lumpur Share Exchange - Malaysia	Profitability, Growth , industry and Free cash flow	Payout ratios vary across industrie Firms have a low target payout rat and higher adjustment factor hen prescribing instability of dividen but agreeing with Lintner ,(1956) (the target payout
Holder et al., (1998)	A general US sample	Firm Size, Insider Ownership and Free Cash Flow	Large firms tend to have a high payout ratio than small firms. Tl higher the insider shareholding tl lower the payout ratio and vice vers High Free cash flow means hig payout. Investment and financin decisions are related. Supporting th dividend relevant theories.

2.3 Research Hypotheses Development & Selection of Proxy variables

The theories on dividends cover the agency relationship of the management and the shareholder (agent and principal), the firm and the intermediaries that connect them. The characteristic that the firm acquires over time and the information it accumulates and disseminates defines its person. The characteristics of the firm can and do influence the dividend policy and the explicit shareholder value (share price). From the literature review, these firm characteristics seem to be: Earnings (quantum, pattern and stability), Liquidity (Free cash flow- low (uncertain)/high), Gearing (Financial leverage or Debt), Investment (Growth) opportunities, Size, Industry, Age (life cycle), Legislation, Ownership structure, and Information asymmetry (signaling).

In this study only, Profitability (Earnings), Liquidity (High-free cash flow), Debt (Gearing), Growth (Investment), and Size are considered. Factors like Industry, Legislation and information asymmetry are not considered the sample environment is common. Signaling

in particular is left out for two reasons one: the NSE is deemed weak-form market efficient (Muragu-1990) and two the parameters that would be used in the signaling process constitute the regression model, hence the residual representation. Further the signaling variable in literature is more an explanatory variable for the market price of the share and not so much to do with dividend payout. Age and ownership structure may vary but are not deemed significant even from the literature reviewed and given the economic/industry status of Kenya.

Hypotheses Development

Dividend payout rate (**DIV**) will be the dependent variable as computed by dividing dividend per ordinary share (DPS) by the after tax earnings per share (EPS) after any preference dividends. The Profit after tax (PAT) is what is available for distribution as dividends. Alternatively, total ordinary dividends divided by the PAT after any preference dividends. Profitability, Liquidity, Debt, Investments, and Size will be the independent variables used in the following hypotheses

Hypothesis 1:

H_o: There is no significant relationship between profitability (PROF) and the dividend payout.

H_1: There is a significant positive relationship between a firm's profitability (PROF) and the dividend payouts.

Literature reviewed indicates that dividend payout and profitability are positively related may be due to the lagging effect on earnings (profits) Fama, et al., (1968). Lintner, (1956) finds net earnings as a critical determinant of changes in dividends. The pecking order theory posits that non-profitable firms should not pay dividends given the costs of issuing debt. Profits have a positive relationship with dividend payouts as is posited by the pecking order hypothesis. However, Chay, et al., (2005) and Naeem et al., (2007), using profitability as a return on total assets finds the relationship negative as Adedeji, (1998) finds a zero relationship. In this study even though profitability is defined as a return on total assets to reflect the importance of the total assets in the industry of study a positive

relationship is hypothesized. In the banking industry, which is the sector of study, dividends payouts are positively associated with profitability owing to residual impact the payments have on capital requirements by the regulator. Partington, (1989, p168) states, "profits have long been regarded as the primary indicator of firm's capacity to pay dividends". This coupled with the legal tradition that dividends are a distribution of profit and may not be paid out of capital; it is then to be expected that profitability is regarded as the most important determinant of dividends.

Hypothesis 2:

H_o: There is no significant relationship between debt (DEBT) and the dividend payout

H_2: There is a significant negative association between the firm's debt (DEBT) and the dividend payout.

When a firm acquires debt financing it commits itself to fixed financial obligations embodied in interest payments and the principal amount, and failure to meet these charges may lead to expensive litigation and eventual liquidation. Rozeff, (1982) points out, firms with higher financial leverage tend to have low payout ratio to reduce the transaction costs associated with debt. Hence, other things being equal, an inverse relationship between debt and dividends payout is expected. Debt is defined in our circumstances as the ratio between total liabilities/total assets as used by Aivazian, (2003).

Hypothesis 3:

H_o: There is no significant relationship between firm's growth / Investments (INV) and the dividend payout.

H_3: There is a significant negative association between the firm's growth/Investments (INV) and the dividend payout.

Firms that have high growth and investment opportunities need high retention of internally generated funds and they tend to pay little or no dividends consistent with the pecking order by Myers & Majluf (1984). Hence, the prediction dividend payouts relate negatively to growth/investment. In this study, growth represents change in total assets

(TA) as used by Adedeji, (1998). Dividend payout reduces the funds available for reinvestment and impacts the firms' capital negatively but the investment can be funded from borrowing where debt is readily available and affordable.

However, the relationship between dividend payouts and growth opportunities could be positive. Firms are highly reluctant to cut dividends and increase dividends only when sustainably higher earnings are expected Lintner, (1956), Brav, et al., (2004). Only firms with a good investment portfolio pay high dividends as its sustainable from the positive net present value cash flows. The debate of which of the two conflicting hypotheses is correct is a matter of future empirical tests. For purposes of this study the negative hypothesis is assumed. As in our local circumstances the debt market (alternative capital market) is gradually evolving with the country's economy and risk profile. Hence with little option for debt capital and with the increasing desire for banks to build branch networks and invest in technology, an aggressive dividend payout decision will eventually negatively impact on investment options and indeed capital thus constraining even the ability to collect deposits and deploy as earning assets.

Hypothesis 4:

H_o: There is no significant relationship between firm size (SIZE) and the dividend payouts.

H_4: There is a significant positive association between firm size (SIZE) and the dividend payouts.

A large firm typically has large access to capital markets and finds it easier to raise funds with lower costs and fewer constraints compared to a small firm. This suggests that the dependence on internal funding decreases as the firm size increases. Therefore, other things being equal, large firms are more likely to pay higher dividends to shareholders. In this study, the natural logarithm of total assets in the final year (2007) is used as the measure for the SIZE as applied by Adedeji, (1998). In the banking sector Loans and deposits influence the size of the balance sheet but also contribute immensely to the bottom line, hence the "total asset approach".

Hypothesis 5:

H_0: There is no significant relationship between the firm's free cash flow (Liquidity (LIQ)) and the dividend payouts

H_5: There is a significant positive relationship between the firm's free cash flow (Liquidity (LIQ)) and the dividend payouts

Dividend payouts are ordinarily paid out in cash which is part of the current assets and therefore cash or near cash equivalents is a threshold factor in the decision to pay dividends. Payment of dividends in cash also finds support from the agency theory and financial risk management. If excess funds remain in the firm then managers may misappropriate Berle et al., (1932) or invest in sub-optimal projects hence destroying value. Withdrawal of funds from the business prompts the managers to look for funds externally and this by extension invites debt holders who help improve governance by inviting other oversight stakeholders. There are other competing needs for cash besides dividends such as capital expenditure for growth, financing of debt obligations and funding of overheads hence augmenting the need for a healthy current ratio to support dividend payout.

Managers tend to pay dividends to signal future cash flow stability - Kale et al., (1990). Hence high certainty or high current ratio is necessary. Myers, (1990) surmises that dividend payments are in reality an unwritten contract between the shareholders and corporate management hence the liquidity had better be good to support payout. To test this hypothesis the current ratio (Current assets/current liabilities) is used as a measure of the firm's liquidity. The banks although have a measure of liquidity which can be used as a proxy, it principally measures the ability to meet the customers' deposits obligations (net liquid assets to deposits from customers). This will not be used as banks have paid dividends even with liquidity violations. Moreover, the shareholder is a residual beneficiary after creditors. The hypothesized relationship between Current ratio (liquidity) and dividends is positive. The current portions of the Loans and deposits from customers are used in the computation of the "Liquidity" ratio.

Table 2.2 gives a summary of the proxy variables used in the predicted regression model and the supporting research authorities.

