ANALYSIS OF DIVIDEND DISTRIBUTION POLICY ON PERFORMANCE OF SELECTED COMPANIES LISTED AT NAIROBI SECURITIES EXCHANGE MARKET

GABRIEL GAI D. DENG

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION DEGREE IN ACCOUNTING AND FINANCE OF
MOUNT KENYA UNIVERSITY

MARCH 2016

ABSTRACT

The purpose of this study was to assess the relationship between the dividend policy and performance of stocks at the Nairobi Securities Exchange (NSE) in Kenya. This research study used secondary (desk) research design by reviewing existing data and information relating to the performance of stock prices of 7 companies listed at the Nairobi Securities Exchange (NSE). The main objective of the study was to assess how dividend distribution policy affects performance of stock prices at the Nairobi Securities Exchange. The specific objectives were: to establish if declaration of dividend affects stock prices at the Nairobi Securities Exchange; to assess the effect of profitability on stock prices at Nairobi Securities Exchange; to evaluate the effect of stock market performance on share prices at the Nairobi Securities Exchange and; to establish the effect of capital market regulations on share prices at the Nairobi Securities Exchange. A sample of 7 companies listed at the NSE was used in the study. Two sampling methods were used to select the sample. The first sampling method was stratified random sampling where population was divided into strata (11 market Segments). Purposive sampling was then used to select one company from each stratum (segment) provided that the company"s share is used in the computation of the NSE 20 share index. This sampling process resulted in sample of 7 companies. Research data was sourced from the sampled companies" annual financial statements and announcements. The daily trading results of the NSE were also used as data. The collected data was analyzed quantitatively using SPSS version 21 and Microsoft Excel Data analysis feature. The results of the analyses have been presented using tables and line graphs. The study finding have shown that the prices of shares at the Nairobi Securities Exchanges are sensitive and reacts to company profitability, the amount of dividend declared, taxation on shares and the stock market performance. The stock market performance affects share prices through the interplay of the forces of demand and supply of shares. When there is an oversupply of shares the share price is more likely to fall and when there is undersupply of shares, the share prices are likely to rise. Introduction of new taxes and levies results in the decrease in share prices, as more traders withdraw their shares from the market in order to avoid the tax. The profitability of companies also has a direct effect on the share prices at the NSE. When listed companies make profits and declared dividends for shareholders the prices of shares rise. When listed companies make losses and fail to declare any dividend for the shareholders the share prices at the NSE fall. It is recommended that NSE listed companies should strive to pay dividends every end of the financial year as this will generate interest of the company"s share at the exchange. Even when no profit is made, companies should pay dividends from their reserves. Introduction of taxes and levies on share trading at the NSE should be avoided as this decreases the vibrancy of the stock exchange and discourages many investors from the exchange.