EFFECT OF DIVIDEND POLICY ON SHARE PRICE PERFORMANCE: A CASE OF LISTED INSURANCE COMPANIES AT THE NAIROBI SECURITIES EXCHANGE, KENYA

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MAY, 2017

DECLARATION AND RECOMMENDATION

Declaration

This research report is my original work and that it has not been presented in any other university or institution for academic credit.

Signature..   **Date ....**

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Recommendation

This research report has been submitted for examination with my approval as University

Supervisor.

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DEDICATION

This Research Project is dedicated to my family my wife Emmy, and colleagues for their encouragement that saw me complete the preparation of this research proposal.

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ABSTRACT

Dividend policy remains a source of disagreement despite many years of theoretical and empirical research findings. Paying large dividends decreases the risk and therefore influences Security prices. Dividends are relevant because they signal and have informational benefit to investors. The main question to be answered here is how much dividends should be given back to their shareholders?, companies must take this crucial decision period after period. The optimal dividend policy is the one that maximizes the company's security price, which leads to maximization of shareholders' wealth. However, Insurance companies listed at Nairobi securities exchange have in recent past, between 2011-2015 announced low dividends, therefore whether or not dividend decisions can contribute and affect the share price of the firm is a debatable issue. The purpose of this study was to determine effect of dividends policy on share price performance of Insurance companies listed at the Nairobi Securities Exchange. This study was guided by the following objectives; to determine the effects of Dividend Payout, to examine the effect of Dividend Yield, to analyze the effect of Earnings Per Share, and to determine the effect of Inflation on Share Price. This study was underpinned by three theories namely; Modigliani and Miller, Gordon's Model and Signaling theory, this study adopted combination of descriptive design and historical research design as well inferential statistics. The target population was six Insurance companies listed at the Nairobi Securities Exchange namely; Jubilee holdings ltd, Pan Africa Insurance holdings, Kenya Re-Insurance Corporation limited, Liberty Kenya Holdings, British American investment company ltd and CIC Insurance groups. Secondary data was collected from the companies' past financial reports for ten year period between 2006-2015. Panel data was evaluated and analyzed using Stata. Dynamic Regression analysis was used to establish the relationship between dividend Policy on share price of the listed Insurance companies. This study established that dividend payout, dividend yield, earnings per share and inflation are jointly statistically significant in predicting the value of share price for listed Insurance firms. Therefore the study recommends that Insurance firms should consider their dividend policy accurately since they have a great power on influencing share price, hence management should be responsive in declaring dividends. The findings of this study benefits Insurance firms and regulators like CMA, IRA and NSE in decision making.

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ABBREVIATIONS AND ACRONYMS

AVMP: Average Market Price

BRIT: British-American holdings Company (Kenya) limited

CIC: Corporative Insurance Company ltd

CMA: Capital Markets Authority

DPO: Dividend Payout

DY: Dividend Yield

EPS: Earnings Per share

INFL: Inflation

IRA: Insurance Regulatory Authority

JBL: Jubilee Holdings ltd

KENRE: Kenya Re Insurance Corporation co ltd

LIB: Liberty Holdings ltd

NSE: National Security Exchange

PANAFR: Pan African Insurance Holdings ltd

SD: Standard Deviation

STATA: Statistic Data

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

The Major fundamental goal of modern corporate entities is to maximize the value of Shareholders through three major goals; the investment function, the financial decisions and the aspect of dividend policy which encompasses the amount to payout as dividends and amount to be retained as retained earnings (Pandey, 2010). Managers have been pursuing dividend policies to maintain the share price which is a measure of firm's performance. A pioneering study done on dividends Policy and signaling was done by Linter (1956) the study was the most vital literature in the corporate finance world. According to Lintner (1956) who was the first to recognize the information content of dividends, managers generally in making dividend policy decisions looked at the earning of the current period to target level of dividend payout to be paid to shareholders.

The term market share performance describes the performance of stock comparative with others. According to Fama & French (2001), the long-term goal of a company is to better its company's performance though share value. This noble idea that management must strive to achieve optimum wealth creation coupled with sustainability can only be attained through the execution of financial management functions of dividend policies, investment and finance function which will translate to better command in maintaining high share performance in the market.

Dividend policies are company's guiding documents on dividend measurement and payment. According to Damodaran (2001), dividend policy of a company can be measured using two common appropriate methods, dividend yield and dividend payout ratio, while the latter being to measure the return an investor can make or generate from dividends alone. Changes in these two financial measures provide information signals in relation to risks facing the firms and future growth earnings of the firms. Apart from dividend policy indicators, investors also see other financial indicators to make decisions pertaining the firms efficiently like earnings per share, retained earnings, firm size, book value among others.

Dividend Signaling theory indicate that dividends are used to pass company's information to potential investors. The payment of dividends updates the potential investors and shareholders that the firm's performance is fair. The main purpose of the firm is to improve shareholders' wealth, resulting into maximizing share performance of the firm through declaring high dividends to investors (Allen, Barnado & Welch, 2000).

The Kenyan securities exchange market is comprised of sixty-six listed companies at Nairobi Securities Exchange (NSE, 2015). The companies are categorized into 10 sectors, namely; Agricultural Segment, Commercial and Services, Telecommunication, Automobiles, Investments, Banking, Manufacturing, Insurance, Construction, and Petroleum and Energy (NSE, 2015).

Insurance Firms penetration in Kenya has remained low with total of six listed companies. However despite their number, Insurance companies have been undertaking risks by pooling premiums. They enhance economic development through specialized financial services which range from financial planning, securing of risks inherent in enterprises and risk absorption. This promotes financial stability in the firms and provides security to economic entities and job creation. The ability of Insurance firms to safeguard potential risk in the entities rely on their capacity to post good profits to give value for their shareholders in terms of dividends. A well-managed Insurance industry is a windfall for economic growth as it stimulates smooth flow development (Charumathi, 2012).

The NSE provides platform where potential investor participates in selling and buying of securities like shares, bonds, debentures, and derivatives. In return the investor received yearly rewards inform of dividend or other benefits based on the policy on dividend of the company. According to Capital Market Authority Manual, (2015). The Insurance industry in Kenya consists of many players and presently have 46 licensed Insurance companies, 4,576 registered agents and 6 registered Insurance companies. In total NSE have combined of 72 firms. Etemesi (2004) points out that Kenya Insurance industry significantly contributes to the Gross Domestic Product of the Kenya economy and ranked first in East Africa region.

Masinga (2005) points out that a successful Insurance sector is of crucial significant to every modern economy. This is because they encourage savings through investors owning financial

instruments like shares and debentures. According to the Insurance regulation Authority Annual Review (IRA, 2015), despite the above benefits, the Insurance sector in Kenya has been performing dismally through declaring low dividends hence the impact on share price is not documented well. Also these Insurance firms have not been contributed enough to gross Domestic product (GDP) due to factors such as, poor internal financial policies like dividend policies and slower economic growth. The Insurance sector need to step up an on the issues in search for a solution to remain fairy competitive, Kenya Insurance Survey (K, I.S, 2015).

1.2 Statement of the Problem

Insurance sector is a key player of financial system in Kenya and in the region through undertaking risk of business and facilitate transfer of savings for investment through generation of long term funds for investment for economic development and job creation. In the year 2011 Nairobi securities exchange went into transformation and brought in more players with new regulations to enhance trading, most of the studies conducted on the effect of dividend policy on share prices have been carried out in both developed and emerging security exchange markets. Many conflicting findings have been formulated in both market economies. There are those findings which hold that dividend policy affect share price, a case in point are (Eriotis, 2005; Mandal & Rao, 2010; & Hussainey, 2010) among others. On same perspective other studies found contrary findings that dividend policy does not affect share price like (Mohammed & Chowdhury 2010; Sharma 2011; and Ndungu 2014). However, a few studies in Kenya concur and found significant findings that dividends policy affect share price like those of (Shisia e*t* al 2014; & Ogolo, 2012).

Initially, in Kenya the Insurance firms used to declare high dividends in the past five years. They had posted a combined dividend payout of 29% from 2006 to 2010, during the period 2011 to 2015 the insurance firms have been declaring low dividends at a combined average of 18% dividend payout (IRA,2015). However, there is need to examine the impact of this on share price, it is against this background that this study was conducted to examine the effect of dividends on share price in NSE Kenya over the period 2006- 2015.

From the previous findings it has demonstrates that few studies have been conducted in Kenya on Insurance Companies, furthermore the few research done on Kenyan perspective have not

given a conclusive findings on Insurance firms hence the need to carry out the research on the same. Despite the enormous benefits of the research findings, if the study is not conducted for Insurance firms in Kenya, they will not get requisite information for decision making therefore the current study seeks to fill the knowledge gap.

1.3 General Objective.

The general objective of the study was to determine the effects of dividends policy on share price performance of listed Insurance companies at the Nairobi Securities Exchange, Kenya.

1.4 Specific Objectives.

i.   To determine the effects of dividend payout on share price of listed Insurance companies at the Nairobi Securities Exchange, Kenya.

ii.   To examine the effects of dividend yield on share price of listed Insurance companies at the Nairobi Securities Exchange, Kenya.

iii. To analyze the effects of earning per share on share performance of listed Insurance companies at the Nairobi Securities Exchange, Kenya.

iv.   To determine the effects of inflation on share price of listed Insurance companies at the Nairobi Securities Exchange, Kenya.

1.5 Hypotheses

Ho_1: Dividend payout has no significant relationship with share price of listed Insurance companies at the Nairobi Securities Exchange, Kenya.

