Assessment of The Firm's Selected Characteristics on Dividend Payout Policy Implementation: A Case of Financial Institutions Listed at Nairobi Securities Exchange

Denis Momanyi Nyangau[1], Dr. Jared Bogonko[2], Dr. Caroline Ayuma[3]

[1]*School of Business and Economics, Kisii University,P O Box 9615, postal code 30100, Eldoret, Kenya,*
[2]*School of Business and Economics, Kisii University, P O Box 408 Kisii, Kenya,*
[3]*School of Business and Economics, Kisii University, P O Box 408 Kisii, Kenya,*

Abstract: *The purpose of the study was to assess the firm's selected characteristics on dividend payout policy implementation of listed financial companies: a survey of Nairobi Securities Exchange. The study was guided by the following objective: to establish the extent to which investment decisions determine dividend payout policy implementation of listed financial companies in Nairobi Securities Exchange. The study was guided by dividend relevance theory and the bird in hand theory. The study adopted a survey study research design. The study sampled 111 respondents. The study used 5-point likert questionnaires as the method of data collection. Cronbach's alpha was used to test reliability of the research instrument. The findings of the study indicated that there is a significant relationship between investment decisions and dividend payout policy implementation of listed financial institutions in Nairobi Securities Exchange. The study recommended that Managers of listed financial institutions in Nairobi Securities Exchange should ensure effective access to information regarding the firm's future prospects to investors, they should use variations in dividends as a medium to send information about a firm's future earnings and growth to the financial market, this will help outside investors who may look at dividend announcements as a true reflection of the an assessment of a firm's performance and prospects. For further research, the study recommended that the same study be done but on the excluded companies to ensure thorough research.*
Keywords: *Investment decisions & dividend payout policy implementation.*

I. Introduction

Dividend payout policy has always been a debatable subject in corporate finance. Many researchers in the past have suggested theoretical models explaining the factors that managers need to consider when making decisions concerning dividends (Dhanani, 2005). Due to the difficult business setting, firms took completely different actions so as to manage the crisis and one of the actions was to regulate the dividend payouts to shareholders, since it is believed to absorb the shock. Usually managers attempt to keep a stable-growing dividend and managers are not in need to decrease the dividends since it is usually understood as a negative signal. Throughout the crisis the trend of stable dividends was abandoned and some firms drastically reduced their dividend payouts whereas others at constant time raised the dividends (Abu, 2012).

According to Lintner (2001) dividend decision is very important to the investors and firms. It is the choice of company's management that determines what proportion of the earnings ought to be invested and which percentage should be given to investors in form of dividends. In making this decision the management ought to put into consideration the availability of investment opportunities that will increase future returns and if such opportunities do not seem to be attainable the management ought to distribute the earnings to shareholders (Miller &Modigliani, 1961).The traditional perspective of the dividend decision states that at a specific time the quantity cash flow paid now as dividend is additionally valuable than the reserved cash. The traditional perspective argues that paying early dividends might not make changes to the corporation risk level, however it will make changes on the perception of the investors concerning the corporation's risk level. Hence dividends are additionally valuable than reserved earnings (Aivazian, Booth & Cleary, 2003). In imperfect market investors prefer firms with a dividend pattern similar to their consumption pattern. That is the explanation why many firms follow an even dividend policy and their management take into account the reduction in dividend as a weakness signal. Therefore the next dividend would solely be declared if the firm will be able to manage it in later.

In imperfect markets, investors have incomplete information therefore less amount of knowledge on dividends is in the market and whenever information is available it is taken into consideration as a necessary by the investors. Announcement of dividend is taken as an indicator of growth in the future of the firm. These aspects prove the importance of dividend and its relevance (Aivazian, Booth & Cleary, 2003). Basically, dividend policy may be labeled into models, effects of clientele, tax effects, free cash flow and agency models

(Frankfurter *et al*, 2004, Brav *et al*, 2005).There may be an emerging consensus that there's no single rationalization of decision making concerning dividends (Abrutyn and Turner, 1990, Rent *et al*, 2000). Recent studies showed that the patterns of company dividend payout policies not only vary across time periods but it also varies throughout nations of the world (Pandey, 1995; Sarig, 2004).