Summary of proxy variables and hypothesized signs as per research

Table 2.2

Variable	Label	Proxy	Used By	Hypothesized signs
Dividend (dependent)	DIV	Dividend payout ratio (DPS/EPS)	Rozeff,(1982)	Not applicable
Profitability	PROF	Income before interest& Taxes /Total Assets(TA)	Chay & Jungwon,(2005)	Negative(-ve)
		Earnings Before Interest &Taxes/TA	Adedeji, (1998)	Zero
		Profit After Tax/TA	**Naeem & Nasr,(2007)**	**Negative(-ve)**
		Plain net earnings (no regression model)	Rees,(1997), Baker et al., (2000, &2005)	Positive(+ve)
		Earnings per share(EPS after tax)	Al-Malkawi, (2007), Pandey,(2001)	Positive(+ve)
		Standard deviation of PAT & natural logarithm of PAT	Omran et al., (2003)	Positive(+ve)
Gearing	DEBT	**Debt ratio- Total Liabilities/TA**	**Aivazian et al.,(2003)** Adedeji , (1998)	**Negative(-ve)**
Growth	INV	Change in net Fixed Assets	Fama,(1974)	
		Change in TA over the period (TA 2007 less TA 1998/TA 1998	**Adedeji , (1998)**	**Negative(-ve)**
Size	SIZE	Log of Total Income(sales)	Fama et al., (1998), Chay et al.,(2005)	
		Log of market capitalisation	Omran, et al., (2003)	
		Log of Total assets(final yr)	**Adedeji, (1998)**	**Positive(+ve)**
Liquidity	LIQ	Net Income plus depreciation plus Interest Expense on Debt/TA (No adjustment for capital expenditure as some could have negative NPV)	Holder et al.,(1998)	
		Current ratio (Current assets/Current Liabilities)	**Naeem et al.,(2007)**	**Positive(+ve)**

From the selection of the variables to use the study heavily relies on the methodologies used by three researchers (in bold) Naeem et al., (2007), Aivazian et al., (2003) and Adedeji, (1998):-

(i) Naeem et al., used a regression model with further application of the ordinary least squares method (OLS) and generalized Least squares to investigate and analyse factors affecting the dividend policy of Pakistan firms p.246.

(ii) Aivazian et al., used IFC data pooled together through panel data techniques and the regressed using pooled OLS-p.380-1.

(iii) Adedeji used a regression analysis with the application of the three-stage least squares regression technique (3SLS), in LIMDEP (version 7.0), OLS and simultaneous equations of the endogenous variables namely; dividend payout, financial leverage and Investment and other variables affecting each of the three principals. The results in OLS and 3SLS were compared and certain instances at variance-p.1141.

The regression model then will take the form of:

$$\mathbf{DIV}_{it}=\beta_0+\beta_1\mathbf{PROF}_{it}-\beta_3\mathbf{DEBT}_{it}-\beta_4\mathbf{INV}_{it}+\beta_5\mathbf{SIZE}_{it}+\beta_2\mathbf{LIQ}_{it}+\mu_{it}$$

Where Dividend for firm (i) in time (t) (DIV_{it}) is a function of Profitability (PROF), Debt, Investment (INV), Size(SIZE) and Liquidity (LIQ), for the firm (i) in time (t), beta (β) and μ are the factor and error coefficients respectively and β_0 is the constant regression intercept.

2.4 Theory conclusion

MM (1961) proves that dividend policy is irrelevant (only investment policy is relevant) to share value in perfect and efficient capital markets. In that setup, no rational investor has preference between dividends and capital gains. Arbitrage ensures that dividend policy is irrelevant. Managers cannot alter the value of their firms by changing the dividend policy. The firm value is enhanced by investing in productive assets and not by the way in which income is distributed to shareholders. Some investors have an uninformed and perhaps time-varying demand for dividend-paying shares. Arbitrage fails to prevent this demand from driving apart the prices of payers and non-payers. Managers rationally cater to investor demand, they pay dividends when investors put higher prices on payers, and they do not pay when investors prefer non-payers.

Black, (1976, p.5), once remarked, "The harder we look at the dividend picture, the more it seems like a puzzle, with pieces that just don't fit together ". Almost two decades later Baker, et al., (2002, p.255) concludes, "Despite a voluminous amount of research, we still do not have all the answers to the dividend puzzle". Dividend policy remains one of the more perplexing issues in corporate finance. Fama, et al., (2001), finds that the probability of paying dividends increases with firm size. Market liquidity may also influence a firm's dividend payout decision. De Angelo, et al., (2007) introduces the "full payout prescription", in that both the investment and the payout policy matter and managers must choose a payout policy that distributes the full present value of the free cash flow to investors.

Lack of consensus persists among financial economists on why firms pay dividends concludes Frankfurter et al., (2003). Several theories have failed to address the dividend behaviour for two reasons:

(i) Financial economists have been developing a universal or "one-fits all" explanation despite the fact that dividend policy is sensitive to such factors as firm characteristics, corporate governance, and legal environments.

(ii) The proposed explanations rely heavily on economic, modeling approaches without an in-depth understanding of how investors and managers behave and perceive dividends. Thus, the main line of research in dividends uses market data that can explain surface reality but cannot measure motivation, which is the underlying force behind generating such data.

Academic research must take a fundamental departure from the theories of the economic man (reasoning of the homo- economicus). New data and more complex models of econometrics must be developed to demystify the controversy. The dividend puzzle may still be applicable in the listed CBs in Kenya and the study seeks to customize the issues on dividend policy determinants and the theories that inform the corporate managers to our local circumstances and contrast that with the findings by other researchers as well as draw recommendations on the findings. To achieve these objectives the study has been executed through a combination of a survey questionnaire tool and regression analysis.

CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction

In this chapter a quantitative approach as defined by Neuman, W.L (2005) was applied to test the hypotheses and the implied distinct variables to perform the research in fulfillment of the research objectives. This chapter will span the research design, the constitution of the sample, data collection and a detailed account of how the collected data was analyzed and underlying issues managed to sustain delivery to the stated core objectives.

3.1 Research Design

A self-developed questionnaire was sent by e-mail to the selected Corporate Financial managers to solicit their views about the factors that inform their corporate dividend policy decisions (a sample of the questionnaire is attached as Appendix 2). The questionnaire was into parts one to elicit the determinants of dividend policy in practice and the other to obtain the managers views as to what guided their actions in the dividend decisioning. Analysis of part one responses contrasted the determinants as perceived by practitioners to those advocated in literature. The part two responses were corroborated with literature reviewed to establish which dividend theories seemed to explain the perceptions of the financial managers. Where no reply was received within the stipulated time a phone call was made. In the letter of introduction confidentiality was assured, but given that the researcher works in the same industry, a personal note was attached to reiterate to my industry/professional colleagues the purpose of the study. An option of a face to face interview despite the time constrains was expressed as an option albeit using the standard questionnaire to allow objective comparison of outcomes but this never became necessary.

The questionnaire technique has been used by other researchers (Baker et al., (2005), Frankfurter, Kosedag, Schmidt & Topalov, (2002)) with remarkable success despite its being impersonal and subject to misinterpretations/misrepresentations. It was assumed

that the respondents were well versed with the subject matter and in addition to adequate declarations for why the information was required and how it would be used it was deemed to have addressed number of biases. The questionnaire process moderation served well to eliminate possible peer pressure and improved objectivity in response given the competitive business environment and the fact the researcher is in an employee of a competitor. The questionnaire statements were simple and the choice of answers were equally simplified but with adequate latitude for differentiated opinions.

The second part of the research entailed carrying out a regression analysis (using MINITAB) for the selected sample with parameters predetermined as significant determinants of the dividend policy from the literature review. In Chapter Two section 2.2, five hypotheses were developed and a set of proxy variables identified. The selected variables were developed into a regression equation for testing. The regression equation had the Dividend payout rate (DIV) as measured by the ratio of DPS/EPS as the dependent variable with Profitability (PROF), Liquidity (LIQ), Debt (DEBT), Growth (INV), and Size (SIZE) being the independent variables. Other variables like, ownership, age, industry, legal and signaling were excluded since the research was on one industry, one market , legal entity and for age the firms are not hugely different as is the case for ownership. Signaling even though excluded in the regression model as being non-financial and being adequately represented by all the other independent variables was included in the questionnaire as possible theory that may explain the dividend policy behaviours.

The regression model approach has been used successfully by researchers such as Adedeji (1998), Aivazian et al., (2003), Al Malkawi (2007) and Naeem et al., (2007). Regression analysis helps to explain relative associations/relationships between the response and explanatory vectors. The regression results were contrasted to the questionnaire survey results. Since the focus of the study was to identify the relationship (inferential statistics) of dividend payout rate and not the absolute quantum of the dividends paid, the general ordinary least squares (OLS) approach was applied. However, if the level of dividend paid were the objective, the approach would have had to be modified (Kim & Maddalla, 1992)

in favour of the Tobit Estimation method due to the unique characteristic of dividend in that it can be either zero or positive. Secondary financial data was mainly extracted from the published financial statements, the Nairobi Share Exchange information bulletins and the Banking Survey Journals for the relevant periods.