Ho_2: Dividend yield has no significant relationship with share price of listed Insurance companies at the Nairobi Securities Exchange, Kenya.

Ho_3: Earning per share has no significant relationship with share price of listed Insurance companies at the Nairobi Securities Exchange, Kenya.

Ho_4: Inflation no has no significant relationship with share price of listed Insurance companies at the Nairobi Securities Exchange, Kenya.

1.6 Significance of the Study

The research findings were of importance first to the capital market authority in formulating policies that govern companies trading at the NSE. Secondly, the results were of significance to

investors and in predicting the performance of companies to invest in, also will contribute to literature in the field of finance.

1.7 Scope of the Study

The aim of the study was to establish the effects of dividend policy on share price performance of Insurance companies listed in Nairobi Securities Exchange. The study will cover six companies listed at the NSE for the ten year period from 2006 to 2015 because of availability of data, these listed Insurance firms are namely; Jubilee holdings, Pan Africa Insurance holdings, Kenya Re-Insurance Corporation limited , Liberty Kenya Holdings, British American Investment Company, and CIC Insurance groups.

1.8 Limitations of the Study

One of the limitation that researcher faced was the inconsistencies in companies financial year end reports. Reason being unavailability of standardized financial reports. In addition, not all Insurance companies have been listed at the NSE, The study may limit the application of the findings, however to overcome this challenge a similar research to be undertaken covering unlisted Insurance companies at the NSE.

1.9 Assumptions of the Study

The assumptions of study are things that are somehow out of control of the researcher, however influences the outcome but are acknowledged in full. For example, in case of Share price performance apart from market share there are other indicators which measure firms share price performance. These are like Earnings Per Share, Return on Assets, dividend Yield, and Market value added. There are also factors that affect share price movements like the economic forces of demand and supply, Interest rates, current exchange and political instability. All these cannot be ignored but the researcher has acknowledged their influence.

1.10 Definition of Terms

Capital Market Authority: This is the Kenyan authority that is mandated to supervise and regulate Companies Listed at Nairobi Securities Exchange.

Cash Dividend: The most common way to pay dividend is in the form of cash.

Dividend Payout ratio: This is the percentage of earnings paid out in dividends to shareholders. Measures the percentage paid out net income to shareholders.

Dividend Per share: Measures actual dividend paid to each shareholders owning shares in the firms.

Dividend policy: Companies' document guiding the management on dividend payments like size and pattern of cash distributions to shareholders over time.

Dividend Signaling effects: This is a theory which asserts that announcement of increased dividend payments by a company gives strong signals about the bright future prospects of the company and vice versa (Pandey,2010).

Dividend Yield Ratio A Financial ratio that indicates and measures the amount of cash dividends distributed to common shareholders in relation to market share, it is the return on stock based on dividends. Calculated as ratio of dividends paid upon stock price (Pandey,2010).

Dividend: Dividend is a payment of a portion of firms' earnings, decided by the board of directors to its shareholders or a return for owning a security in a company.

Earnings per Share Financial measure of gauging profitability of a company i.e. Profit attributed to shareholders it Measure how much shilling of net income has been earned by each share of common stock its derived by dividing the net income less preference shares by the number of common stock outstanding during the period.

Growth: **opportunity** **Inflation:**	An investment that has the potential to grow significantly, leading to a profit for the investor at NSE.
	Inflation is the general measure of increase of goods and service in the county normally indicated the level of purchasing power of consumers
Insurance Firms:	This are Companies which they undertake risk of other companies through pooling of interest.
Insurance Regulation Authority :	This is the Regulatory Body that Regulates and license all Insurance companies in Kenya.
Liquidity:	The ability of firm meeting its obligation easily, is an indicator of healthy company
Market Price Per share:	Market price is taken as dependent variable which is calculated by taking the average market prices of the shares over the periods under study it is measure for performance.
Nairobi Securities Exchange :	In Kenya this is the security market that facilitate faster trading of securities, in July 2011, the Nairobi Stock Exchange limited , changed its name to the Nairobi Securities Exchange limited to oversee wide trading of securities including Derivatives and Real Estate Investment.
Retention Ratio:	Amount that remains after paying dividends is calculated by subtracting total dividend from total earnings and then dividing the resulting amount by Earnings, it shows a company is reinventing in its operation.

Return on Assets: An indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as "return on investment"

Return on equity: The return on equity ratio or ROE is a profitability ratio that measures the ability of a firm to generate profits from its shareholder's investments in the company.

Share or stock price: Are financial instrument in which one acquire ownership of a public limited company and gives right to dividend payments and voting rights.

Panel Data: Panel data are provide information on individuals behavior both across individual and over time.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter deals with review of existing literature, theoretical framework, dividend policies and the conceptual framework. The chapter builds on a theoretical framework which states the basis for creating a priority from which the objectives of the study can be underpin, though much effort has been taking place in trying to establish fundamental factors leading to share price performance in relation to dividend policy. However still their exist inconsistencies in both empirical gaps, theories, and other unresolved issues which gives rise to opportunities for clarification. Therefore the propositions in the theoretical framework were used as a basis of defining and explaining the relationships between dependent and independent variables as operationalized in the conceptual framework (Abdi, 2010).

2.2 Dividend Policy

According to Panday (2010) there are major dividend policies adopted by management in making informed decisions. These are Constant dividend rate, Residual dividend policy and constant amount per share plus extras depending on profits.

2.2.1 Constant Dividend Per Share

This is a dividend policy where the investors get a rate on the paid up capital at usual rate in each period. Since the earning of firm normally fluctuates year to year the dividends payout will also fluctuate. The policy will have continued until when the company reaches a new level of earning when the firm also introduces another rate to be used. Here the investors are generally risk adverse like retired persons or weaker section of the society who wants to get regular incomes. The merit of regular dividend policy is that it helps in creating confidence among the shareholders through stabilizing the market value of securities through constant dividends, in a nut shell it's applicable to stable companies normally at maturity stage (Chen, 2009).

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2.2.2 Constant low Dividend Per Share and Extras

This policy is suitable for firms with fluctuated earnings, this policy require a payment of minimum dividends per share with a step up option if desirable depending on firms performance. In Kenya, many companies adopt this policy as they pay interim dividends followed by regulars at the final year end. This policy will enable the firm pay constant dividends yearly regularly and supplement when the company makes super profits. Many shareholders prefer this dividend policy because of advantage of getting extra dividend occasionally (Zhang, 2004).

2.2.3 Residual Dividend Policy

Under this dividend policy the management pays dividends after investing in profitable ventures. This policy literary interpreted as dividend payments will vary from one period to another depending on the available opportunities for investment. The Policy has the advantage of saving on floatation cost and avoiding dilution of ownership (Pandey, 2010).

2.3 Share Price Performance.

The rationale behind share price movements is captured in both micro and macro factors affecting the firms. If the micro economic conditions are favorable and expected to continue for long run, shareholders and investors tend to feel more confident. Again when firms perform well and post high profits this is attributed to the economic condition which are favorable (Pandey, 2010).

According to NSE (2015), every day at Nairobi securities exchange prices of securities going up and down, among the factors that bring about the changes are in respect to firm information outflow of good news like high profit reports, high dividend payout, introduction of new product, securing new contract and high demand. All this factors compounded will make the price of the company go up. Again on the flip side, signal of bad news like massive losses, news of receiverships, restructuring, mergers and acquisition, change of management, employee layoff and internal Scandals scenarios, prices goes down swiftly. On the Macro factors perspective if the economic climate is not favorable, investors may feel worried and nervous they may be bothered that a company's profitability will suffer due to macro factor like high inflation, political instability, high tax system, terrorism and devaluation of currency which affect the

future profits and tend to reduce demand for shares so prices may fall significantly (Majanga, 2015).

2.4 Empirical Studies on Dividend Policy on Share Price performance

Dividends Policy is the challenging aspects in finance. The dividend Signaling hypothesis has been extensively investigated, however there are varied findings in the literature. Some research findings support the hypothesis, while others find no or signaling support for dividend Signaling power on share price performance. Insurance firms are likely to emit potential signal through policy decisions on dividend if their market value is more uncertain due to inherent risk of asymmetric information between the investors and top management (Kopcke, 1992).

In developed countries vast studies have been extensively researched on dividend Policy and Announcements' on share performance. For instance in American market a research by Akhigbe, Bored & Madura (1992) on dividend Policy and Signaling on share price performance by Insurance Companies of America firms. They employ size of dividends, dividend yield and firm size to represent predictor variables. The study found a unique characteristic of insurers firms they adjust their dividends creating a unique signal that differs with other firms. They conclude that share price respond with positive and significant impact.

Economies which are emerging like India, one of the studies conducted in India by Mandal & Rao (2010) from their potential findings provide enough evidence to support that both the announcements of dividend and dividend omission carry some new value relevant information to the investors. This implies that Signaling by management to shareholders. By use of event study analysis, they conducted their research findings for twenty-year Period from 1990-2009 on Dividend Announcements (dividend Initiation) and dividend Omission (non- payment of dividend) the firms employed under study were 40 firms in both dividend initiation and 44 firm's dividend omission. From the enormous findings established dividend carry new value to market participants which reflect in market share performance they also found that dividend omission was greater than for dividend initiation. This study supports both the Clientele theory of dividends which was advanced by Petit (1977) and Bird in hard theory (Godon, 1963).