According to Anil & Kapoor (2008) Company's earnings are used to buy securities, to retire debt, invest in operative assets or these earnings will be distributed to shareholders within the type of dividends. Dividends are necessary for investors as dividends are thought to be a signal of company's monetary well-being. Dividends also assist in maintaining the market value of the corporation's share. Companies with a history of payment of stable dividends may be affected negatively by decreasing dividends. Similarly firms that have not paid dividends would be viewed favorably after they would pay dividends (Al-Shubiri, 2011).

Dividend policy is one of the important monetary decisions that company managers ought to build a wise decision on (Baker and Powell, 1999). Dividend policy has an effect on the costs of shares and thus returns to investors, the financing of firm's growth and the equity base by holding finances alongside its leverage (Muchiri, 2006). The dividend policy, both as a matter of policy share worth and enhancing feature is one of most hard matters of current monetary economics. Aivazian *et al* (2003), in their study conquers to the fact that a firm should pay dividends to its shareholders if it didn't determine viable investments which might bring higher returns.

In the developed economies dividend theories have been advanced trying to clarify how dividend decisions are made and whether or not they have a control on the firms' worth. Different ideologies comprises of the traditional group that believes that increase in dividend or paying out dividend will increase the worth of a firm, the radical group believe that it reduces the value of a firm whereas those within the middle believe that it does not have an impact on the value of a firm (Farsio *et al*., 2004).

An examination of company dividend policy practices in emerging markets is currently not well set up within the literatures Lease *et al*, (2000). Emerging markets vary from the ones in evolved countries in terms of their organizational corporate governance, company taxation on dividends and capital profits finally company investments (La Porta *et al*, 2000and Lin, 2002). Further, corporations in developing markets are subjected to extra financial constraints than those in the developed markets Glen and Singh, (2004); they frequently have much less statistics efficiency, more volatility, and smaller marketplace capitalization (Fuss, 2000; Bekaert and Harvey, 2003) which may additionally have distinction effect on their dividend policy. As an example, Adaoglu (2000) stated that the emerging market firms have unstable cash dividend policies and the principle aspect that determines the amount of company dividends was the earnings of the enterprise yearly. Aivazian and Booth (2003) additionally discovered that companies in developing nations were proven to be much reluctant to trade its dividends than their counterparts in the developed markets.

In African countries the NSE is ranked the largest securities exchange, when it comes to trading volumes and ranked the fifth in market capitalization as a percentage of GDP (CMA Bulletin, 2009).It was established in 1954 and the products traded include bonds and Shares jointly referred as securities. A sum of 61 companies are listed from various market sectors namely; automobiles ,telecommunication, technology and accessories sector, insurance, investment sector, manufacturing, banking sector, construction, energy sector, and growth enterprise market segment (NSE website). This study hence sought to assess the determinants of dividend payout policy implementation by financial companies listed.

1.1 Statement of the Problem
Dividend payout policy implementation in many companies has over time been an issue especially in company finance. Investors expect a fair return on their investment irrespective of their preference either capital or dividend gain, however there has been a variance between expected return and actual return on investment in terms of dividends.

Despite the fact that there is literature on dividend payout policy implementation, majority of studies have focused on investment choices of small and medium enterprise and therefore little has been done on the factors determining dividend payout policy implementation in financial institutions. Studies by (Arnott & Asness, 2003; Farsio *et al.,* 2004 and Nissim & Ziv, 2001) have looked at dividend payout policy implementation of non-financial institutions. However these studies did not look at how investment decisions, company earnings and growth opportunities determine dividend payout policy implementation.