3.2 Population

The eight (8) firms constituting the population of study was drawn from the 12 listed firms on the main investment market of the NSE's Financial and Investments segment as at the end of 2007 the remaining four being insurance and investment companies. The NSE had 42 firms that were listed as at the end of 2007. Listing is a mandatory requirement for trading of shares and other market products on the bourse. At the beginning of the study period (1998), some commercial banks now, were then Non-Bank Financial Institutions (NBFIs). Most of the listed Commercial Banks have an all-inclusive banking practice in that they have a mortgage product or a subsidiary; they have aspects of investment banking and/or are developing a micro-financing capability. The bancassurance product which links banking with insurance is already approved for use by banks that are not fully into insurance business.

However, NBFIs which were not been listed as commercial banks as at the close of 2007 were excluded from the study as their inclusion could distort the interpretation of the survey responses as the factors influencing the decision varies. The eight CBs approximately 18% in numerical terms comprise between 22% - 30% of the market capitalization (value), and account for the most traded shares in the market. Behavioural finance postulates, as submitted by McClure, (2002), "investors tend to place too much worth on judgements derived from small samples of data or from single sources" this encouraged the research premises. The NSE Handbooks and the CBs published information over the study period were reviewed for secondary data to corroborate and/or interrogate the responses from each institution. The period of 10 years was considered long enough for any permanent relationship influencing the dividend decision

to have crystallized and normalized. This period has been used by other researchers, Rozeff, (1982), and Baker, et al., (1985).

3.3 Data collection

Primary data was collected through mail questionnaires and supplemented by secondary data from NSE handbooks, Banking Survey Journals and published financial statements. The questionnaires were sent by a combination of electronic mail to Chief Finance Officers at the selected institutions. Where response delays were experienced the follow-up was in both a phone call and a supplementary electronic mail just in case the first had been misplaced and more importantly for ease of reference. Probing on phone did not become necessary as all the responses appeared okay on first cut. But in all cases extra copies were maintained just in case a replacement was to be required. Codes were allocated to associate respondents with their firms.

The survey questionnaire was in two parts and the Likert scale was used to measure the financial managers' views: Part One comprise 20 statements seeking to establish what factors influence the dividend policy, hence the determinants of dividends, and their perceived level of importance on a scale of 0-3 (where 0 depicting low level and 3 being a high level importance). Part Two (21 questions) structured to elicit explanations (almost aligned to certain predicted tendencies by specific theories of dividend policy) as to why firms pay dividends and what seems to support the responses. The Likert five-scale measurement running from -2 for strongly disagrees to +2 for strongly agrees. Respondents were asked to indicate their views in taking the decisions and formulating the dividend policy in their role as agents of the shareholders (investors). Confidentiality and the extent to which the information garnered was to be used were reiterated to elicit valid and comfortable responses.

3.4 Data Analysis

Responses received were analyzed and ranked by the weighted mean score. The analyzed respondents' views using the descriptive statistics were then compared to the regression model results in case of part one of the questionnaire. As for part two of the questionnaire

the implied theoretical implications were deduced from the responses and the appropriate theory tendency assigned. In each case where there was tie on the weighted mean score, the qualitative aspects of the statements were used to refine the ranking where feasible. Explanations were made for the seemingly most significant factors and/or explanations as per the respondents.

The regression analysis as modeled under section 2.2 of the study was carried out independently as per dividend policy determinants identified through literature review and data collected from the secondary sources. The results were further compared to the theoretical framework as per literature and contrasted with evidence attained through the survey tool. Inferences and contradictions found in the analysis were noted and reported. The regression analysis covered only the financial parameters but views obtained from the respondents had feedback on non-financial circumstances.

The fitness of the multiple regressions was assessed by evaluation of the coefficient of determination (R^2), ($0 \leq R^2 \leq 1$) (the nearer to 1 the closer the association between the explanatory variables and the response variable), and the analysis of variance (ANOVA) or t-test. Challenges of multicollinearity (high correlation between two or more explanatory variables) were analyzed through the development of a correlation matrix through a variable bivariate analysis. The appropriate response to any multicollinearity of either selection of additional observations or dropping some of the collinear variables out the equation but none of these options became necessary. Autocorrelation and presence of heteroscedasticity (situation where the variance of the dependent varies across the data) were tested through the analysis of residuals and square of the standard error. Using the natural logarithm of some variables like total assets also took care of some the regression challenges.

CHAPTER FOUR
RESULTS AND FINDINGS

4.0 Introduction

The objective of this chapter is to present and explain data on the basis of the research questions and hypotheses developed on the determinants of dividend policy. A correlation matrix of the variables summarizes the results of the regression model which substantially seeks to answer the first research question, "To what extent are the determinants of the dividend policy supported by statistical analysis?" The responses from the corporate financial managers are presented and analyzed in respect of the research questions posed. The responses in one part help to answer what factors do the corporate managers consider in setting the dividend policy? The second part of the questionnaire elicits the dividend theories that seem to inform the choice of factors in the dividend policy. The outcomes of the regression model and the survey are compared and contrasted for new knowledge. Hypotheses developed in chapter two are tested and analyzed to reaffirm or dispel the hypothesized direction of the relationship as per literature reviewed and significance (as depicted by regression analysis outcome). The summary of the major findings make the chapter conclusion.

4.1 Regression Analysis

The regression analysis took into account six variables (Dividend payout rate (the dependent variable), Profitability, Debt, Investment, Size and Liquidity) over a period of 10 years and for six firms using panel data to improve the variable ratio. The overall model results had a weak adjusted R^2 factor of 34.9% but depicted strong support for a positive relationship of profitability and moderately strong and positive association with liquidity at 95 % confidence level. Besides the relationship of Investment to the response variable being insignificant at a p-value of 32.8% it was also negative which supported the hypothesized prediction. A further review of the variable interrelationship is tabulated in Table 4.1 through a correlation matrix.

Correlation Matrix of Regression Variables **Table 4.1**

	DIV	PROF	DEBT	INV	SIZE	LIQ
DIV	1.0000					
PROF	0.5596	1.0000				
DEBT	0.1004	-01558	1.0000			
INV	-0.0556	-0.0029	0.1820	1.0000		
SIZE	0.2045	0.0338	0.5557	-0.0213	1.0000	
LIQ	0.2445	0.3798	-0.5927	0.0367	-0.5240	1.0000

The coefficients are not strongly correlated amongst themselves which implies there is no multicollinearity problem amongst the variables. All variables except debt reflect the predicted direction in relationship and in the same direction with the multiple regressions. Indeed debt and investment regressed against profitability the association is negative as hypothesized. Size and Liquidity regressed against debt have a relatively high relationship but not significant to cause multicollinearity. It is interesting however, to note that investment relates negatively with size (defined as the natural logarithm of total assets) and investment being the percentage change year on year albeit a weak rating.

4.2 Questionnaire Responses:

Six replies were received back out of the eight (75% response rate) that were sent out on the 2nd February 2010 to the chief finance officer of the sampled Commercial Banks albeit with several phone calls and appeals to respond. Part one of the questionnaires with 20 questions dealt with the factors that informed the theoretical responses whereas the second part of the questionnaire (21 questions) dealt with the theoretical explanations of why the dividend policy is as is. Part one of the questionnaire forms a logical link to the regression analysis whereas part two ascribes to possible dividend theory tendencies. The two banks that did not respond are small and/or have recently gone through capital restructuring and the actual dividend policies may not radically change the results already received. The six who responded, do effectively represent the listed banking community in

profits and control over 87 percent of the total assets/liabilities market share within the population of observation. Table 4.2 illustrates the results of part one of the questionnaire and the associated ranking using the weighted mean score. This response further compliments the results of the regression analysis by stating the determinants of dividend policy from a practitioner's perspective.