According to Khan (2012) suggested that financial analysts use dividend policies to make informed decisions pertaining their investments. Dividends payment is not the only source of funds but indicates firms' investment strategy. It means maximizing shareholder's wealth rely on policy of dividend of the company, the dividend payout is a paramount factor that determines financial share performance of listed firms in Kenya. Most organization strive to succeed in investments and finance decisions through a variety of indicators. Most managers believe that one of the key principles of paying dividend is either a strategic tool to answer the dividend puzzle that divided increase or decrease the stock price. However interestingly, it has been hectic and controversial reaching a conclusive finding as to whether dividends signal share price and specifically with regards determination of its impact on price of stock in listed Insurance companies in Kenya (Khan, 2012).

Scholarly works by Eriotis (2005) analyzed the effect of distributed earnings and Size of the firm to its dividend Policy at Athens stock exchange they sampled 149 firms in a 5 year span period 1996-2001.The independent variable used to determine the corporate policy decisions were the earnings distributed and the size of the firm, from their findings found that Greek firms prefers to distributed dividend yearly according to total earning and size rather than following constant dividend policy, from this potential findings they recommend that dividend policy of the firms acted as a signal about the firm's dividend decisions which will trigger changes in share price

Managers are concerned with the best dividend payment which satisfied investors. In practice financial analyst believe that best dividend policy is one that maximizes shareholder's wealth. However management in a dilemma as whether to announce higher dividends to signal future higher returns or to retain for investment. According to Mokaya, Nyang'ara & James (2013) who analyzed the effectiveness of dividend policy on the market share in the banking industry in Kenya. They used the National Bank Kenya for the study, engaging target of 47,000 populaces by use of explanatory design covering a sample of 100 shareholders, drawn from shareholders of National Bank of Kenya. The findings concluded significant association between dividend declaration and market share value supporting that dividend declaration had a significant impact on the market share value.

Shisia, Sang, Sirma, & Maundu (2014) analyzed the assessment of dividend policy on share performance of listed telecommunication firms at the Nairobi Securities Exchange Kenya. From their findings, found a unit increased in dividends payout led to positive significant change in dividend stock performance. This explains why dividends is a factor investors monitor so as to invest in the company. The shareholders shift loyalties to firms which post higher dividends, therefore dividend should be taken with decisive mind in decision making.

Yegon, Cheruiyot, Rotich & Sang (2014) conducted a research study on dividend policies on financial performance of manufacturing firms at Nairobi securities Exchange. They established a strong positive association between dividend paid and profitability of the firms. Similarly, in concurrence to dividend policy, Wekesa (2013) analyzed the determining influence of dividend policy by Kenyan agricultural companies in Nairobi Securities Exchange. He established dividends payout had a strong indicator of Share price.

Al- Shuburi (2011) undertook an investigated the determinants of dividend change policy factors of dividend policies on 60 quoted companies on ASE (Amman stock exchange) for period ranging 2005-2009. In their study by use of Tobit and Logit regression analysis. The results established, that Leverage, Institutional Proprietorship, Risk of firm, Assets Composition and Growth Opportunities, affect the dividend payout in listed firms of Amman stock exchange.

Based on the contrary findings in emerging economies, a study by Sharma (2011) at the National Stock Exchange India. They put forward that announcements of dividends do not signal stock returns during the days the dividends announcements because the of perfect information available to all the players and the share prices adjust reflect the true intrinsic value

Regionally also on the contrary antithesis school of thought are research conducted in Senegal Dhaka Stock exchange, study by Mohammed & Chowdhury (2010) explore the effects of dividend policy announcements on stocks price and found weak evidence that stock price does not react on the Dividend announcement at Dhaka Stock Exchange. They attribute this due to insider trading in the market in insiders, brokers and the exchange employees act as informed speculators for short-term gain thus making dividend information ineffective. In view of this, dividend announcement does not generate significant impact on the movement of stock prices.

2.4.1 Effects of Payout ratio on Share Price

While reviewing Emerging economies research by Hussainey, Mgbame & Aruoriwo (2010) study the association between dividend policy and the share price stability in the UK Stock Exchange. The period was the ten-years from 1998 to 2007 by using multiple regression analysis. The dependent variable was share price volatility and independent variables were dividend payout, dividend yield, growth and debt. The results indicated that a negative insignificant correlation relating dividend yield and size on stock price. The study also established a positive relationship between debt, growth, and dividend payout on the volatility of stock price. Therefore, this finding has provided a light on what moves stock prices which is important for investors for making investment decisions and dividend policy formulation.

According to study done by Zakaria & Tan (2007) who analyzed the impact of dividend policy on share price volatility on construction firms in Malaysian. The main reason was to analyze the influence dividend policy on distribution of cash dividend on the shares of firms in the main segment of construction industry. From the findings a positive significant relationship between the dividends per share and volatility of shares. Furthermore, Rehman & Hussain (2013) studied the impact of dividend policy on performance of the company's shares in stock exchange of Karachi. Regression model was used to test and the findings concluded Karachi stock exchange dividends payout ratio affects significantly the firm's performance.

Regionally in western Africa a study by Uwuigbe (2013) analyzed the determinants of dividend policy on the firm's performances of 50 Nigerian companies, for the period of 2006 to 2010. The findings established a significant association relating Return on Equity (ROE) and Dividends per share (DPS) on firms share performance.

Similarly, in Ghana research by Amidu (2007) who studied the influences of dividend policy distribution on performances of quoted firms in Ghana. They conducted study for an eight-year span from 1997 to 2004. From their findings found a very positive and statistically strong relation between dividend policy represented by payout ratio, growth in sales, leverage and size whereas the dependent variable represented by Return on Assets (ROA). These findings depict that dividend payments have direct effect on the profitability of the firm.

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Similarly, findings in Kenya perspective reinforces preceding findings from emerging and developed economies, study by Waithaka, Jonah, Julius, & Patrick (2012). They conducted a study on effect of dividend policy on share price on Nairobi securities exchange on all quoted companies. They concluded that increased in dividends corresponded positively to share price increases. These findings demonstrate formidable and powerful findings in Kenya security market.

Again in Kenya, other scholars namely Matoke & Marangu (2014) examined the payments of dividends and their share performances on the firms listed in the Nairobi securities exchange. They examined 29 quoted firms in the Nairobi securities exchange for a span of ten years from the year 2003 up to the year 2012. They selected paid dividends firms during the periods under study with comparison with share price movements. From their findings it was found that firms paying dividends had strong positive impact on the share prices.

Furthermore a study by Musiega, Alala, Musiega, Maokomba & Egessa (2013) examined the determinants of dividend payout policy of firms which are of non-financial nature at the Nairobi Securities Exchange. It was found that current earnings, return on equity and size were found to underpin the dividend payout.

Murekefu & Ouma (2012) conducted a study between dividend payout and firm's performance for listed companies in Nairobi Stock Exchange in Kenya. The predictor variables were dividend payout, Sales and total Assets. They use regression in analyzes data for the 8 year period from 2002-2010. The result of their findings illustrated that payments of dividend had a positive impact on firm performance.

In consensus to the above findings was study done by Munyua (2014) who examined the effects of dividend policy on stock prices. The data ranged from 2004-2013 years for 61 companies listed firms at the Nairobi Securities Exchange Kenya. The model used regression in the study with share price as the dependent variable and independent variable were dividend per share, leverage and profitability. Their findings concluded a strong association between dividend per share on the share prices performance.

On the Contrary findings Gitau (2011) studied the relationship between payment of dividends and share price for firms at the NSE. They found a weak positive relationship between dividend payout ratio and market share prices. Bittok (2004) in a research finding on the effectiveness of dividend policy on the firm's value of the companies on N.S.E Kenya. With a period of six years from 1998 to 2003 they established that dividend policy is relevant they however put a caveat that the link between dividend policy and values of quoted companies at the NSE was weak. This implying that other factors apart from dividend policy affect the prices like investment and financing decisions.

In support to contrary findings a study by Ndungu, Simiyu, Galo & Mbogo (2014) who study the relationship between Effect of dividend announcements on share price, on 57 firms listed in Nairobi securities exchange. Through the use Event methodology, they concluded a negative association relating Dividend payments and Share Price changes in companies quoted at Nairobi Securities Exchange. Hence from the findings they concluded that management should formulate dividend policy and provides accurate information to investors to make right judgment in interpreting dividend announced by firms listed in Securities exchange of Nairobi.

2.4.2 Effects of Dividend Yield on Share price

According to Panday (2010) Dividend yield is a financial measure that shows the return can be made on common stock in form of dividends, it's found by the dividend paid over the market share. This measure is crucial for investors to show how their investment in stock is either generating cash in form of cash flows or capital gain.

Sharma (2011) examined the relationship between share prices behavior around divided payments and explanatory factors were; dividend yield, book value, dividend per share, earning per share, price earnings ratio, dividend payout, and size proxy by sales. For the period 1993 to 2009 at Bombay stock exchange of India. They used six segments selected through use of Multi-stage sampling, the findings revealed both factors under study proof significant as determinants of market price.

Again in western African state of Nigeria a study by Ordu, Chinedu & Mike (2014) investigated the effect of dividend policy on market prices. They analyzed 17 quoted firms taking in to account predicators variable factors namely; the yield on dividends and payout ratio for the

period 2000 to 2011. Their analysis established that a significant correlation between the variables under study on the market price. In summary the study revealed that Clientele theory could be attributed to the forces of demand and supply of investor appetite of high paying dividend yield firms.