In Kenya, studies that have been carried out on dividend payout include: Ndungu (2009) who studied the determinants of dividend policy at the Nairobi Securities Exchange, and his findings were that company profitability, growth and size of liquidity, influenced the dividend ratio. A study done by Muchiri (2006) focused on determinants of dividend payout and found out that current and expected cash flow position, future profits and financial needs of the company and availability of profitable investment as factors that affect dividend policy. Bulla (2013), analyzed the factors influencing dividend policy of listed public companies at the Nairobi Securities Exchange and found out that earnings were significantly associated with dividend payout for

companies involved in the study. This left a wide gap that the study sought to fill; therefore this study focused on assessing the determinants of dividend payout policy implementation by listed financial institutions in the NSE.

II. Literature Review

2.1 Dividend Payout Policy and Investment Decisions.

It is at interest of every company to ensure shareholders get value for their investments through implementation of sound financial investment decisions which comprise investments. External financing is costly and therefore firms with potential investments prefer retaining capital inside rather than distributing it as dividends (Myers, 1984). According to scholarly work of Dhanani (2003) a firm's dividend policy will influence its capital structure or investment choices and successively enhance the firm's value to shareholders. Wealth of shareholders is increased via effective investment methods, supported by an optimum capital structure. Financial managers thus cannot alter the investment choices of their companies by ever-changing their dividend payout policy. A firm's dividend policy has no effect on the worth of the firm in an exceedingly good and complete market (Stulz, 2000). The valuation of companies also focuses on the link between dividend changes and investment choices, that is, future earnings or dividends.

Dividend policy is viewed as a result of the investment and funding choices since the corporate must decide the way to distribute wealth generated from these methods. Further Aivazian *et al*. (2003) posits that since company investment is sensitive to monetary constraints, a firm's dividend choices that directly affect its free income may have an effect on its investment. This arises once a firm's dividend policy is viewed as a residual to its capital structure and investment selections; internally created cash flows from current investment is going to be used to optimize the firm's capital structure and future capital decisions on investment and additional goes to shareholders as dividends.

The theory of pecking order suggests that capital structure proposes of firms can like internally generated money flows to external funds and thus pays low dividends. It thus suggests that companies that pay high dividends experience low growth that contradicts studies by Chou dynasty& Ruland (2006) and Arnott & Asness (2003). If a firm's dividend policy will give further insight into the cash flows, then an additional reliable estimate useful will be obtained (Howatt *et al.,* 2009). The equity part of a firm will increase once additional earnings are preserved. However, if a firm contains a large payout, funding might have to come back from debt. A rise in debt without a proportionate increase in equity might end in a deviation from a firm's optimum capital structure (Baker, 1999). Lenders during this case cannot see dividends as a fixed payment which can adversely affect the firm's cash flows. They can therefore be additional willing to allow debt to companies. A firm's dividend policy will reduce agency issues between managers and shareholders and in turn, enhance the firm's investment choices (Dhanani, 2005).

Dividend payments force companies to increase funds from outside for brand investments that will successively increase the level of external observation of company activities by the capital market regulator (De Angelo *et al.,* 2006). According to Dhanani (2005) did a study that showed that dividend policy is very important in maximizing investor value. A firm's dividend policy will influence one or additional of imperfections within the real world like information imbalance between managers and shareholders; agency issues between managers and shareholders; taxes and group action prices and successively enhance the firm's investment choices.

