

**EFFECT OF DIVIDEND POLICY ON SHAREHOLDERS' WEALTH OF
COMMERCIAL BANKS LISTED AT THE NAIROBI SECURITIES EXCHANGE**

FRANKLINE CHASHA SOGOMI

**A THESIS SUBMITTED TO THE SCHOOL OF BUSINESS IN THE
DEPARTMENT OF ACCOUNTING AND FINANCE IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF
DEGREE OF MASTER OF SCIENCE IN FINANCE OF TECHNICAL
UNIVERSITY OF MOMBASA**

2024

DECLARATION

This thesis is my original work and has not been presented for award of a degree in any other university.

Signature _____

Date _____

FRANKLINE CHASHA SOGOMI

MSF/0024/2021

This thesis has been submitted with our approval as the University Supervisors:

Signature _____

Date _____

Ojung'a Isaac Otiende, PhD.

Technical University of Mombasa, Kenya

Signature _____

Date _____

Peter Situma Sasaka, PhD.

Technical University of Mombasa, Kenya

DEDICATION

I dedicate this thesis to my cherished loving daughter Ellyana Tsindoli Chasha who has been my greatest source of inspiration on this journey. I would also like to dedicate this thesis to my family and friends who gave me humble time, and prolific advice and for their selfless support in this academic walk. May our loving God bless them abundantly.

ACKNOWLEDGEMENT

With profound humility and immense appreciation, I express gratitude to the Almighty God for His grace that he has bestowed on me throughout my academic journey mainly during the writing and accomplishment of this research.

Special appreciation goes to my supervisors Ojung'a Isaac Otiende, PhD, who mentored and guided me in every step of this proposal writing, and Peter Situma Sasaka, PhD, who performed a vital role in enabling the realization of this noble goal. God bless them so much.

I would also like to acknowledge Banafa Abdulkadir Ali, PhD, and Charles Guandaru Kamau, PhD who played a pivotal role in the facilitation of my admission to pursue this course and their mentorship in the commencement of this academic journey.

TABLE OF CONTENTS

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
LIST OF TABLES	ix
LIST OF FIGURES	x
ACRONYMS AND ABBREVIATION	xi
DEFINITION OF TERMS	xiii
ABSTRACT	xv
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 Global Perspective of Dividend Policy and Shareholders' Wealth	2
1.1.2 Regional Perspective of Dividend Policy and Shareholders' Wealth.....	3
1.1.3 Local Perspective of Dividend Policy and Shareholders' Wealth.....	4
1.1.4 Profile of Commercial Banks Listed on the NSE	5
1.2 Statement of the Problem.....	6
1.3 Objectives of the Study.....	9
1.3.1 General Objective.....	9
1.3.2 Specific Objectives	9
1.4 Research Hypothesis	9
1.5 Significance of the Study.....	10
1.6 Scope of the Study	11
1.7 Limitations of the Study	11
CHAPTER TWO	12
LITERATURE REVIEW	12
2.1 Introduction.....	12
2.2 Theoretical Framework	12
2.2.1 Dividend Irrelevance Theory	12
2.2.2 Information Signaling Effect Theory	13
2.2.3 Bird in the Hand Theory	15
2.2.4 Tax Preference Theory.....	17

2.3 Conceptual Framework.....	19
2.4 Review of Study Variables.....	20
2.4.6 Shareholders' Wealth	27
2.5 Empirical Review	28
2.6 Critique of the Existing Literature Relevant to the Study	30
2.7 Research Gaps.....	32
2.8 Summary.....	33
CHAPTER THREE	34
RESEARCH METHODOLOGY.....	34
3.1 Introduction.....	34
3.2 Research Design	34
3.3 Target Population.....	34
3.4 Sampling Frame.....	35
3.5 Sample Size and Sampling Technique.....	36
3.5.1 Sample Size	36
3.6 Data Collection Instruments	38
3.6.1 Primary Data	38
3.7 Data Collection Procedure	38
3.8 Pilot Study.....	39
3.8.1 Reliability of the Research Instrument.....	40
3.8.2 Validity of Research Instrument	40
3.9 Data Processing, Analysis and Presentation	40
3.9.1 Multiple Linear Regression Analysis	40
3.9.2 Measurement of the Variables	41
3.9.3 Hypothesis Testing.....	43
3.10 Diagnostic Test.....	46
3.10.1 Multicollinearity.....	46
3.10.2 Normality	46
3.10.3 Homoscedasticity	46
3.10.4 Linearity.....	46
3.11 Ethical Considerations	47
CHAPTER FOUR	48
RESEARCH FINDINGS AND DISCUSSION.....	48