The unpredictable in stock prices has been a subject of financial scholars. Numerous research has been done to unfold this complexity. A recent study by Hunjra, Shahzad, Chani & Mustafa (2014) analyzed effects of dividend policy on stock prices on Pakistan stocks. The study majored on to identify the aspect of predictors factors like the effect of dividend yield, return on equity, dividend payout, earning per share and retention ratio on stock prices performance of non-financial segment on a sample of 63 firms listed at Karachi stock exchange. They investigated data for time span ranging from 2006 to 2011. They established both the measures of dividend policy had significant impact on stock prices which goes contrary to dividend irrelevance theory.

Studies done in Nigeria by Duke, Ikenna & Nkamare (2015) examined the effect of dividend policy on share price valuation on banks in Nigerian. Two great banks were taken into perspective for the studies were Tank and United Bank for Africa. The independent factors were dividend yield and retention ratio, while dependent variable was market price performance. The results disclosed that dividend yield had a strong and significantly positive effect on share price performance. On the contrast the aspect of retention ratio was established to have a significantly negative effect on the market share performance which translates that high retention will signal negative information to the investors. But less retention are recommend to Banks to warrant management to have an optimal fair dividend policy in force. They concluded that Management should avoid a deliberate diversion of retention of dividend in the expenses of low dividends.

2.4.3 The Effects of Earnings Per Share (EPS) on Share Price

In a study by Luqman & Migiro (2014) to investigate the effect of dividend decision outcome on stock price in Nigeria. Fifteen listed firms which cut across nine sectors of the economy of Nigerian for a duration of ten years between 2003-2012. They found that, dividend per share and earnings per share demonstrated positive link with stock price. They concluded that companies size depict negatively an insignificantly with stock price changes, therefore this affirmed and reinforces the dividend relevant theory hypothesis.

In concurrence to the findings above a study in Malawi by Majanga (2015). Who analyzed the dividend effect on stock price an empirical analysis of Malawi Listed Companies. They study the effect of firm's dividends announcement and its performance of stock price on thirteen local companies listed at Malawi stock exchange. The study period was ten year starting from 2008 up to 2014. The dependent variable was the stock price, while the independent variable was retention ratio, profit after tax, return on equity and earnings per share. From their findings a strong relationship between a firm's retention, Profit after tax, and earnings per share were significant in predicting the stock price, they further hypothesized that stock price is a result of a number of other variable such as political, social and legal factors affect dividends announcements.

A study by Gejalakshmi and Azhagaih (2015) on impact of dividend policy on shareholders' wealth prior and after meltdown on financial system on consumable foodstuffs in India. From the 16 companies on National Stock Exchange (NSE) there were 13 firms paying dividend continuously which were considered for study. From their findings established that earnings per share, dividend per share, Price earnings and dividend payout and earning on equity were significant positive before and after global financial meltdown. The findings conclude that firms dealing with consumables goods have great structural alteration (positive improvement) in respect of shareholder's wealth after global financial meltdown.

Ogolo (2012) conducted a study on effects of dividend policy on share price performance focusing on company's listed in Kenya Stock Exchange market of Nairobi for a period of ten years from 2003 to 2012, a sample 38 local and multinationals firms chosen for the analysis through the use of panel data. From the findings showed significant relationship between Market price performance with three measures of independent variable namely dividend per share, earnings per share and dividend payout ratio. She concluded that both have significant effect on the share price on multinationals firms however, the effect was not significant for the local firms.

2.4.4 The Effects of Inflation on Share Price

Inflation generally is measured by Consumer Price Index the link between unexpected inflation and stock returns depends on whether the economy is contracting or expanding. The effects on the economy are varied and can be negative or positive. According to the theory of Fisher (1930)

hypothesized that equity stocks have claims against the real assets of a company. Thus investors could sell their financial assets in exchange for assets with inflation factored in when expected inflation is pronounced. Most Investors use this knowledge of Fisher in making stock allocation decisions, investors who are likely to be prone to risks of inflation would like lower exposure in high growth stocks (Fisher,1930).

Rational investors who hold shares that are more high growth desire to lower their risk exposure to inflation by either reducing the maturity of their stock through sale of shares. And high inflation rate increases the cost of living leading to shift of resources either from investments to consumption. Hence an increase in inflation makes need for instruments goes down and triggers lower volumes. This will force the monetary policy authorities commonly called Monetary policy committee to respond with economic tightening policies to counteract the phenomena. Kenyan economy has witnessed some significant changes in inflation over time. Consumer Price Index (CPI) increased by 1.07 percent from 162.97 in November 2014 to 164.72 in December 2015 while the overall inflation decreased by 4.4 percent from 6.88 in 2014 to 6.58 in 2015 These factors subsequent effect on stock prices as a result of these changes. (Central Bank of Kenya, 2015).

In developed states like in Greece, a study by Ioannides, Katrakilidis, & Lake (2005) on relationship between inflation and stock market performance for the period 1985 to 2000. The study found inflation was negative and significant relationship with stock prices for Greece firms because inflation was high during the period.

In East Africa countries, A study to analyze the effectiveness of macroeconomic variables on stock prices was conducted by Laichena and Obwogi (2015), they employ interest rates, inflation rate and currency exchange rate to represent macroeconomic factors, for 10 years period between 2005 to 2014 for the three East African states, Kenya, Tanzania and Uganda. Panel data was used to find the relationship between the variables. They establish significant relationship between all the macroeconomic variables employed in the study on the stock returns. From the potential findings the study recommended that, governments agencies mandated to manage macroeconomic variables and policymakers in East Africa states should harness strive to improve the macroeconomic conditions of the region to improve stock returns.

Another findings in Kenya by Aroni (2012) who analyzed microeconomic factors that influence stock prices for firms listed in the NSE for a period of 12 years ranging from 2008 to 2010. The predictor variables were represented by exchange rates, inflation, interest rates and money supply while the dependent variables were stock prices. The findings established that, inflation and exchange rates exhibit negative significant relationship with stock prices the reason being that inflation   was high during that period hence reduced profits which in turn reflect in stock prices. The other variables exhibit strong relationship with stock prices

Mugambi and Okech (2016) study the effectiveness of macroeconomic variables on stock returns of listed banks in the Nairobi Securities Exchange; the study period was 15 years between 2000 to 2015. The study established that interest rate and inflation had a significant effect on stock price, while gross domestic product had an insignificant effect on stock price . The study recommended government should provide macroeconomic which is stable to be able to balance the monetary policies.

2.5 Research Gap
After reviewing present and past Studies have failed to clearly demonstrate the link between dividend policy on share performance of listed Insurance firms at the NSE Kenya. There is still contradiction on the findings as others support dividend Signaling hypothesis while other dispute. Diverse researchers have studied dividend policy on all companies listed in NSE while others have done single segments like agriculture, banking and construction and allied sectors. However their none documented research on dividend policy on share price of listed Insurance companies in Kenya, hence a knowledge gap.

2.6 Theoretical Framework
A number of theories have been put forward in the literature to guide studies on effect of dividend policy and also theories on Share price performance. This study examines some of these theories in regard to their relevance in understanding the effect dividend policy on share price performance.

2.6.1 Miller and Modigliani Dividend Irrelevance Theory
Miller & Modigliani (1961) argued that when there are no markets imperfection dividends are irrelevant to the value of the firm. Thus the market value of the firm is not affected whether a

company pays dividends or not. Miller & Modigliani (1961) proposed that under perfect market conditions, the companies' performance is independent of dividend. A number of studies have criticized the theory (Allen& Michaely, 2002; & Sarig,2000; Amidu & Abor,2006). Who suggest that market imperfections exist in reality and should be considered when evaluating corporate dividend payment.

2.6.2 Gordon's Model, Bird in hand Theory

The Common and renowned theory of bird-in-the-hand which support dividend relevance, it simply explains rationale of paying dividends, This theory was hypothesized independently by Gordon (1963). It clearly demonstrates that shareholders prefer cash dividends now (bird in hand) as opposed to future capital gains which are unpredictable. Dividends also serve as a signal of future expected cash flows. Despite disadvantage of tax implication on dividends, management still go onward to pay dividends to send a positive signal on the company's future prospects. Thus therefore translates to higher value of stock again a firm which pay dividends get higher rating hence able to raise funds externally. These models ushered in a modern model of determining and valuing the cost of the firm through discounting future flow of dividends. Among many studies in support of the dividend model are studies conducted by (Khan, 2012).

2.6.3 Miller and Rock's Dividend Signaling Theory

Signaling theory by Ross (1977) Hypothesized that in an efficient market financial managers would use dividend to signal crucial information to be consumed by the market. In a more recent study by Miller & Rock (1985) advanced Stephen Ross theory to analyze the impact of dividend announcement and its consequences under conditions of asymmetric (unbalance information). According to Miller & Rock's (1985) dividend declaration is considered as a signal of good news but not bad. The good performing firms have good news to convey to the market while for non-performers giving false signal to the market may prove to be costly, as it do not justify earnings potential. Introducing the asymmetry of information hypothesis in their model, shows that it depends upon unanticipated operational cash flow changes. Firms anticipating higher potential to generate higher cash flow would therefore contemplate to pay higher dividends as affirmed by (Bhattacharya, 1979). Who found that firms would not like to decrease investment to

maintain same dividend amount. They concluded that in asymmetric information context a Signaling equilibrium is a position, where dividends convey information about future prospects

Li & Zhao (2008) and Miller &Rock (1985) also support the idea that dividend policies play crucial role in relaying information to shareholders about the firm's value. Dividends do not just send signals about the health of the firms but is used for investor protection. When ownership is diffused and shareholders do not have power over the management of the firm, dividend payouts play a significant role as a monitoring device to avoid any agency problems, which will result in conflict of interests between management and shareholders. Dividend payout is regarded as one of the signal transmitters as it contains information about the company's performance (De Forest, 2009).