De Angelo *et al*. (2006) held that dividends are the simplest way to resolve agency issues wherever managers use excess cash flows to satisfy personal interests. By paying dividends to shareholders, free cash flows can be reduced and hence managers may not have chance to create suboptimal investments. Different situations of shareholders and investors take into consideration a firm's dividend policy and hence affects the value of the firm (Dhanani, 2005).Firms can come up with dividend policy that meet shareholders needs depending on preference shares. Information on future earnings of a firm is not provided by dividends only but also from firms with desired and preferred dividend policy. Mundati (2013) affirmed that firms should come up with articulate dividend policies to suit different shareholders dividend preferences. Some shareholders can prefer cash dividends because they are stable and others choose capital gains. Aivazian *et al*. (2003) argue that since company investment is sensitive to monetary constraints, a firm's dividend choices, that directly affect its free income, may have an effect on its investment. This arises once a firm's dividend policy viewed as a residual to its capital structure and investment selections; internally generated money flows from existing investments are going to be used to optimize the firm's capital structure and future capital decisions on investment and additional goes to shareholders as dividends (Dhanani, 2005).

H_{O1}.There is no significant relationship between investment decisions and dividend payout policy implementation of listed financial companies.

III. Materials and Methods

The study employed a survey study research design. The population for this study was listed financial firms on the Nairobi Securities Exchange as at 2015/2016 financial year with a sample size of 111 respondents. The study used 5-point likert questionnaires as data collection instruments. The Cronbach's coefficient alpha was applied on the results obtained to determine how items correlate in the same instrument. Cronbach's coefficient Alpha of more than 0.7 was taken as the cut off value for being acceptable which enhanced the identification of the dispensable variables and deleted variables.

3.1 Data Analysis

The data for the study was entered and coded for totality and precision of material. The data analysis was done using the inferential statistics and descriptive which included; frequencies, percentages, while inferential statistics were; Pearson's correlations and multiple regressions. The data was then entered into the SPSS Statistical Package. Factor analysis was employed to reduce the independent variables in the regression model to a smaller set of uncorrelated factor scores.

A correlation analysis was performed to ascertain whether there is existing relationship between the variables. Further multiple regressions were used to test the hypothesis; it was able to estimate the coefficients of the linear equation, including one or more independent variables that best predicted the value of the dependent variable. Multiple regressions has the following assumptions, Normality assumption which assumes that all the variables of the study have normal distribution this will be tested by use of. KMO tests. Further there is the linearity assumption which assumes that the relationship between variables is linear. Linearity can be tested with scatter plots, lastly there is the Homoscedasticity assumption which means that the variance of errors is the same across all levels of the independent variables, Levene's test of equality of variances across the study variables was used to test for this assumption.

The regression model is expressed as below:

$Y = \alpha + \beta x_1 + \varepsilon$

Where,

Y= Dependent variable (dividend payout policy implementation)

X= Independent variables;

X_1 = Investment decision

α=constant value

ε = Error term

βx_1, Coefficient of dividend payout policy implementation

IV. Results and Discussion

4.1 Factor Analysis Results of Investment decisions

Further factor analysis for Investment decisions was also conducted for the 6 items and were sorted and clustered into the Kaiser-Meyer-Olkin (KMO) used to measure sampling adequacy and Barlett's Test of Sphericity. The KMO measure of sampling adequacy indicated a value of (KMO=0.763) thus the sample size was sufficient for the variables entered into analysis. The Barlett's Test of Sphericity was significant X^2=260.347, df = 15, p=0.000, implying that the factor analysis was sufficient for the study and a positive relationship existed between the variables. Results of principal component analysis indicate that only one factor has Eigen values exceeding 1. Further, a factor's Eigen value represents the amount of total variance explained by that factor. This factor has Eigen value of 3.130and explains 52.169% of this variance. The results are presented in Table 4.0.

Table 4.0 KMO and Bartlett's Test of Investment decisions

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.763
Bartlett's Test of Sphericity	Approx. Chi-Square	260.347
	Df	15
	Sig.	.000
% of variance		Initial Eigenvalues
1	52.169	3.130

4.2 Correlations

The relationship between the variables was calculated through use of Pearson correlation. The measures were constructed using added scales that were from the independent and dependent variables. The decision rule for correlation was in accordance to Saunders (2003) who postulated that that r=1 shows a Perfect linear correlation, 0.9 < r < 1 indicates Positive strong correlation, 0.7 <r < 0.9 Positive high correlation 0.5 < r < 0.7 Positive moderate correlation, 0< r < 0.5 Weak correlation r=0 No, relationship and -1 <r = < 0 Negative relationship

From the study the results indicate that investment decisions had positive high correlation to dividend payout implementation, this was indicated by investment decision r=0.799 and the p-value is .000.