4.1 Introduction	48
4.2 Response Rate	48
4.3 Pilot Study	49
4.3.1 Reliability of Research Instrument.....	49
4.3.2 Validity of the Research Instrument.....	50
4.4 Diagnostic Tests	51
4.4.1 Multicollinearity.....	51
4.4.2 Normality	52
4.4.3 Homoscedasticity	53
4.5 Listed Commercial Banks Characteristics Results.....	55
4.5.1 Number of Years Listed at NSE.....	55
4.5.2 Tier Classification of Listed Banks	56
4.6 Descriptive Results	57
4.6.1 Fixed Rate Dividend Policy	57
4.6.2 Fluctuating Dividend Payout Rate.....	59
4.6.3 Hybrid Dividend Policy.....	60
4.6.4 Residual Dividend Payment.....	62
4.6.5 Stock Dividend Policy	63
4.6.6 Shareholder's Wealth.....	65
4.7 Correlation Analysis	66
4.8 Multiple Regression Analysis.....	68
4.9 Hypotheses Testing.....	72
4.9.1 Hypothesis Testing for Fixed Rate Dividend Policy	72
4.9.3 Hypothesis Testing for Hybrid Dividend Policy.....	73
4.9.4 Hypothesis Testing for Residual Dividend Payment.....	73
4.9.5 Hypothesis Testing for Stock Dividend Policy	73
4.10 Discussion of Key Findings	74
4.10.1 Fixed Rate Dividend Policy and Shareholder's Wealth	74
4.10.2 Fluctuating Dividend Payout Rate and Shareholder's Wealth.....	75
4.10.3 Hybrid Dividend Policy and Shareholder's Wealth.....	76
4.10.4 Residual Dividend Payment and Shareholder's Wealth.....	76
4.10.5 Stock Dividend Policy and Shareholder's Wealth.....	77
CHAPTER FIVE	78

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	78
5.1 Introduction	78
5.2 Summary of Key Findings.....	78
5.2.1 Fixed Rate Dividend Policy and Shareholder’s Wealth	78
5.2.2 Fluctuating Dividend Payout Rate and Shareholder’s Wealth.....	78
5.2.3 Hybrid Dividend Policy and Shareholder’s Wealth.....	79
5.2.4 Residual Dividend Payment and Shareholder’s Wealth.....	79
5.2.5 Stock Dividend Policy and Shareholder’s Wealth.....	79
5.3 Conclusions	79
5.3.1 Fixed Rate Dividend Policy and Shareholder’s Wealth	79
5.3.2 Fluctuating Dividend Payout Rate and Shareholder’s Wealth.....	80
5.3.3 Hybrid Dividend Policy and Shareholder’s Wealth.....	80
5.3.4 Residual Dividend Payment and Shareholder’s Wealth.....	81
5.3.5 Stock Dividend Policy and Shareholder’s Wealth.....	81
5.4 Recommendations of the Study	81
5.5 Suggestions for Further Research.....	82
REFERENCES.....	83
APPENDICES	95
Appendix I: Introduction Letter.	95
Appendix II: Questionnaire	96
Appendix III: Sampling Frame	102
Appendix IV: ERC Approval.....	103
Appendix V: NACOSTI Research License	104

LIST OF TABLES

Table 3.1 Population Size.....	35
Table 3.2 Sample Size.....	37
Table 3.3 Measurement of Variables.....	42
Table 3.4 Hypothesis testing.....	44
Table 4.1 Response Rate.....	49
Table 4.2 Reliability Results.....	50
Table 4.3 Validity Results.....	51

Table 4.4 Multicollinearity Tests.....	52
Table 4.5 Normality Tests.....	53
Table 4.6 Number of Years Listed at NSE.....	56
Table 4.7: Tier Classification of Listed Banks.....	56
Table 4.8: Descriptive results of Fixed Rate Dividend Policy.....	58
Table 4.9: Descriptive results of Fluctuating Dividend Payout Rate.....	59
Table 4.10: Descriptive results of Hybrid Dividend Policy.....	61
Table 4.11: Descriptive results of Residual Dividend Payment.....	62
Table 4.12: Descriptive results of Stock Dividend Policy.....	64
Table 4.13: Descriptive results of Shareholder’s Wealth.....	65
Table 4.14: Correlation Matrix Results.....	67
Table 4.15: Model Summary.....	68
Table 4.16: Analysis of Variance.....	69
Table 4.17: Regression Coefficients.....	70
Table 4.18: Summary of Hypotheses Results.....	74

LIST OF FIGURES

Figure 2.1: Conceptual Framework	19
Figure 4.1: Homoscedasticity Scatterplot	54
Figure 4.2: Linearity Scatterplot.....	55

ACRONYMS AND ABBREVIATION

BOK	Bank of Kigali
CAPEX	Capital Expenditure
CBK	Central Bank of Kenya
CMA	Capital Market Authority
COVID	Coronavirus Disease
DPS	Dividends Per Share
EVA	Economic Value Added
FCF	Free Cash Flow
FDPR	Fluctuating Dividend Payout Ratio
FRDP	Fixed Rate Dividend Policy
GDP	Gross Domestic Product
HDP	Hybrid Dividend Payout Ratio
IGR	Internal Growth Rate
JSE	Johannesburg Stock Exchange
KCB	Kenya Commercial Bank
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
MVA	Market Value Added
MENA	Middle East and North African
NCBA	National Commercial Bank of Africa
NPV	Net Present Value
NSE	Nairobi Securities Exchange