4.2.1 Analysis of the Factors Influencing Dividend policy as per respondents. Table 4.2

Questionnaire Part I responses Analysis

Table 4.2

Stat		Response frequencies				total score	Weighted Mean	Rank
		0	1	2	3			
12	Impact on capital requirements	0	0	1	5	17	2.8	1
6	Investment considerations such as availability of profitable investment opportunities	0	0	2	4	16	2.7	2
1	Level of current and projected future earnings	0	1	0	5	16	2.7	3
11	Internal versus external sources of financing investments	0	0	3	3	15	2.5	4
5	Stability of cash flows	1	0	0	5	15	2.5	5
7	Liquidity constraints such as availability of surplus cash	1	0	1	4	14	2.3	6
2	Historical / future dividend trends	0	1	2	3	14	2.3	7
10	Concern for maintaining a target capital structure	0	1	3	2	13	2.2	8
17	Projections about the future state of the economy	0	1	3	2	13	2.2	8
15	Contractual obligations such as restrictions in debt and / or equity contracts	1	0	3	2	12	2.0	10
4	The signal to be passed to investors	1	1	1	3	12	2.0	11
14	Impact on the size of the balance sheet	0	1	5	0	11	1.8	12
20	Control issues such as the firm's ownership structure	0	3	2	1	10	1.7	13
9	Current shareholders' desire for income	1	1	3	1	10	1.7	14
	Desire to pay out in the long run	2	0	2	2	10	1.7	15
	Desire to conform with the industry practice	1	3	2	0	7	1.2	16
	Impact on the share price	2	2	1	1	7	1.2	17
18	Preference to pay dividends instead of undertaking risky reinvestment	1	3	2	0	7	1.2	18
16	Tax considerations of dividend income vis a vis capital gains	4	0	2	0	4	0.7	19
19	Prestige associated with paying dividends	4	2	0	0	2	0.3	20

No of circularised Firms	8
No of respondents	6
Percentage	75%

Not all the six respondents have paid dividends consistently over the period of the study and given the number of respondents, the weighted mean score was used to analyse relationship. Where the mean score returned a tie, the qualitative aspects of the responses were considered to refine the ranking. Where "none" as a strike level of importance was returned in view of other ratings the factor was deemed inferior to the rest. No elaborate statistical analyses were deemed necessary given the size of the responses albeit seventy five percent (75%) response.

Dividends payout impact on capital rated 100% important with only 1 respondent rating the factor as moderate in importance. This seemed to support the strictness of capital management in the industry and the significance of profitability to both the capital management and dividend policy. Availability of profitable investments was ranked second with 67% high importance ranking and 33% at moderate importance. This may be because of the financial deepening campaigns through branch network and agency banking in the country, being perceived as the sure way for sustainable profitability as every big bank has invested in high end technology infrastructure. The current and future level of profitability was rated third with 83% level of importance. Responses ranked one to three were strongly linked to earnings now and in the future as posited by the findings of Baker, Veit, & Powell, (2001), Baker et al., (1985) and Lintner (1956). Financing decisions, stability of cash flows and availability of surplus cash were rated 4-6 with 100 % to 67 % respectively in both moderate and high importance. The high ranking of this factor demonstrated the keenness of managers to keep the size of the cash dividend from decreasing in the future due to liquidity volatility and to keep the dividend payout trends as suggested by the response ranked seven.

Contractual obligations on debt/equity and the impacts of the country economic prospects on profitability were ranked in eighth position in importance with 50% moderate and 33% high ratings. Besides complementing profitability further, the aspect of external sources of finance in either internal sources (retained profits) or debt and /or equity as posited by Myers et al., (1984) in their Pecking theory submission was demonstrated. The more the

earnings a firm retains, the greater the equity component of the capital structure (other things remaining unchanged). However, if a firm pays out a large dividend, (relative to earnings), further financing may have to come from debt sources and this has the residual effect of changing the capital structure or contravening a debt obligation. Signaling and Size came in at the eleventh and twelfth position respectively. In the banking industry, however, the balance sheet size (loans & deposits) significantly influence the profitability just as dividend payout signals business prospects.

No discussion was considered for factors thirteen to eighteen as they are deemed insignificant or in some aspect related to the ones already discussed. Tax and prestige signaling were rated second last and last. This may be because shareholders desire dividends as an income and that tax on dividend income is a low 5% as a final tax and capital gains are not taxed. The state of the economy is that the investors require the cash and those who are foreigners, besides wanting the cash as a means of repatriation; also it improves management of financial/country risks. Overall Profitability, Debt, Investments and Liquidity (free cash flow) were ranked highly with Size not being an obvious factor but implicitly significant in the industry. The regression model results on the other hand expressed support for only Profitability and Liquidity as the determinants and this could be because the variable definitions did not receive the same interpretation or it may well be there are other factors that influence the dividend policy besides those included in regression equation. Table 4.3 gives a summary of the possible dividend theories that may be influencing dividend policy decisions.

4.2.2 Analysis of the explanations for the Dividend policy as per Table 4.3

Table 4.3

Questionnaire Part II		Responses frequencies					Total	Weighted	Rank
Stat #		**-2**	**-1**	**0**	**1**	**2**	Score	Mean	
2	An optimal dividend policy strikes a balance between current dividends and future growth that maximizes share value	0	0	0	1	5	11	2.2	1
3	A firm's investment, financing and dividend decisions are interrelated	0	0	0	1	5	11	2.2	1
11	Shareholders like to receive a regular dividends	0	0	0	3	3	9	1.8	3
17	The market analysts always perceive the dividend pronouncement as a positive market indicator	0	0	0	4	2	8	1.60	4
1	Dividend policy is formulated to produce maximum value for shareholders	0	1	0	1	4	8	1.3	5
4	A firm's dividend payout affects its cost of capital	1	0	0	1	4	7	1.4	6
8	Shareholders prefer a certain dividend stream to an uncertain capital gain	0	0	1	3	2	7	1.4	7
16	Dividend payments directly influences the market price of the share	0	0	3	1	2	5	1.0	8
13	Investors regard dividend changes as a signal to the firms' future prospects	1	0	0	4	1	4	0.8	9
5	A change in dividend payout ratio affects firm value	1	0	1	2	2	4	0.8	10
10	Investors are attracted to firms that have dividend policies appropriate to the investors' particular tax circumstances	1	0	1	3	1	3	0.6	11
21	Paying cash dividends is necessary because the shareholders expect it	0	1	2	2	1	3	0.60	12
7	Investors prefer dividends now to possibly higher but uncertain future dividends	1	1	0	3	1	2	0.4	13
12	Investors prefer payment of dividends irrespective of the tax implications	1	1	0	3	1	2	0.4	13
18	Dividend increases are ambiguous because they can suggest future growth or a lack of investment opportunities	1	0	3	1	1	1	0.20	15
9	A firm should be responsive to the dividend preferences of its shareholders	2	0	1	1	2	1	0.2	16
6	Dividends should be viewed as a residual after financing desired investments from earnings	1	1	2	1	1	0	0.0	17
14	Once a firm starts paying dividends, it must continue, otherwise, the shareholders will think that something is wrong with the firm	2	1	0	2	1	-1	-0.2	18
19	The firm will pay dividend even if it has to raise capital for investment externally	2	2	0	1	1	-3	-0.60	19
20	Paying cash dividends creates a costly cash drain for the firm	2	2	0	1	1	-3	-0.60	19
15	When firms cut dividends, it is an indication of waning financial health	3	2	0	0	1	-6	-1.2	21

The analysis of these explanation responses displays a high support for dividend relevance theories of Clientele, Signaling, and Agency cost theories which seek to maximize the wealth of the investor. There is lack of any support for the Dividend irrelevance theory and almost overwhelming subscription to the full payout advisory by De Angelo et al., (2007). The top four positions were 100% voted agreed on the basis the shareholder voice (wealth maximization and regular dividends). Shareholder preferences and desire to receive regular dividends be it to manage agency costs or to mitigate financial risks. The information content in the payment of dividend was evident and occupied ranks 6-17 albeit at varying levels of agreement. The respondents ranked 18 and 21 in that they disagreed with the notion that cutting dividends was a declaration of a looming financial disaster. Even though the respondents agreed that payment of dividends affects the cost of capital (ranked 6) they disagreed with the statements that payment of dividends causes costly cash drain and that a firm will pay dividends even if it has to raise capital externally ranking the disagreements as a tie on the count of 19.

The bird-in-hand-theory seemed to garner support implicitly through risk management and ownership structure. The shareholders clearly expect cash dividends and this could as well support the agency cost theory and quench the desire for repatriation of dividends (risk management) in the majority foreign owned firms. The responses are severally in support of the information content of dividends (financial health, and price sensitivities) and the importance attached to the changes in dividends by the various stakeholders. The clientele effects, Signaling, and agency costs/risk management theories, as agreed, are deemed to explain the dividend policy actions by financial corporate managers. The respondents disagreed with the notion that cutting dividends was a notice of waning financial health as this was ranked last. This could be a reflection of the recent market practices adjusting for economic volatilities and strategic investment positioning whilst listening to the shareholder as an inevitable balancing act.

4.3 Hypotheses Testing & Analysis

The hypotheses were derived from literature review and associating the variables with certain researchers as per Table 2.2 specific directional relationships were predicted as either positive or negative. The identified variables were then developed into a regression equation and tested besides their orientation in literature. The overall regression results returned a weak relationship on the multiple regressions as evidenced by the adjusted R^2 of 0.3492. Simple bivariate correlations did not show possibilities of multicollinearity as shown in Table 4.1. Analysis of residuals and squared sum of errors did not show any evidence of autocorrelation or prevalence of heteroscedasticity respectively. The following variable discussions are then going to be based on the predicted premise as stated and the output direction of the regression model using the p-value level to depict the strength of association to the dividend payout ratio as per Table 4.4.