2.6.4 Stakeholders Theory

The underlying indicator to represent the concept of firm performance of firms Listed at Nairobi Securities Exchange. The market price per share which is a performance measure, from this assumption the research was grounded on stakeholder theory (Freeman, 1984). This theory explains that the interest of the all stockholders including investors, customers, shareholders, suppliers and directors their interest need to be measured using an appropriate indicator to satisfy all the stakeholders. This theory also holds that an organization can enhance the interests of its stakeholders through annual audited books and payments of dividends and any other statutory dues. This theory grew tremendously in response to the economic theory of the firm and the turbulence of Market. Firms with high or low prior performance display little heterogeneity in future earnings, however firms with intermediate previous performance have highest stock price reaction (Fuller & Benjamin, 2010).

2.7 Conceptual Framework

The study seeks to establish the effect of dividend policy on share price performance of Insurance companies listed at the NSE. The independent variables in this study were; dividend payout and dividend yield, while control variables were earning per share and inflation and Intervening variable was firms size. Whereas the dependent variable was represented by market price. The interaction of the above variables is illustrated in figure 2.1.

Independent Variables　　　　　　　　　　　　　　　　　　**Dependent Variable**

Dividend Policy
▪ Dividend Payout
▪ Dividend Yield
Control variables
▪ Earnings Per Share
▪ Inflation

Share Price performance
▪ Market Price Per Share

Intervening Variable
▪ Firm Size
▪ Government Policy
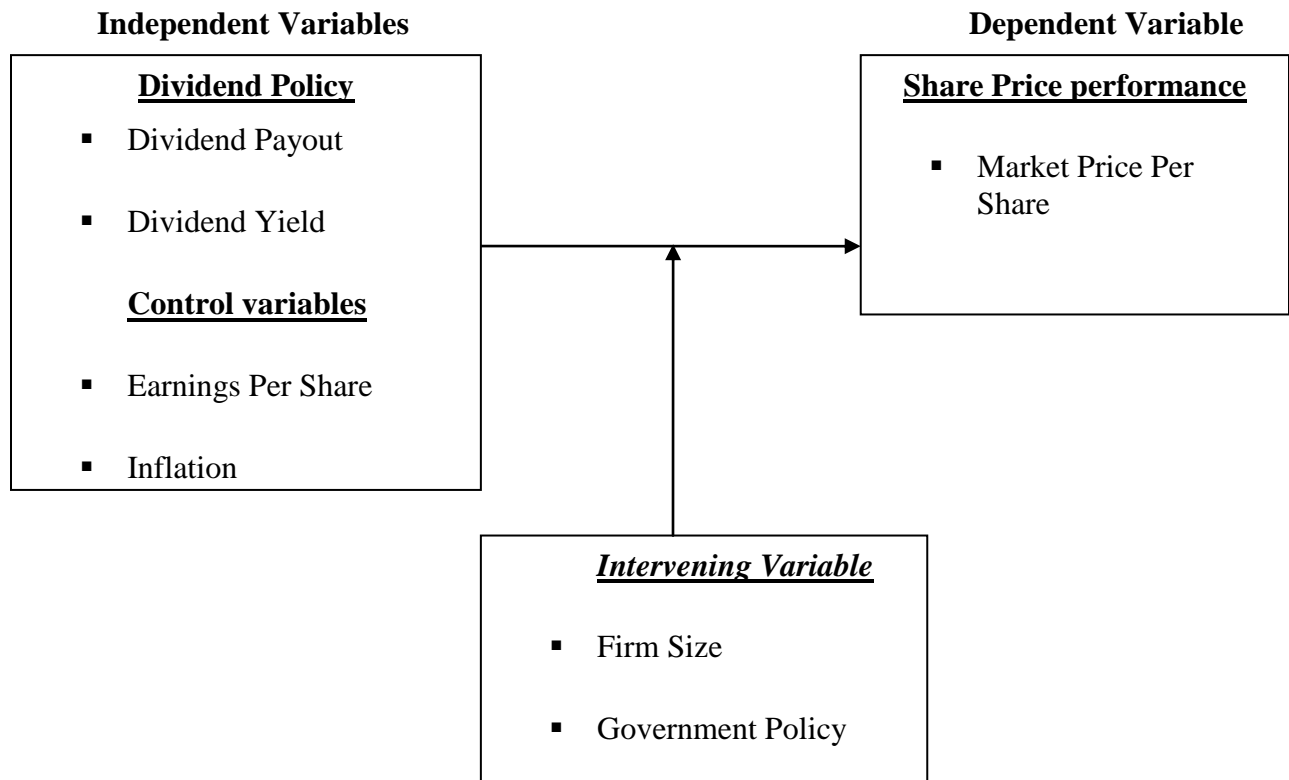
Figure 2.1: Conceptual framework

Source: (Author, 2015)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter highlights the research methodology under; research design, target population, analysis technique and diagnostic tests.

3.2 Research Design

Research design is the arrangement of conditions for collection and analysis of data in a concern that brings out relevance to the research purpose with economic perspective in a procedural manner (Kothari, 2004).This study used a combination of a descriptive research design and historical research design. According to Cooper& Schindler (2003), descriptive study is about finding out what, where and how of a phenomenon. Descriptive research design was selected since it allows the study to generalize the findings to a larger population. According to Chandran (2004) historical research design was to gather, verify and validate the evidence obtained from past financial information to establish the facts, and the secondary sources must be reliable, relevant and sufficient.

3.3 Target Population

The target population for the study was Insurance companies listed at the Nairobi Securities Exchange (NSE) in Kenya. There are six Insurance companies listed at the NSE namely; Jubilee holdings ltd, Pan Africa Insurance holdings, Kenya Re-Insurance Corporation limited, Liberty Kenya Holdings, British American investment company ltd and CIC Insurance groups. For this study the researcher targeted all Insurance segment by use of census procedure to select all the six Insurance companies listed at the NSE (Kombo & Tromp, 2006)

3.4 Sources of Data

The study used secondary data sources. This was gathered from the audited financial reports of the listed Insurance companies. The audited financial reports for a period of ten years span from 2006 to 2015. The chosen span of periods was adopted due to the availability of reliable data, this will reflect the relationship between the variables under consideration.

3.5 Analysis Techniques

The following diagnostic tests were conducted in order to ensure that the results are valid.

3.5.1 Unit Root Test

The analysis that was adopted in this study involve testing for unit root in the variables, this is because panel time series data are known to have a trend. This study used Augmented Dickey Fuller (ADF) test procedure as suggested by Brooks (2008). This test was essential to avoid spurious regressions analysis results. To address unit root (trend) the variables was differenced to make them stationery, However when carrying out differencing of variables we lose the long run properties of variables. To overcome this problem Cointergration test was conducted to confirm if the variables have long run Association.

3.5.2 Cointergration

This is an equilibrium interaction between time series that individually are not equilibrium and it is useful because it allows incorporating both short-term dynamics that is deviations from equilibrium and long-run expectations that is corrections to equilibrium. The study used Augmented Dickey Fuller- fisher type to test for cointergration. According to Kennedy (2008) Cointegration is the property of two-time series data where both share common stochastic drift. Stochastic drift is the change in average value of the random or stochastic process. The advantage of the Augmented Dickey Fuller comes from its capacity to handle several time series variables (Brooks, 2008).

3.6 Data Analysis

Data was analyzed using descriptive statistics such as means and standard deviation and inferential statistics like chi square.

3.6.1 Analytical Model

Dynamic Regression Model was performed to predict the effect of the independent variables on the dependent variable. The dynamic regression analysis took the following equation;

$$Y_t = \alpha + \beta_1 x_{1t} + \beta_2 x_{2t} + \beta_3 x_{3t} + \beta_4 x_{4t} + \acute{\varepsilon}$$

Where;

Y= Market price per share

α =Constant term

$\beta_1, \beta_2, \beta_3, \beta_4, =$ beta Coefficients or slope Coefficients

$x_1 =$ Dividend payout

$x_2 =$ Dividend yield

$x_3 =$ Earnings per share

$x_4 =$ Inflation

$\acute{\epsilon} =$ Error term

3.7 Diagnostic Tests

This are post estimation diagnostic test namely Multicollinearity, Heteroscedasticity and Normality test were conducted.

i.   **Multicollinearity**

The study employed the use of (VIF) variance inflation factor. This factor measures the extent to which variance of regression coefficient increases if the explanatory factors are correlated to show the reliability of data. Normally as a rule of thumb, a variable whose VIF values are greater than 10 is not fair. According to Kennedy (2008) emphasized that a VIF of greater than 10 points out risky multicollinearity in the variables.

ii.   **Heteroscedasticity**

Heteroscedasticity refers to a spread that is uneven and irregular of data. From the data obtained from dividends policy, dividends can vary from Insurance firms and investors perception. This will in turn influence share prices therefore in order to detect heteroscedasticity, Breusch-Pagan test was performed (Stock & Watson, 2011).

iii.   **Normality test**

This study adapted Doornik -Hansen test to ascertain whether the variables are normally distributed as proposed by Brooks (2008). A null hypothesis of normality is tested against the alternative hypothesis of a non-normal distribution. This study performed a normality test in order to verify if the data are normally distributed as noted by (Gitonga, 2014).