NYSE	New York Stock Exchange
RDP	Residual Dividend Payment
RSE	Rwanda Stock Exchange
SDP	Stock Dividend Policy
SHW	Shareholder's Wealth
SPSS	Statistical Package for Social Sciences
WSE	Warsaw Stock Exchange

DEFINITION OF TERMS

Capex	Capex refers to capital expenditure which is defined as expenses sustained for the acquisition, maintenance, and growth of fixed assets .
Dividend Policy	Dividend policy is defined as an approach adopted by a company in defining its division of returns to its shareholders periodically
Fixed-rate Dividend Policy	A fixed-rate dividend policy refers to an approach adopted by a firm that steadily pays a stable sum of dividends per share and upholds it considerably in all financial periods irrespective of the volatility in its earnings.
Fluctuating Dividend Payout Ratio	This is a variation of the proportion of earnings issued to shareholders as dividends
Free Cash Flow	Free cash flow refers to funds of a company that can be issued to shareholders as dividends or to lenders after all the operating and capital expenses have been catered for.
Hybrid Dividend Policy	Sharif, Ali, and Jan, (2017) described a hybrid dividend policy as a blend of both stable as well residual dividend policies.

Market Capitalization This is the current worth of a public firm in the capital market derived from the multiplication of the current share price by the number of prevailing shares of the firm.

Residual Dividend Payment Residual dividend payment refers to a scenario where a firm adopts a budget that finances all the positive Net Present Value (NPV) projects as the overriding priority to an extent that necessitates funds to be set aside as retained earnings, then the remainder of the net income is then issued to shareholders as dividend payment

Shareholders' Wealth Shareholders' wealth is the present worth of the stockholder's anticipated forthcoming yields that can be in the structure of either earnings from shares exchange or dividends

Stock Dividend Policy Stock dividend policy is a framework of rewarding of shares by a firm to its existing shareholders in the proportion of their share ownership standings

ABSTRACT

In the light of international securities exchange markets that are highly stochastic, lowly efficient and strongly speculative, dividend policy decisions are considered as critical for the firm in recent years. The overall objective of this study was to appraise the effect of dividend policy on shareholders' wealth of commercial banks listed on the Nairobi Securities Exchange (NSE). The specific objectives were to determine the effect of a fixed rate dividend policy, to assess the effect of fluctuating dividend payout ratio, to examine the effect of a hybrid dividend policy, to determine the effect of residual dividend payment, and to determine the effect of stock dividend policy on shareholders' wealth of commercial banks listed at NSE. The dividend irrelevance theory, information signaling effect theory, bird in the hand theory, and tax preference theory were evaluated to reinforce the variables that were studied in this research. The study incorporated a descriptive research design to interpret the effect of dividend policy on shareholders' wealth of commercial banks listed on NSE. The target population encompassed 110 respondents composed of the top management personnel of the 11 commercial banks listed on the NSE. A quota sampling method of data collection was adopted where the questionnaire was administered to the selected respondents. The data was coded into the Statistical Package for Social Sciences (SPSS) for analysis. ANOVA, multiple regression, and Pearson correlation analysis were utilized as the inferential statistics for additional analysis. The regression results for a Fixed Rate Dividend Policy, Fluctuating Dividend Payout Ratio, Hybrid Dividend Policy, Residual Dividend Payment, and Stock dividend policy had significant and positive effect on Shareholder's Wealth. Hypothesis tests for this study were carried out by regressing the independent variables against shareholders' wealth as the dependent variable. The null hypothesis was rejected in favor of the alternative hypothesis at a p-value of 0.009, 0.000, 0.043, 0.011, and 0.000 for a Fixed Rate Dividend Policy, Fluctuating Dividend Payout Ratio, Hybrid Dividend Policy, Residual Dividend Payment, and Stock dividend policy respectively which was less than 0.05 at 95% confidence level. In regard to the findings of this research and the subsequent conclusions, the study recommends that: listed banks on NSE should formulate strategic policies and guidelines that advocates for dividend stability and consistency in order to boost the investors' confidence in their securities thereby maximizing the shareholders' wealth, a hybrid dividend policy that is flexible and can be embraced by the different stakeholders in the companies should be established, and management should continue to steadily raise earnings, cash flow, and dividend payments; when determining a firm's optimal dividend policy, it is important to take its growth trajectory into account; when retained earnings are more than the funds needed to finance the appropriate investment initiatives, dividends ought to be distributed; and when creating a dividend policy, commercial banks should take into account a number of factors, including their profitability, dividend history, capital ownership structure, investment prospects, shareholder expectations, shareholder tax status,

and capital market accessibility as the underlying determinants of an optimal dividend policy realization.