Summary of Regression variable Associations

Table 4.4

DIV	Coefficient	t-statistic	p-value@95%
PROF	8.2949	4.030	0.000
DEBT	1.2146	1.442	0.155
INV	-0.1709	-0.988	0.328
SIZE	0.0373	0.804	0.425
LIQ	0.3286	2.027	0.048
Intercept	-1.3956	-2.210	0.031

H_1 states there is a significant positive relationship between profitability (PROF) and the dividend payout (DIV). As per the results in Table 4.4, there is a strong positive relationship between DIV and PROF as predicted and this is reinforced by the strong p-value of 0.000 at 95%level of significance and hence the null hypothesis is rejected.

H_2 states that the firm's debt (DEBT) is significantly and negatively associated with DIV. Table 4.4 return a positive standardized coefficient and the p-value is at 15.5% which cannot meaningfully reject the null hypothesis at 95% level of significance. However, most

of the research work reviewed seemed to relate the variable debt with long term liabilities which was not the case in all the firms subjected to regression analysis. Indeed none had any long term liability and the composition of the "Total liability" was largely customer deposits which provides a cheap source of funding at 3.77 per cent in 2007 (Banking Survey Journal, 2008). This cheap cost of funds contrasted with average lending rates of 14% (Central Bank of Kenya Economic Bulletin-2008) gives a spread of 10% which directly contributes positively profitability and by inference this type of Debt can be deemed positively associated with dividend payout unlike its expensive (between 6-8%) long term option. This long term debt also has limitations in that only the over five years portion ranks as tier II capital that can be used to support taking of deposits besides being expensive. Hence the unpopularity of the long term debt instrument in our market and its consequential negative association as other authors have posited.

H_3 states that there is a significant negative association between investment opportunities (INV) and DIV. The results per table 4.4 uphold the negative association but the relationship is not significant (p-value = 0.328). Therefore the null hypothesis cannot be rejected at 95% level of significance.

H_4 states that there a significant relationship between DIV and firm Size. As per the results in Table 4.4, the association though positive is not significant (p=0.425). Therefore the null hypothesis cannot be rejected.

H_5 states that the association between liquidity and the dividend payout is significantly positive. The positive association is evidenced by the coefficient and the relationship is further endorsed as significant as per the p-value of 0.048 at 95% level of confidence. Hence there is a meaningful positive association between liquidity and dividend payout and the null hypothesis is rejected.

4.4 Summary of Major Findings

Profitability and liquidity are supported by theory and empirical results as significant determinants of the dividend policy and are positively associated with dividend payouts. Even though the respondents returned evidence to suggest that Debt impacts dividend payout, the regression model retuned a result that debt (largely customer deposits) is positively associated with dividends even though not significantly associated. Investment on the other hand received support from respondents but was not supported by the regression results. Indeed Investment is negatively related to dividends contrary to expectations of both theory and the respondents. Size is implicitly implied as significant by the respondents but deemed insignificant even though positively associated by the regression model output. The dividend theories of information content of dividends (signaling), clientele effects (except the tax clientele), and agency cost theories appear to gain overt support. The pecking order, free cash flow, and bird-in the hand seem to implicitly garner support through agency cost theory attributes of financial risk management, shareholders explicit desire for regular dividends and the capital/ownership structure considerations by the financial managers. Herding theory seems not to be a key explanation for dividend policy decisions.

CHAPTER FIVE
DISCUSSION, CONCLUSIONS, LIMITATIONS & RECOMMENDATIONS

5.1 Introduction

This being the final chapter of the study it scopes a summary of the purpose of the study, as achieved through the results and findings based on the methodology applied. A synopsis of the main findings and interpretations as contrasted to literature review and previous studies are articulated. Major conclusions as drawn to respond to the research questions and hypotheses developed are also discussed. Finally the chapter covers any limitations encountered during the study that may help improve the various submissions and recommends scope for further studies.

5.2 Summary

The purpose of the study was to identify the determinants of the dividend policy as perceived by the corporate managers of the listed Commercial Banks on the NSE and as held by the literature reviewed and empirically tested. The factors that influence the dividend policy as per existing studies were first identified as itemized on chapter two section 2.3. Proxies befitting the variables of study and their justifications were followed by modeling a regression equation with hypothesized predictions of the inherent associations among the variables of interest as per table 2.2. Dividend payout as the response vector was the dependent variable whilst Profitability, Debt, Investment opportunities, Size and Liquidity were the explanatory variables as established through the literature review. Other determinants such as capital/ownership structures, age (maturity), Industry effects, signaling and legal structures among others were not considered as earlier explained. A questionnaire survey tool was also used to relate the various decision actions with existing dividend theories as per literature.

The outcome of the regression analysis was compared to the questionnaire responses (part I), that dealt with views of the financial corporate managers engaged in the dividend policy decisions. Literature and the responses received seemed to support profitability (net

earnings after tax), investment considerations, financing decisions (debt/retention) and liquidity (free cash flow) since the dividends once approved, would be paid in cash. These results are supported by the dividend relevance theory proponents as depicted on table 1.1 and variably supported as shown in table 2.1 for each explanatory variable. The size of the firm even though severally supported by literature and in particular by Omran et al., (2003) and Holder et al., (1998) to positively influence dividend payout and profitability in the banking industry, as per the experience garnered in the industry, was not explicitly indicated as a major determinant of the dividend policy. The results of the regression model and hypotheses tested depicted meaningful support for Profitability and Liquidity and in that respect agreed with literature, table 2.1, and survey results. The regression model deemed the other variables as insignificant and weak to offer any meaningful explanation for the dividend policy decisions. This outcome coupled with the lack of multicollinearity, may suggest the existence of other determinants not included in the model or even other definitions for the same variables, but the further analysis is suggested as scope for a future research.

The finding (regression model) that debt relates positively with dividend payout even when questions such as "the firm will pay dividend even if it has to raise capital for investment "were disagreed and rated second last. In my experience in the banking industry over the years what is being denied has happened amongst three of the respondent firms, but the managers may have deemed this as one-off as opposed to policy to return the disagreed verdict. The positive association returned by the regression model could as well be explained by the "current and cheap" nature of the total liability in the context of the firms researched. The liability was largely customer deposits which are low cost and by nature drive asset growth and in turn profitability in the banking sector. Payment of account payables tends to be in cash and insignificant in accruals. Hence, in the context of low net cost of funds unlike the expensive long term debt the association to dividend payout being positive can be supported. However, whether this is the sole factor or not should be a subject of further research.

The research question of what theories seem to explain the dividend policy adopted received overwhelming support through the dividend relevant theories of clientele effects, Signaling, Agency cost theory and pecking order. Indeed both the symmetric and the asymmetric information models received support extensively as discussed in chapter two. The respondents were unanimous in disagreeing with the notion that investment and financing decisions have no relevance to the dividend policy as posited by the MM (1961) dividend irrelevance theory. The voice of the shareholder seemed to be the most common clientele as opposed to tax and herding considerations which were poorly ranked.

5.3 Discussion

Even though extensive literature seemed to support the profitability, size and liquidity as positively related to dividend payout whilst debt and investment are negatively related, the regression results did not seem to support this firmly held position as per literature in totality. The regression model results supported profitability and liquidity as positively associated and significant determinants of dividend policy as posited by several authors as shown on table 2.1. The model was not as succinct in establishing the other variables as significant determinants and this could be because the variable definitions did not receive the same interpretation or it may as well suggest there are other factors that influence the dividend policy not duly captured in the model. However, the negative association of investment with dividend payout was highlighted despite the overall association as predicted by the regression model being weak. Why the model deemed a positive relationship of debt and dividend payout despite literature findings (Aivazian et al., (2003), Omran et al., (2003), Adedeji, (1998)), and others being to the contrary, is matter of future study even though the outcome may as well be correct given the net low cost of funds for the category of debt in the context of the firms studied.

The Corporate financial managers supported the literature findings, as summarized on table 2.2, in their responses except in the case of size. Size in the banking industry is measured by total assets (balance sheet size), profitability (earnings before tax) and by the customer base. All these measures positively influence dividend payout as the assets

(loans and advances) are usually the largest and interest earning assets and the customer base contribute besides borrowing, to the non-funded income which is usually around 30-40 percent of the total operating income- Banking Survey journal, 2008. Hence positive association between size and the dividend payout can be implicitly deduced through profitability all other things being equal. Linter (1956) reinforced the evidence that profitability is a primary indicator of a firm's capacity to pay dividends. This position is further supported by Baker et al., (2000 &2005), Fama et al., (1998), and DeAngelo et al., (1992) and is consistent with the fact that legally dividends can only be paid out of distributable reserves and not capital.