4.1 Introduction

This chapter presents statistical summary and results from empirical analysis and the interpretations of the inferential statistics derived from the compiled data, to accomplish the objective of the study. The analysis involve the following:- 4.2 descriptive statistics, 4.3 panel unit root, 4.4 regression model and the findings were presented on the subsequent tables and graphs.

4.2 Descriptive statistics

Descriptive statistics are employed in a research study to describe the basic features of data in a research (Wooldridge, 2003). Thus, this study employed descriptive statistics to provide summary of the study data capturing dividend payout, Dividend yield, Earnings per share and Inflation. Table 4.1 presents the summary of descriptive statistics.

The table below summarizes the main descriptive statistic of mean and standard deviation

Table 4.1: Summary of Descriptive Statistics

Variable	Obs	Mean	Std.Dev	Min	Max
Avmp	52	60.03058	97.59232	1.2	517.23
Dpo	52	0.1430769	0.2229001	-0.78	0.59
Dy	52	0.0438462	0.0682313	0	0.38
Eps	52	7.515577	12.24841	-1.99	43.7
Infl	60	8.291	3.313462	4.76	14.28

Source (Research data, 2016)

A mean of 60.03[SD=97.59] on average market price (avmp) demonstrates that this variable was highly volatile across all the firms, followed by earnings per share (eps) with a mean of 7.15[SD=12.25]. High volatility was witnessed on Inflation rates had an average of 8.29[SD=3.31], these variables had high volatility possible due to market and political forces witnessed during that period. On the other hand the rest of the variable had posted stable volatility, dividend yield (dy) was least volatile with a mean of 0.44[SD=.068] followed by

dividend payout (dpo) with mean of 0.14[SD=0.22]. This stable variable across the six Insurance firms for the period were due to stable market environment.

4.3 Correlation Matrix

The correlation matrix empirically assesses the associations and direction between the dependent and independent variables and further, the associations between the predictor variables. The study carried out Spearman correlation at 5% level of significant and the results are presented in the Table 4.2. To determine the relation between the study variables the strength of association (rho) is interpreted based on yard sticks adopted by (Qie, 2011).

Table 4.2: Pairwise correlation matrix for variables

Variable	Avmps	Dpo	Dy	Eps	Bv	Fis	Infl
Avmps	1.0000						
Dpo	0.0880	1.0000					
	-0.5351						
Dy	0.0675	0.2948*	1.0000				
	0.6345	0.0339					
Eps	0.8908*	0.1781	0.0604	1.0000			
	-0.000	0.2066	0.6706				
Infl	-0.1149	-0.0760	-0.0232	-0.0780	0.0236	-0.0712	1.0000
	0.4172	0.5924	0.8706	0.5826	0.8684	0.6162	

Source (Research data, 2016)   *significant at α= 0.05

On conducting correlation analysis at 5% significant level it found that a strong positive significant relationship was established between the earning per share (eps) with a [rho=0.89, p.value = 0.000]. Meaning these variables have a strongly positive relationship with market price. This explains as to why high returns on shareholders which in turn increase investors' expectations leading to higher share prices. Whereas dividends payout (dpo) was not significant and presented weak relationship with [rho=0.09 p value=-0.54]. Similarly, dividend yield (dy) exhibit weak relationship with [rho= 0.07 p.vaue 0.63]. While inflation (infl) were not significant in affecting market price of the Insurance firms a negatively correlation at [rho= -0.11, p value=0.42] meaning inflation had adverse negative impact on share price. Finally the correlation between the predictors variables were not hightly correlated as presented in the Table 4.2 above.

4.4 Normality test

Normality test was tested using Doornik -Hansen test and the findings presented in the table 4.3.

Table 4.3: Normality test

Variable	Pr (Skewness)	Pr (Kurtosis)	Joint Adj chi(2)	Joint Prob>chi(2)
Avmp	0.0000	0.0000	37.44	0.0000
Dpo	0.0000	0.0001	26.57	0.0000
Dy	0.0000	0.0000	53.79	0.0000
Eps	0.0000	0.0081	20.74	0.0000
Infl	0.0160	0.0811	7.78	0.0204

Source (Research data, 2016) Doornik -Hansen chi 2 (10) = 803.106 Prob > chi2 = 0.0000

This test was carried out to determine the distribution of the data set. From the results, the panel data was normally distributed as presented in the Table 4.3. Usually the coefficient for a normal distribution is 0, hence confirming normally assumption. Therefore from the above findings the joint probability and Chi Square value of 803.106[p<0.05] was obtained this illustrated that the dataset was normally distributed.

4.5 Panel Unit root tests

This study conducted panel unit root in order to avoid the problem of spurious Regression result.

4.4.1 Stationarity Test

The test for stationarity was carried out using the Augmented Dickey Fuller (ADF) by use of fisher type test the results summarized in table 4.4 below.

Table 4.4: Test for stationarity

Variable	ADF level form		ADF 1st differencing	
	Statistic Value	p.value	Statistic Value	p.value
Avmp	7.3719	0.8321	25.2789	0.0136
Dpo	10.8379	0.5429	34.1679	0.0006
Dy	90.1916	0.0000	-	-
Eps	7.0576	0.8538	22.3827	0.0334
Infl	21.4307	0.0444	-	-

Source (Research data, 2016) **Unit root test** -fisher type model

From the results presented at level form for unit root test, the variable for the average market price (avmp), dividend payout (dpo), earning per share (eps) both exhibit non-stationarity at level form. This is because their individual p-values were more than 0.05 at 5% level of significance indicating presence of unit root. However, the results at the level form of the variable namely, divided yield and inflation exhibited stationarity since their p-values were less than 0.05 at 5% level of significance. Therefore the variables with unit root (average market price, dividend payout and earning per share) were differenced and after differencing it was found to be stationery at 1st difference. Meaning the are they are intergrated of order I(1) as shown in the table 4.4 above.

4.4.2 Cointergration Test

After deferencing, the data was subjected to cointergration test based on augmented Dickey-Fuller tests fisher-type for residuals, and results presented below showing their long run association of data

Table 4.5: Cointergration Test

Variable		Statistics	p-values
Inverse chi- squared (12)	P	22.3827	0.0334
Inverse normal	Z	-1.8782	0.0302
Inverse logit t(29)	L*	-2.1014	0.0222
Modified inv.chi squared	Pm	2.1194	0.0170

Ho: All panels contain unit roots; Number of Panels 6; P statistic requires number of panels to be finite.

Source (Research data, 2016)

The test show that the variables are cointergrated this neccesites using dynamic regresson by Arrellano Bover/Blundell - bond estimation. Implying both the short term and long run effect of the explanatory variable, because data was movinng together in the panel.

4.6 Regression model

Having undertaken satisfactorily panel root tests, this study proceeded to conduct the dynamic regression analysis, in order to assess the effects of share price performance of listed Insurance firms in the NSE as presented in Table 4.6 below

Table 4.6: Regression Results

Avmps	Coef.	Std. Err.	Z	P>|t|	[95% Conf. Interval]	
davmp- L1	1.09676	0.148500	7.39	0.000	0.8057046	1.387815
Ddpo	-30.83641	12.62003	-2.44	0.015	-55.57121	-6.101614
Ddy	157.3565	47.58675	3.13	0.001	64.08817	250.6248
Deps	4.34812	1.027717	4.23	0.000	2.33832	6.362409
dInfl	-2.033286	0.810135	-2.51	0.012	-3.62115	-0.4454576
Con	-1.046929	4.652343	-0.23	0.822	-10.16535	-8.071496

Number of Obs = 40; Wald chi2 (5) = 68.26; Prob > chi2 = 0.0000; No. groups = 6; Hettest fstat

prob > F = 0.7301; VIF = 1.11; Ramsey Prob> F = 0.9951

Source (Research data, 2016).

4.6.1 Regression results.

The Lag one [davmp, L1) had coefficient of 1.097 and P. value of 0.000 shows that the previous average price was positive and statistically significant effecting the current average price at 1% significant level. It implies that if previous price was high then the current price will also be high. Which shows the spread of adjustments of market price towards long run equilibrium was quite significant.

In order to assess the determinants of share price performance this study used a dynamic panel. Regression model presented the relation between the dependent variable [average market share price] and the independent variables [Dividend payout, Dividend yield, Earnings per share, and Inflation]. The wald chi2 (5) test critical score is 68.26 with an accompanying *p.* value of 0.0000 at 5% significance level inferring that regression model was good and overall model was significant in explaining the relationship between dividend policy and share price performance.

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Furthermore on the constant value, it means holding other factors constant performances of the share price was negatively affected by -1.05 units.

4.6.2 Effects of Dividend Payout on Share Price

The first objective of this study was to determine the effects of dividend payout on share price. The results of this findings is presented in table 4.6, it shows that Z- calculated for payout ratio was -2.44 which was greater than Z- critical range between -1.96 and +1.96. The null hypothesis stated below is therefore rejected.

H$_{01}$: *There is no significant effect between dividend payout and share price:*

Therefore this implies that dividend payout had a negative significant relationship with share price at 5 % significant level, as indicated by beta coefficient and P- value of (β = -30.83, P = value 0.015). Therefore a unit increase in dividend payout, led to a decrease of market price by 31 units. The expected negative sign would have arisen if low dividend payout was low occasioning decrease in share price. These findings were consistent with signaling theory by (Lintner, 1956) who found that the share price of a firms changes when the dividend payouts increase or decreases.