Table 4.1 Correlation Coefficients

		Investment decisions	Dividend payout policy implementation
Investment decisions	Pearson Correlation	1	.799[**]
	Sig. (2-tailed)		.000
	N	97	97
Dividend payout policy implementation	Pearson Correlation	.799[**]	1
	Sig. (2-tailed)	.000	
	N	97	97

4.3 Normality Test

Kolmogorov-Smirnov test (K-S) was used to compare the shapes of the data distribution to the shape of the normal curve and assumption of the normality of the study population distribution. The Kolmogorov-Smirnov was computed to enable compare cumulative distribution function for the variables of interest. The results for K-S tests was done on the study variables namely; investment decisions and dividend payout policy implementation. When the value of significance of the Shapiro-Wilk Test is noted less than 0.05, the data is normal. If it is greater than 0.05, the data highly vary from the normal distribution. The tests revealed that the data used in this study is normally distributed and hence can be subjected to other statistical tests of significance which test the link between dependent and independent variables that require normally distributed data. This is shown in table 4.2 below.

Table4.2 Normality Tests

		Investment decisions	implementation
N		97	97
Normal Parameters[a,b]	Mean	4.02	4.09
	Std. Deviation	.716	.689
Most Extreme Differences	Absolute	.216	.213
	Positive	.132	.100
	Negative	-.216	-.213
Kolmogorov-Smirnov Z		2.127	2.097
Asymp. Sig. (2-tailed)		.000	.000
a. Test distribution is Normal.			
b. Calculated from data.			

4.4 Testing of the Assumption of Linearity

From the study test of assumption of linearity was done using the Pearson product moment Correlation, this was done to assess the relationships between the variables in a linear way. The results in table 4.3 below indicate that there was positive relationship between investment decisions and dividend payout policy implementation thus assumption of linearity was supported.

Table 4.3 Testing of the Assumption of Linearity

		Investment decisions	Dividend payout policy implementation
Investment decisions	Pearson Correlation	1	
Dividend Payout policy implementation	Pearson Correlation	.799[**]	1

4.5 Testing of the Assumption of Homoscedasticity

Homoscedasticity of variances was tested using levene's test of equality of variances across the study variables. This study tested the assumption that the variance of company earnings, growth opportunities, investment decisions and dividend payout policy implementation in the study was the same. The desired outcome of this test to reject the assumption which would lead to a conclusion that the variances of the study variables are the same, the result will be significant if the resulting p-value of Levene's test is less than 0.05. Thus, the null hypothesis of equal variances is rejected therefore; it is resolute that there exists difference among the variances in the study variables. The results showed that the alpha level of investment decisions (p=0.00) and dividend payout policy implementation (p=0.00) were significant because their significance level was less than 0.05. It was therefore concluded that homogeneity of variances was supported. The results are shown in table 4.4 below

Table 4.4 Assumption of Homoscedasticity

	Test Value = 0					
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Investment decisions	55.228	96	.000	4.015	3.87	4.16
Dividend payout policy implementation	58.543	96	.000	4.095	3.96	4.23

4.6 Hypothesis Testing

From the study a multiple linear regression model was used to investigate the study hypotheses which examine the direct and indirect effects of investment decisions on dividend payout policy implementation. Hypothesis testing was done with a significance level of 0.05, such that when the significance value is less than the 0.05 the null hypothesis is rejected and when it is above 0.05 it is accepted. This is discussed in the section that follows:

4.7 Investment decisions and Dividend payout policy implementation

The study hypothesis indicated that there is no significant relationship between investment decisions and dividend payout policy implementation of listed financial companies. The relationship between the independent variables (investment decisions) and dependent variable (Dividend payout policy implementation) was tested through use of a simple regression model. As shown below