Definitions attached to variables of interest are critical as it was found out by this research where profits were modeled as return on total assets as opposed to the common understanding of net earnings after tax. Liquidity commonly understood as cash and cash equivalents was deemed significant by the respondents and the regression model results as is supported by the research works of Adedeji (1998) and Frankfurter et al., (2003). Investment and Debt (long term debt) found strong support from the respondents as was equally supported by the DeAngelo et al., (2007) in the "full payout " prescription in reinforcing that the investment and financing decisions are interrelated with the dividend decision but were not supported by the regression output in any meaningful level of significance .

The respondents returned a high level agreement in support of the signaling, clientele, and agency costs/risk management theories. Support on the bird-in-the-hand theory is implied through clientele effect (shareholder preference for cash now as opposed to risk and future capital gains) and financial risk management. Myers, (1984) Pecking Order theory was implicitly supported in the responses to question on the choice of financing through retention or borrowing (table 4.2 statement 11 ranked # 4).

5.4 Conclusions:

Based on the regression model results and the responses processed profitability and liquidity were identified as the most important and positively associated determinants of the dividend policy. Profitability impact on capital requirements, Investment considerations, current and future earnings, retention for financing and free cash flow (liquidity) were questionnaire outputs that reinforced the empirical results. This is consistent with the literature review findings and the basis of the regression model. The other determinants as established through literature did not gain meaningful support from the regression model even though the associations were captured correctly except for debt. This may as well be because the debt in the firms researched was low net cost funds as opposed to the traditional long term (common) and expensive debt for most firms particularly those without access to customer deposits.

These inconsistencies may be partly explained by the fact that each firm despite the general agreement in the significant determinants, variation do arise due to the difference in ranking occasioned by their unique market frictions. A universal set of factors may not exist to define the optimal dividend policy for the firm as some firms may be and are unique.

The study further demonstrated that much of the existing theoretical literature on dividend policy could be applied to the Commercial Banks on the NSE. However, the regression model may need to be adjusted to include other variables or redefined to align with the common definitions in literature and financial managers' understanding. It was evident the Financial managers listen to the voice of the shareholder and care about the impact of the dividend policy both on its potential information content and on the shareholders wealth. The dividend irrelevance theory of MM (1961) evidently lacked support as all responses were in favour of the relevance of investment and financing policies alongside the dividend decision. The respondents returned a high level agreement in support of the signaling, clientele, and agency costs/risk management theories.

Owing to the observations that dividend decision has information content, can affect firm value and in turn or directly affect the wealth of shareholders the dividend policy is worthy serious attention by senior management and Board.

5.5 Recommendations for Policy Makers

Given that the study findings find the dividend policy relevant to the financing and investment decisions and with strong information and agency cost theory attributes in that its affects the wealth of the shareholder and indeed the value of the firm, then the decisions impacting the policy deserve strategic attention and sharp focus by both the board and senior management. Other stakeholders deduce significant signals from the dividend decision.

5.6 Limitations

The study had a number of limitations knowledge of which would assist the assimilation of the conclusions reached. First, the sample targeted only the listed commercial banks for the period 1998-2007 a population of eight firms even though high level (75%) response was received. The small sample may impact the variable ratio and limit the efficiency of the regression model. Non-bank financial institutions and other listed firms were not considered as the businesses are perceived and regulated differently from the CBs hence the decision parameters are different and a distortion would have been eminent. Second, the regulator through prudential guidelines strictly controls the capital management of banks which impacts on the dividend policy indirectly even though there is no specific guideline dealing with dividends. This could bias financial managers and findings of the study. Third, the views about the dividend policy were obtained from one manager from each firm, as it would have been impractical to establish the entire pack. The manager responding is therefore being used as a proxy for dividend policy makers this may bias the firm frictions. Fourth, the study results are generalized from a group but the fact that individual firms have their own unique characteristics requires caution. Five and finally the researcher works in the Banking industry and some industry mischief could have

some response biases but hopefully this was catered for by the deemed adequate disclosure of purpose of the survey and declaration of confidentiality.

5.7 Recommendations for Further Research

Owing to the fact the study findings lend support to profitability and liquidity, other variables (age, governance structures-capital/ownership, signaling) may need to be introduced with properly aligned definitions in future studies. The sample was small and the results may be improved in future by inclusion of other listed firms on the NSE and contrasting the dividend policies in the two environments –Financial and Non-financial. It would be of interest to reaffirm why debt/dividend payout relationship is positive despite the literature support it should be negative.

REFERENCES

Adedeji, A. (1998). "Does the Pecking Order Hypothesis explain the Dividend Payout Ratios of firms in the UK?" *Journal of Business Finance and Accounting,* 25, pp. 1127-1140.

Aivazian, V., Booth, L., & Cleary, S. (2003). "Do Emerging Markets firms follow different Dividend Policies from U.S. firms?" *Journal of Financial Research,* 26, pp. 371-387.

Allen, F. (2001). "Do Financial Institutions matter?" *Journal of Finance,* 4, pp.1165-1175.

Allen, F., & Michaely, F. (1995). "Dividend Policy". Handbooks in operations research and management Science. Finance 9, pp.793-839

Al-Malkawi, H.N. (2007). "Determinants of Corporate Dividend Policy in Jordan." *Journal of Economic and Administrative Sciences,* 23, pp.44-70.

Ambarish, R., John, K., & Williams, J. (1987). "Efficient Signaling with Dividends and Investments". *Journal of Finance,* 42, pp.321-343.

Anerbach, A.J. (1979). "Share Valuation and Corporate Equity Policy". *Journal of Public Economics,* 11, pp.291-305.

Bailey, W. (1998). "Canada's Dual Class Shares: Further Evidence on the Market Value of Cash Dividends". *Journal of Finance,* 43, pp.1143-60.

Bajaj, M. & Vijh, A. (1990). "Dividend Clienteles and Information content of Dividend Changes". *Journal of Financial Economics,*26, pp.193-220

Baker, H.K. & Smith, D.M. (2005). "Dividend Policy and follow-the-leader behaviour". American University, Kogod School of Business, Working Paper.

Baker, H.K. and Powell, G.E. (2000). "Determinants of Corporate Dividend Policy: A Survey of NYSE firms". *Financial Practice and Education,* 9, pp.29-40.

Baker, H.K., Farrelly, G.E. & Edelman, R.B. (1985). "A Survey of Management views on Dividend Policy". *Financial Management,* 14, pp.78-84.

Baker, H.K., Saadi, S., & Dutta, S. (2005). "How Managers of Financial Versus Non_Financial Firms View Dividends: The Canadian Evidence".

Baker, H.K., Veit, E.T., Powell, G.E. (2001). "Factors Influencing Dividend Policy Decisions of Nasdaq Firms". *The Financial Review,* 38, pp.19-38.

Baker, H.K., Veit, E.T., Powell, G.E. (2002). "Revisiting the Dividend Puzzle: Do all the pieces now fit?" *Review of Financial Economics,* 38, pp.17-35.

Baker, M. & Wurgler J. (2002 &2004)."Catering Theory of Dividends". *Journal of Finance*.

Bali, R. (2003). "An Empirical Analysis of share returns around dividend changes." *Applied Economics*, 35, pp.51-61

Banerjee, A.V. (1992). "A Simple Model of Herd Behaviour". *Quarterly Journal of Economics*, 107, pp.797-817.

Barber, B.M. & Castanias, R.C. (1992). "Why do firms initiate dividends?" *Unpublished working papers*.

Barker, R.G. (1999). "The role of dividends in valuation models used by analysts and Fund Managers". *The European Accounting Review*, 8 (2), pp.195-218

Berle, A.A. & Means, G.C., (1932). *The Modern Corporation and Private Property*, New York: the MacMillan Company.

Bhattacharya, S. (1980). "Non-dissipative signaling structure and dividend policy". *Quarterly Journal of Economics*, 95, pp. 1-14.

Bhattacharya, S. (1979). "Imperfect Information, Dividend Policy and the bird-in-hand Fallacy". *Bell Journal of Economics*, 10, pp. 259-270.

Black, F. & Scholes M. (1974). "The effects of dividend yield and dividend policy on common share prices and returns". *Journal of Financial Economics*, 1, pp.1-22

Black, F. (1976). "The Dividend Puzzle". *The Journal of Portfolio Management*, 2, pp. 5-8.

Black, F. (1990). "Why firms Pay Dividends". *The Financial Analysts Journal*, 46, p.5

Bradford, D. (1979). "The incidence and allocation effect of a tax on corporate distributions". *National Bureau of Economics*, Working paper No.349.