The findings of this is consistent with those of Akhigbe *et al* (1992) who established a positive significant effect on Insurance firms in America, New York exchange. Also in tandem were findings in NSE Kenya by Munyua (2011) and Murekefu *et al* (2012) who found that dividend payout have significant effect on the share price at NSE Kenya. However, these findings differs from findings with Gitau (2011) and Ndungu *et al* (2014) who found that dividend payout had weak insignificant effect on share price on firms listed at NSE Kenya.

4.6.3 Effects of Dividend Yield on Share Price

The second objective was to determine the effect of dividend yield on share price. The results of this findings is presented in table 4.6, it shows that Z- calculated for dividend yield was 3.13 which was greater than Z- critical range between -1.96 and +1.96. The second null hypothesis stated below is therefore rejected

H$_{02}$: There is no significant effect of dividend yield and share price

Therefore this implies that divided yield was positive and significant on share price. From the results had a coefficient of (β =157.35, p=value 0.001) meaning a unit increase in dividend yield led to a positive increase of share price by 157 units and it means the effect of dividends decisions are very important in explaining the share price. This implies that dividend yield make by firms are important in predicting share price and demonstrate that Insurance firms had high growth with good managements practices.

Therefore this empirical study was in agreement with Duke *et al* (2015) and Ordu *et al* (2014) who examined the relationship dividend yield on the market share price had a positive significant impact on share price on firms listed in NSE.

4.6.4 Effects of Earning per Share on Share Price

The third objective was control variable, it was to examine the effect of earnings per share on share price. The results of this findings is presented in table 4.6, it shows that Z- calculated for earning per share was 4.23 which was greater than Z- critical range between -1.96 and +1.96. The null hypothesis stated below is therefore rejected.

H_{03}: *There is no significant effect of earning per share and share price*

Therefore it implies that earning per share had positive Significant relationship with share price at 1% level of significant, for listed Insurance firms at NSE. The coefficient of (β =4.35, p=value 0.000) interpreted as a unit increase in earnings per share led to 4.35 unit increase on share price. It explains that investors check for earnings per share before making investment decision on investing on the stocks.

In concurrence to these findings was a study in Malawi by Majanga (2015) who analyzed the effect of dividend policy represented by earning per share on Stock Price of Malawi Listed Companies and found earnings per share to be positive and significant factor on share prices performance.

4.6.5 Effects of Inflation on Share Price

Lastly on the control variable, the inflation rate. The results of this findings is presented in table 4.6, it shows that Z- calculated for inflation was -2.51 which was greater than Z- critical range between -1.96 and +1.96. The null hypothesis stated below is therefore rejected

H_{04}: There is no significant effect of inflation and share price

Therefore it implies that inflation had a negative significant relationship with share price with coefficient and p.value of (β = -2.03, p=value = 0.012). Meaning a unit increase in inflation led to an negative decrease of share price by -2.03 units. Given the P.value of > 0.05 This denotes that Inflation rates affect the share prices significantly. Vividly from the financial dataset at Appendix VI, it demonstrates that high inflation rates were experienced in the year 2009 at 14.11% and at 14.28% in the year 2012. This was occasioned by political factors which had adverse effect on economy as prices of goods and services skyrocket and triggers lower volume of share prices due to panic on investors.

Therefore the overall impact on share prices for the ten year period was very significant, this was in tandem with findings in Greece by Ioannides e*t al* (2005) who found that inflation had negative significant effect on share prices in Athens stock exchange. In agreement were findings in Kenya by (Aroni, 2012; Mugambi & Okech, 2016) who established that inflation had negative significant effect on share prices in Nairobi securities exchange.

4.7 Diagnostic Test

To ensure that the results obtained do not suffer from econometric problems the results were subjected to the following diagnostic tests bearing in mind that regression model is based on specific assumptions. The study thus performed tests of multicollinearity, heteroscedasticity and Ommited variable bias as explained below.

4.7.1 Heteroscedasticity

Breusch- pagan test for heteroskedasticity was conducted and with Ho: constant variance. In line with Stock and Watson (2011) by default Stata assumes homoskedastic standard errors.

Breusch-Pagan / Cook -Weisberg test for heteroskedasticity

H_0: *Constant variance.*

Variables: fitted values of davmp

F(1,44)   0.12

Prob> F = 0.7301

Based on the *p* value of 0.12, we fail to reject the null hypothesis and concluded that residuals are homogeneous hence heteroskedasticity was not a problem in the data set.

4.7.2 Multicolinearity

Kennedy (2008) Noted that multicollinearity refers to the presence of highly inter-correlated predictor variables in regression models. The effect of this is to invalidate some of the basic assumptions underlying their mathematical estimation of regression. Multicollinearity diagnostics measure how much regressors are related to the other regressors and how this affects the stability and variance of the regression estimates. Pairwise correlation analysis performed, using the Variance Inflation Factor (VIF) which is a measure of how much the variance of an estimated regression coefficient increases if the explanatory variables are correlated. The Table 4.7 below was generated to check for multicollinearity. According to Kennedy (2008) as a rule of thumb, a variable whose average VIF values are greater than 10 may merit further investigation. From the table there was low multicollinearity within the variables with mean VIF of 1.11 hence the mean VIF was less than 10 and thus none of the variables were dropped from multicollinearity problem as shown in table 4.7 below.

Table 4.7: Multicollinearity Matrix

Variable	VIF	1/VIF
Ddpo	1.08	0.924933
Dy	1.09	0.920939
Deps	1.16	0.863236
Dinfl	1.12	0.889387
Mean VIF	1.11	

Source (Research data, 2016)

4.7.3 Omitted variable bias

To test omitted variable bias, the study employed Ramsey RESET test using ovtest command in Stata. This variable bias violates ordinary least square assumption that the predictor variables and error term in the model are not correlated as opined by Stock and Watson, (2001).

Table 4.8: Omitted variable bias

Ho: model has no omitted variables. The output being: $F(3,38)= 0.02$ $Prob > F= 0.9951$

Ramsey RESET test using powers of the fitted values of davmp.

The null hypothesis tested that the model does not have omitted variables bias, given that the p-value is higher than the threshold of alpha= 0.05. Therefore we fail to reject the null and conclude that the data set does not have omitted variables bias.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary, conclusion and recommendation of the results of the study emanating from the objectives and the main conclusions drawn from the analysis of the data in Chapter Four.

5.2 Summary of Findings

The study used dynamic panel data regression model. The model adopted was suitable for the study to enable researcher achieve the objective of the study given that market share prices are dynamic. The main objective of the study was to determine the effects of dividend policy on share price performance of six listed Insurance firms at NSE Kenya for a span of ten year from 2006-2015. The specific objective of the study were; To determine the effect of dividend payout on share price, to examine the effects of dividend yield, to analyze effect of earning per share, finally the study sought to determine the effect of inflation on share price on listed Insurance firms at NSE Kenya.

5.3 Conclusion

The following are the inference drawn from the findings of the study.

5.3.1 Dividend Payout on Share Price

Based on objective one that states dividend payout has an effect on share price. From the findings on regression analysis it was found that dividend payout depict negative significant relationship with share price.

5.3.2 Dividend Yield on Share Price

Pertaining objective two that states dividend yield has an effect on share price. From the study it was found a positive significant relationships between dividend yield and share price of listed Insurance firm NSE.

5.3.3 Earning Per share on Share Price

Based on objective three, state that earning per share has effects on share price. This study established that earning per share demonstrate a positive significant relationship with share price and share price of listed Insurance firm at NSE.

5.3.4 Inflation on Share Price

Based on objective four, that states inflation rates has effects on share price. It was established that inflation demonstrates a negative significant relationship with share price of listed Insurance firm at NSE.

5.4 Recommendations and Policy Implication

Finally the study makes the following recommendations in relation to management decisions, policy makers and industry as drawn from the study.

(a) **Dividend Payout to Insurance Firms Management**.

Based on dividend policy which encompasses the dividend payout, this variable had negative significant impact on the share price. This means that dividends are very sensitive to share price. Therefore this study recommends that Insurance firms should consider their dividend policy seriously since most investors peg their investments with short term gains. The managers need to practice sound dividend policy as this will enhance and increasing share price because investors and shareholders are sensitive to dividend policy decision. Management must exercise prudence management and sound decision practices on dividend policy and are expected to make their dividend policies for long term sustainability of the firm.

(b) **Dividend Yield to Insurance Firms Management**

Again based on dividend policy which encompasses dividend yield, it was established that a positive significant impact of dividend yield on the Share price. This means that shareholders are very keen on this financial indicators for them to make sound decision while making their investment choices. On the side of management they should exercise prudence in sound dissemination of information to avoid insider trading which goes against the efficient market hypothesis.

(c) **Management of Insurance Firms.**

The study recommends that corporate managers of Insurance firms are expected to uphold good governance practice though ethical conduct of actions relating to dividend valuation and dissemination. They should strive to post higher profits and declare higher dividends to spur higher market share price. They should make dividend policy not only to affect the share price but also with a view to enhance share price for long term sustainability of the firms.

(d) **Regulators**

The study recommends that NSE, CMA and IRA adopt policies that enhance market efficiency for predictability of the market and investor confidence. Through compliance and surveillance also harsh action to deter noncompliance of the market plays particularly Insurance companies.

5.5 Area for further Research

1. Future studies to consider the effect of dividend policy on share price in listed firms at the NSE with expanded time frame.