Table 4.5 Model Summary of investment decisions and Dividend payout policy implementation

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.799[a]	.638	.634	.417
a. Predictors: (Constant), investment...decisions				

From the results on model summary R= 0.799, R- square = 0.638, adjusted R- square= 0.634, and the SE= 0.417. Multiple correlation R coefficients indicate the degree of linear relationship of Dividend payout policy implementation with the predictor variables investment decisions, whereas the coefficient of multiple determinations R-square shows the provision of the total variation in Dividend payout policy implementation that is explained by the independent variables investment decisions in the regression equation. The R-square gives us the coefficient of determination between the variables the results from the regression analysis give an R-square value of 0.638, which means that 63.8% of the independent variable (investment decision) cause the change on dependent variable (Dividend payout policy implementation)

Table 4.6 ANOVA of investment decisions and Dividend payout policy implementation

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	29.051	1	29.051	167.271	.000[b]
	Residual	16.499	95	.174		
	Total	45.550	96			
a. Dependent Variable: implementation						
b. Predictors: (Constant), investment...decisions						

The significance of the regression model was tested using Analysis of Variance (ANOVA). Table 4.6 presents the results of this test, where, F= 167.271, p=0.000. From the study the significance value is 0.000 which is less than 0.05 thus the model is statistically significant in predicting how investment decisions affect dividend payout policy implementation. The F value of 167.271 indicates that all the variables in the equation are important hence the overall regression is significant, this shows that the model was significant.

Table 4.7 Coefficients investment decisions and Dividend payout policy implementation

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.010	.242		4.169	.000
	investment...decisions	.768	.059	.799	12.933	.000
a. Dependent Variable: implementation						

Results from the regression model above indicated that there was a significant relationship (p = 0.000) between investment decisions and dividend payout policy implementation of financial institutions listed in the Nairobi Securities Exchange. This was interpreted to mean that dividend payout policy implementation can influence a firms' capital structure or investment decisions and therefore enhance the firm's value to shareholders. These findings concur with (Dhanani, 2005) who states that dividend policy can be viewed as a result of the investment and financing decisions because the firm needs to decide how to distribute wealth

generated from these strategies. The relationship can also be reverse, where a firm's capital investment is influenced by dividend policy and structure decisions and in turn its value enhancing properties.

V. Conclusion

From the study findings indicated that there is a significant relationship between investment decisions and dividend payout policy implementation of listed financial institutions in Nairobi Securities Exchange, the findings were captured in inflation rates as a determinant of investment decision, earnings per share is a determinant of investment decision, return on capital is employed in our organization, return on shareholders' funds are adequate in our organization, wealth of shareholders is maximized through effective investment methods and change of investment choices alters dividend payout policy. This implied that investment decisions determine dividend payout policy implementation of listed companies in Nairobi Securities Exchange.

5.1 Recommendation of the Study
5.1.1 Recommendation with Policy and Practice

Managers of listed financial institutions in Nairobi Securities Exchange should ensure effective access to information regarding the firm's future prospects to investors, they should use variations in dividends as a medium to send information about a firm's future earnings and growth to the financial market, this will help outside investors who may look at dividend announcements as a true reflection of the an assessment of a firm's performance and prospects.

5.1.2 Suggestion for Further Research

In order to allow for thorough investigation, this study suggests that future studies be done on the effectiveness of firms' growth opportunities on the dividends to be payed to shareholders. This will make information available for growing and expanding of listed financial institutions in Nairobi Securities Exchange, the researcher also suggests that future study be done on the measures to promote increase in firm size and its impact on dividend payout policy to shareholders.

Lastly since the study excluded listed companies in Nairobi Securities Exchange from other sectors, the study suggests that same study be done but on the excluded companies to ensure thorough research on the variables of the study.

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