Brav,A, Graham, J.R., Harvey, C.R., & Michaely, R. (2004). "Payout Policy in the 21st Century". Working Paper Duke University.

Brennan, M.J., (1970). "Taxes, Market valuation and Corporate Financial Policy". *National Tax Journal*, 23, pp.417-427

Campbell, J.A. & Beranek, W. (1955). "Share price behaviour on ex-dividend dates". *The Journal of Finance*, 10, pp.425-429.

Chay J.B. & Jungwon Suh, (2005). "Cross-Sectional Determinants of Dividend Payments: International Evidence". *Paper at The International Conference on Asia-Pacific Financial Markets*

Citigroup Capital Refinancing by US Treasury: http://www.citigroup.com [accessed on 28 November 2008]

Conroy, R.M., Eades, K.M. & Harris, R.S. (2000). "A Test of Relative Pricing Effects of Dividends and Earnings: Evidence from Simultaneous Announcements in Japan". *Journal of Finance*, 55, pp.1199-1227.

DeAngelo, H, & DeAngelo, L (2007). "Payout Policy Pedagogy: what matters and Why". *European Financial Management*, **13**(1), pp.11-27.

DeAngelo, H., DeAngelo, L., & Skinner, D.J. (1992). "Dividends and Losses". *Journal of Finance*, 47, pp.1837-1864.

Denis, D.J., Denis, D.K., & Sarin, A. (1994). "The Information Content of Dividend Changes: Cash-flow Signaling, Overinvestment and Dividend Clienteles". *Journal of Financial and Quantitative analysis*, 29, pp. 567-587.

Donaldson, G. (1961). "Corporate Debt Capacity", *Harvard*: Harvard University Press

Durand, D. & May, A.M. (1960). "The Ex-dividend Behaviour of American Telephone and Telegraph Share". *The Journal of Finance*, 15, pp.19-31.

Easterbrook, E. (1984). "Two agency cost explanations of dividends". *American Economic Review*, 74, pp.650-9.

Elton, E.J. and Gruber, M.J. (1970) "Marginal Shareholder Tax rates and the Clientele Effect". *The Review of Economics and Statistics*, 52, pp.68-74.

Erickson, E.A. (1972). "The Great Crash of October 1929"

Fama, E.F. (1974). "The Empirical Relationships between the Dividend and Investment Decisions of firms". *The American Economic Review*, 64, pp.304-318.

Fama, E.F. & Babiak, H. (1968). "Dividend Policy: An empirical analysis". *Journal of American Statistical Association*, 63, pp.1132-1161.

Fama, E.F. & French, K.R. (1998)." Taxes, Financing Decisions and Firm Value". *Journal of Finance*, 53, pp.819-843

Fama, E.F. & French, K.R. (2001). "Disappearing Dividends: Changing firm Characteristics or Lower Propensity to pay?" *Journal of Financial Economics*, 60, pp.3-43.

Farrar, D.E. & Selwyn L.L. (1967). "Taxes, Corporate Financial Policy and Return to Investors". *National Tax Journal*, 20, pp. 444-462.

Forbes, S.M. & Hatem J., (1998). "NYSE and AMEX listed firms that pay no-dividends: a recent history". *Journal of Financial and Strategic decisions*, 11, pp.47-51.

Frankfurter, G.M. & Gong, J. (1993). "Time - Series, Cross-Sectional tests of Dividend Policy Determinants". *Unpublished working paper.*

Frankfurter, G., Kosedag, A., Schmidt, H., & Topalov, M. (2002). "The Perception of Dividends by Management". *The Journal of Psychology and Financial Markets,* 3(4), pp. 202-217

Frankfurter, G.M., & Wood, B.G. (2003). "Models of Asymmetric Information and Empirical Research", *Dividend Policy: Theory and Practice* 9, pp.91-102

Frankfurter, G.M., & Wood B.G., (2003). "*Dividend Policy: Theory and Practice*".

Glen, J.D., Karmokolias, Y., Miller, R.R., & Shah, S. (1995). "To Pay or Not to Pay". *IFC Discussion paper* No.26

Graham, B. & Dodd D.L. (1934) "*Security Analysis*". New York : Whittlesey House

Graham, B., Dodd, D.L., & Cottle, S. (1962). *Security Analysis,* 4th edition. New York: McGraw Hill.

Harkins, P.E. & Walsh F.J. (1971). "Dividend Policies and Practices". *NY. The conference Board, Inc.*

Harper, D. (2001). Online Etymology Dictionary.

Haugen, R.A. & Senbet, L.W. (1986). "Corporate Finance and Taxes: a review". *Financial Management,* 15(autumn), pp.5-21.

Holder, M.E. & Langrehr, F.W., Hexter, J.L. (1998). "Dividend Policy Determinants: An Investigation of the Influences of Stakeholder Theory". *Financial Management*, **27**(3), pp.73-82.

Jensen, G.R. & Johnson, J.M. (1995). "The Dynamics of Corporate Dividend Reductions". *Financial Management*, 24, pp.31-51.

Jensen, G.R., Solberg, D.P., & Zorn, T.S. (1992). "Simultaneous Determination of Insider Ownership, Debt, and Dividend Policies". *Journal of Financial and Quantitative Analysis*, 27, pp. 274-283.

Jensen, M.C. (1986). "Agency Costs of Free Cash Flow, Corporate Finance and Takeovers". *The American Economic Review*, 76, pp.323-329.

John, K., & Williams, J. (1985). "Dividends, Dilution, and Taxes: A Signaling Equilibrium". *A Journal of Finance,* 40, pp.1053-1070

Julio, B. & Ikenberry, D.L. (2004). "Reappearing Dividends". *Journal of Applied Corporate Finance*, 16, pp.89-100

Kalay, A. (1980). "Signaling, Information Content, and the Reluctance to Cut Dividends". *Journal of Financial and Quantitative Analysis*, 15, pp.855-869.

Kale, J.R. & Noe, T.H. (1990). "Dividends, Uncertainty, and Underwriting Costs under Asymmetric Information". *The Journal of Finance*, 13, pp.265-277.

Kim, B.S., & Maddala, G.S. (1992). "Estimation & Specification Analysis of Models of Dividend Behaviour Based on Censored Panel Data". *Empirical Economics*, 17, pp.111-124

Kumar, P.C. (1988). "Shareholder-Manager Conflict and the Information Content of Dividends". *The Review of financial studies*, 1, pp.111-136.

Kumar, P.C. & Tsetsekos, G.P. (1999). "The Differentiation of "Emerging" Equity Markets". *Journal of Applied Financial Economics*, 9, pp.443-453

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R.W. (2000a). "Agency Problems and Dividends Policies around the world". *The Journal of Finance*, 55, pp.1-33

Leland, H. & Pyle, D. (1977). "Informational Asymmetries, Financial Structure and Financial Intermediations". *Journal of Finance*, 33, pp.1385-99.

Lie, E. (2000). "Excess funds and Agency problems: An Empirical study of Incremental Cash Disbursements". *Review of Financial Studies*, 13, pp.219-248.

Lintner, J. (1956). "Optimal dividends and corporate growth under uncertainty". *The Quarterly Journal of Economics*, 78, pp.49-95

Lintner, J. (1962)."Dividends, Earnings, Leverage Share prices and Supply of Capital to Corporations". *Review of Economics and Statistics,* 44, pp.43-269

Litzenberger, R. & Ramaswamy, K. (1979). "The Effect of Taxes and Dividend on Capital Asset Prices: Theory and Empirical evidence". *Journal of Financial Economics*, 7, pp.163-195.

Litzenberger, R. & Ramaswamy, K. (1982). "The Effect of Taxes and Dividend on Common Share Prices: Tax Effects or Information Effects". *Journal of Finance,* 37, pp.429-443.

Lloyd, W.P., Jahera, S.S., & Page, D.E. (1985). "Agency Costs and Dividend Payout Ratios". *Quarterly Journal of Business and Economics*, 24, pp.19-29.

Marsh, T.A. & Merton, R.C. (1987). "Dividend Behaviour for the Aggregate Share Market". *The Journal of Business*, 60, pp.1-40.

Masulis, R.W. & Trueman, B. (1988). "Corporate Investment and Dividend Decisions under Differential Personal Taxation". *Journal of Financial and Quantitative analysis*, 23, pp.369-386.

Masulis, R.W. & Korwar, A.N., (1986). "Seasoned Equity offerings". *Journal of Financial Economics*, 15, pp.91-118.

McClure, B. (2002). "Taking a chance on Behavioral Finance". Article on http://www.investopedia. com, accessed on 9 October 2007.