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APPENDIX I: LETTER OF INTRODUCTION TO THE RESPONDENTS

Egerton University-Baringo Campus

P.O Box 536-20115

Egerton Njoro

Dear Respondent,

REF: PERMISSION TO COLLECT DATA FROM YOUR COMPANY

I am a student at Egerton University currently pursuing a Master's Degree in Business Administration in finance option. I'm carrying out a Research study on the "**Effects of Dividend policy on share price performance of Insurance companies listed in Nairobi Securities Exchange for the period 2006-2015**". Your company has been selected for the study. The purpose of this letter is to request you to kindly allow me carry out the study in your company. The information and data will be strictly being used for academic purposes only and strict confidence shall be observed on the same.

You cooperation will go a long way in ensuring success of this study.

I would like to thank you in advance for your time.

Yours Sincerely,

Joseph Kurwo

CM11/62506/14

Egerton University Kenya.

APPENDIX II: NSE LISTED COMPANIES

Agricultural Sector	Commercial and Services
1.Williamson Tea Kenya limited	35.Express Kenya Limited
2. Sasini Tea And Coffee Limited	36.Kenya Airways Limited
3.Rea Vipingo Plantations Limited	37.Longhorn Kenya Limited
4. Limuru Tea Company Limited	38.Nation Media Group Limited
5. Kapchorua Tea Company Limited	39.Scangroup Limited
6. Kakuzi Limited	40.Standard Group Limited
7. Eaagads Limited	41.TPS Eastern Africa Limited (Serena Hotels)
Automobiles and Accessories	42.Atlas Development & Support Services
8. Car And General (Kenya) Limited	43.Hutchings Biemer Limited
9. CMC Holdings Limited	44.Uchumi Supermarket Limited
10. Marshalls (EA) Limited	**Construction and Allied Sector**
11.Sameer Africa Limited	45.ARM Cement Limited
Banking	46.Bamburi Cement Company Limited
12.Barclays Bank Of Kenya Limited	47.Crown Paints Kenya Limited
13.CFC Stanbic Bank	48.East African Cables Limited
14. Co-operative Bank Of Kenya	49.East African Portland Cement Company
15.Diamond Trust Bank (Kenya) Limited	**Investment**
16.Equity Bank Limited	50.Centum Investment Company (ICDCI) Limited
17.I & M holdings Limited	51.Olympia Capital Holdings Limited
18.Housing Finance Company Limited	52.Transcentury Limited
19.Kenya Commercial Bank Limited	53.Kurwitu ventures Limited
20.National Bank Of Kenya Limited	54.Flame tree group holdings ltd
21.NIC Bank Limited	55.Nairobi securities exchange

22.Standard Chartered Bank Kenya Limited	56.Home Africa Limited
Energy and Petroleum	57.A.Baumann & co. Limited
23.Kenol Kobil Limited	**Manufacturing and Allied**
24.Kenya Electricity Generating Company (KENGEN)Co.	58.Boc Kenya Limited
25.The Kenya Power & Lighting Limited	59.British American Tobacco Kenya Limited
26.Total Kenya Limited	60.Carbacid Investments Limited
27.Umeme Limited	61.East African Breweries Limited
Insurance	62.Eveready East Africa Limited
28.Britam Holdings Limited	63.Mumias Sugar Company Limited
29.CIC Insurance group Limited	64.Unga Group Limited
30.Jubilee Holdings Limited	65. Kenya Orchards.ltd
31.Kenya Re-Insurance Corporation Limited	66. Mumias sugar Limited
32.Liberty Kenya Holdings Limited	**Telecommunication And Technology**
33.PanAfrica Insurance holdings Company Limited	67.Safaricom Limited
	Growth Enterprises & Technology
	68. Home Africa ltd
	69. Atlas Development ltd
	70.Kurvitu Ventures ltd
	71.Flame Tree Group

Source: *www.cma.or.ke*; **(CMA,2015)**

APPENDIX III: LISTED INSURANCE COMPANIES AT THE NSE 2015

1. Britam Holdings Limited

2. CIC Insurance Group Limited

3. Jubilee Holdings Limited

4. Kenya Re-Insurance Corporation Limited

5. Liberty Kenya Holdings Limited

6. Pan Africa Insurance Company Limited

Source: *www.nse.co.ke* **-Nairobi Securities Exchange (NSE) 2015**

APPENDIX IV: SECONDARY DATA COLLECTION GUIDE

Dividend policy measures of Insurance firms

Variable	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Dividend Payout ratio(dpo)										
Dividend yield (dy)										
Earnings per share (eps)										
Inflation(infl)										

Share price performance Measures

Variable	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Market price per share (Avmp)										

APPENDIX V: DATA ANALYSIS AND MEASUREMENT

Variable	Details of Variable	Definition	Measurement	Statistical Measure
	Dividend Payout Ratio	Percentage of earnings paid to shareholders	Dividends divided by Earnings after tax	Spearman Correlation
	Dividend Yield	Percentage of dividend in relations to market share	Dividend divided by Market price of stock	Spearman Correlation
	Earnings per share	Profit attributed to shareholders	Total earning divided by Equity shares	Spearman Correlation
	Inflation	It the general rise of goods and services over time	Cost of CPI market current price divided by Cost of CPI Base period (in percentage)	Spearman Correlation
Dependent variable (Measure of performance)	Share price performance	Market price of a share	Average price per year	Spearman Correlation

Source: (Author, 2015)

APPENDIX VI: FINANCIAL DATA FOR INSURANCE FIRMS AT THE NSE.

firm	Year	avmp	dy	Dpo	Eps	Infl
Jhl	2006	117.36	0.36	0.27	15.54	6.96
Jhl	2007	142.88	0.03	0.29	14.73	4.76
Jhl	2008	159.52	0.03	0.30	14.14	10.29
Jhl	2009	111.63	0.04	0.25	18.33	14.11
Jhl	2010	170.00	0.03	0.15	38.00	5.61
Jhl	2011	174.21	0.03	0.17	33.00	7.99
Jhl	2012	165.78	0.04	0.17	35.00	14.28
Jhl	2013	246.59	0.02	0.16	38.00	5.56
Jhl	2014	368.94	0.02	0.16	43.70	6.81
Jhl	2015	517.23	0.01	0.18	42.70	6.54
Kenyare	2006	13.90	0.02	0.28	0.90	6.96
Kenyare	2007	15.79	0.02	0.30	1.22	4.76
Kenyare	2008	14.46	0.02	0.14	2.50	10.29
Kenyare	2009	11.30	0.04	0.23	2.21	14.11
Kenyare	2010	12.20	0.04	0.19	2.57	5.61
Kenyare	2011	8.86	0.04	0.11	3.19	7.99
Kenyare	2012	9.92	0.04	0.08	4.77	14.28
Kenyare	2013	14.98	0.04	0.12	5.02	5.56
Kenyare	2014	18.04	0.03	0.13	4.48	6.81
Kenyare	2015	18.10	0.04	0.14	5.08	6.54
Panfric	2006	47.87	0.01	0.00	1.96	6.96
Panfric	2007	49.00	0.01	0.00	4.19	4.76
Panfric	2008	71.37	0.03	-0.78	-1.99	10.29
Panfric	2009	48.45	0.04	0.59	2.89	14.11
Panfric	2010	62.81	0.05	0.24	12.28	5.61
Panfric	2011	48.48	0.07	0.32	4.62	7.99
Panfric	2012	31.47	0.05	0.27	7.27	14.28
Panfric	2013	60.13	0.03	0.23	13.05	5.56
Panfric	2014	120.83	0.38	0.50	9.07	6.81
Panfric	2015	87.88	0.00	0.00	-0.43	6.54
CIC	2006	1.90	0.03	0.00	0.28	6.96
CIC	2007	2.05	0.02	0.00	0.32	4.76
CIC	2008	2.10	0.03	0.16	0.43	10.29
CIC	2009	2.00	0.04	0.15	0.55	14.11
CIC	2010	1.20	0.10	0.20	0.80	5.61
CIC	2011	2.00	0.05	0.34	0.27	7.99
CIC	2012	3.85	0.03	0.16	0.64	14.28
CIC	2013	4.46	0.02	0.16	0.63	5.56
CIC	2014	8.99	0.01	0.24	0.42	6.81
CIC	2015	8.17	0.01	0.35	0.30	6.54

Britam	2006	-	-	-	-	6.96
Britam	2007	-	-	-	-	4.76
Britam	2008	-	-	-	-	10.29
Britam	2009	4.59	0.01	-0.28	-0.22	14.11
Britam	2010	5.59	0.02	0.07	-1.43	5.61
Britam	2011	5.55	0.03	-0.14	-1.03	7.99
Britam	2012	5.36	0.05	0.19	1.33	14.28
Britam	2013	8.89	0.03	0.18	1.40	5.56
Britam	2014	22.33	0.01	0.17	1.31	6.81
Britam	2015	20.91	0.01	-0.13	-0.50	6.54
Liberty	2006	-	-	-	-	6.96
Liberty	2007	-	-	-	-	4.76
Liberty	2008	-	-	-	-	10.29
Liberty	2009	-	-	-	-	14.11
Liberty	2010	-	-	-	-	5.61
Liberty	2011	11.64	0.04	0.11	1.84	7.99
Liberty	2012	7.40	0.03	0.24	1.66	14.28
Liberty	2013	11.25	0.06	0.47	2.15	5.56
Liberty	2014	18.97	0.04	0.00	0.96	6.81
Liberty	2015	22.41	0.00	0.00	0.71	6.54