Miller, M. & Rock K. (1985). "Dividend Policy under Asymmetric Information". *Journal of Finance*, 40, pp.1031-1051

Miller M. & Scholes, M. (1982). "Dividend and Taxes: Some Empirical Evidence". *Journal of Political Economy*, 90, pp.1118-41.

Miller, M.H. & Modigliani, F (1961) "Dividend Policy, Growth and Valuation of Shares". *Journal of Business*, 34: 411-433.

Miller, MH & Scholes, M.S. (1978). "Dividends and Taxes". *Journal of Financial Economics*, 6, pp.333-364.

Miller, M.H. (1987). "The Informational Content of Dividends". *In Macroeconomics: Essays in Honour of Franco Modigliani.*

Modigliani, F. (1982). "Debt, Dividend Policy, Inflation and Market Valuation". *The Journal of Finance*, 37, pp.255-273.

Morck, R., Shleifer, A. & Vishny, R. (1988). "Managerial Ownership and Market Valuation: An empirical analysis". *Journal of Financial Economics*, 20, pp.293-315.

Morgan, G., & Stephen, T. (1998). "Taxes, Dividend Yields and Returns in the UK Equity Market". *Journal of Banking and Finance*, 22, pp.405-423.

Muragu, K. (1990)." Share Market Efficiency In Developing Countries: A case Study of the Nairobi Share Exchange". *Glasgow University Theses Repository.*

Myers, S.C. (1984). "The Capital Structure Puzzle". *Journal of Finance*, 39, pp.575-592.

Peterson, P.P. & Benesh, G.A. (1983). "A Re-examination of the Empirical Relationship between Investment and Financing Decisions". *Journal of Financial and Quantitative Analysis*, 18, pp.439-453

Pettit, R.R. (1977). "Taxes, Transactions Costs and the Clientele Effect of Dividends". *Journal of Financial Economics*, 5, pp.419-436

Ramcharran, H. (2001)." An Empirical Model of Dividend Policy in Emerging Equity Markets". *Emerging Markets Quarterly,* pp.39-49

Rees, E. (1997). "The Impact of Dividends, Debt and Investment of Valuation Models". *Journal of Business Finance and Accounting*, 24, pp.1111 - 1130.

Rozeff, M.S. (1982). "Growth, Beta and Agency Costs as Determinants of Dividend Payout Ratios". *The Journal of Financial Research*, 3, pp.249-259.

Shefrin, H. & Statman, M. (1984). "Explaining Investor Preference for Cash Dividends". *Journal of Financial Economics*, 13, pp.253-282.

Shiller, R.J. (1986). "The Marsh-Merton Model of Managers' Smoothing of Dividends". *The American Economic Review*, 76, pp.499-503

Shiller, R.J. (1990). "Market Volatility and Investor Behaviour". *The American Economic Review*, **80**(2), pp.58-62.

Siegel, J. (2002). "The Dividend Deficit". *The Wall Street Journal*, 239, A20.

Silva, L.C., Goergen, M. & Renneboug L. (2003). *Dividend Policy and Corporate Governance.*

Sung, H.M. & Urrutia, J.L. (1995). "Long-term and Short-term Causal Relations between Dividends and Share Prices: A Test of Lintner's Dividend Model and the Present Value Model of Share Prices". *Journal of Financial Research*, 18, pp.171-188.

The Economist, (20 November 1999). "Shares without the Other Bit." p.93

Yoon, P.S., & Starks, L.T., (1995). "Signaling, Investment Opportunities, and Dividend Announcements." *Review of Financial Studies*, 8, pp.995-1018.

Appendix 1- Letter of Introduction

STRATHMORE UNIVERSITY

22 January 2010

TO WHOM IT MAY CONCERN
Mutiso, Fredrick - Reg No 047521

Mr Mutiso Fredrick is a postgraduate student in our Master of Commerce (Mcom) Programme. In partial fulfillment of the Mcom degree, students are required to carry out a research project and write a thesis on a contemporary subject within their field of specialisation. Among other activities, the project involves data collection and analysis.

Fredrick is requesting to gather information to be used in his research. The information he will obtain from your organization will be used for this academic purpose only and will be kept confidential. The results of the survey will be in summary form and will not disclose any individual, company name or company information in any way.

The research study is entitled "**Determinants of Dividend Policy in Listed Commercial Banks in Kenya.**" We hope that your organization can assist by providing information to the above
Named student.
Yours faithfully,
David Wangombe

Dean, Faculty of Commerce.

Ole Sangale Road Madaraka Estate Telephone (254 - 20) 606155 Email admissions@strathmore.edu
P. O. Box 59857 00200 City Square 0722 - 205428 0733 - 618135 Website www.strathmore.edu
NAIROBI KENYA Fax (254 - 20) 607498

Appendix 2- Questionnaire

PART ONE

Please indicate the level of importance attached, by placing a "√ or x" on the scale provided, to each of the stated factors in formulating your company's dividend policy. The scale should be treated as a continuous range from "None" to "High".

Section I: Factors influencing Dividend Policy

		Level of Importance			
	Statement	**None**	**Low**	**Moderate**	**High**
1.	Level of current and projected future earnings				
2.	Historical /future dividend trends				
3.	Impact on the share price				
4.	The signal to be passed to investors				
5.	Stability of cash flows				
6.	Investment considerations such as availability of profitable investment opportunities				
7.	Liquidity constraints such as availability of surplus cash				
8.	Desire to pay out in the long run				
9.	Current shareholders' desire for income				
10.	Concern for maintaining a target capital structure				
11.	Internal versus external sources of financing investments				
12.	Impact on capital requirements				
13.	Desire to conform with the industry practice				
14.	Impact on the size of the balance sheet				
15.	Contractual obligations such as restrictions in debt and /or equity contracts				
16.	Tax considerations of dividend income vis a vis capital gains				
17.	Projections about the future state of the economy				
18.	Preference to pay dividends instead of undertaking risky reinvestment				
19.	Prestige associated with paying dividends				
20.	Control issues such as the firm's ownership structure				

PART TWO

Please indicate the extent to which you disagree or agree with each of the following statements by placing a "√ or x" on the scale provided. The scale should be treated as a continuous range from "strongly disagree" to "strongly agree". If you have no opinion about a statement, or if that statement does not pertain to your situation, leave that scale blank. Placing either "√ or x" in the middle "neutral position" indicates that your opinion is balanced, neither disagreeing nor agreeing with the statement. You may provide additional notes to further clarify or expound on your choice.

Section II: Statements about Corporate Dividend Policy

	Statement	Strongly Disagree	Somewhat Disagree	Neutral	Somewhat Agree	Strongly Agree
1.	Dividend policy is formulated to produce maximum value for shareholders					
2.	An optimal dividend policy strikes a balance between current dividends and future growth that maximizes share value					
3.	A firm's investment, financing and dividend decisions are interrelated					
4.	A firm's dividend payout affects its cost of capital					
5.	A change in dividend payout ratio affects firm value					
6.	Dividends should be viewed as a residual after financing desired investments from earnings					
7.	Investors prefer dividends now to possibly higher but uncertain future dividends					
8.	Stockholders prefer a certain dividend stream to an uncertain capital gain					
9.	A firm should be responsive to the dividend preferences of its shareholders					
10.	Investors are attracted to firms that have dividend policies appropriate to the investors' particular tax circumstances					
11.	Stockholders like to receive a regular dividends					
12.	Investors prefer payment of dividends irrespective of the tax implications					
13.	Investors regard dividend changes as a signal to the firms' future prospects					

	Statement	Strongly Disagree	Somewhat Disagree	Neutral	Somewhat Agree	Strongly Agree
14.	Once a firm starts paying dividends, it must continue, otherwise, the shareholders will think that something is wrong with the firm					
15.	When firms cut dividends, it is an indication of waning financial health					
16.	Dividend payments directly influences the market price of the share					
17.	The market analysts always perceive the dividend pronouncement as a positive market indicator					
18.	Dividend increases are ambiguous because they can suggest future growth or a lack of investment opportunities					
19.	The firm will pay dividend even if it has to raise capital for investment externally					
20.	Paying cash dividends creates a costly cash drain for the firm					
21.	Paying cash dividends is necessary because the shareholders expect it					

Appendix 3

List Firms in the Sample (Population)

	Institution	Date listed	Analysis Code
1	Kenya Commercial Bank Limited	1989	A
2	Barclays Bank of Kenya Limited	1986	B
3	Standard Chartered Bank Kenya Limited	1988	C
4	Equity Bank Limited	2006	D
5	National Bank of Kenya Limited	1994	E
6	CfC Stanbic Bank Limited	1970	F
7	Diamond Trust Bank (Kenya) Limited	1972	G
8	NIC Bank Limited	1971	H