



# Effect of Dividend Policy on Share Price Performance: A Case of Listed Insurance Companies at the Nairobi Securities Exchange, Kenya

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**Abstract:** The purpose of this study was to determine the effect of dividends policy on share price performance of insurance companies listed at the Nairobi Securities Exchange (NSE). This study was guided by the following objectives: to determine the effect of dividend payout on share price performance of insurance companies listed at the Nairobi Securities Exchange (NSE), to examine the effect of dividend yield on share price performance of insurance companies listed at the Nairobi Securities Exchange (NSE), to analyze the effect of earnings per share on share price performance of insurance companies listed at the Nairobi Securities Exchange (NSE) and to determine the effect of inflation on share price performance of insurance companies listed at the Nairobi Securities Exchange (NSE). This study was underpinned by two theories namely; Modigliani and Miller, and Gordon's Model. This study adopted a combination of descriptive design and historical research design. 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 significant in predicting the value of share price. Therefore the study recommended that insurance firms should consider their dividend policy accurately since they have a great power on influencing share price, because they affect share price by making stocks prices move either up or down depending on dividends announced by management hence management should be prudently responsive in declaring dividends. Further, the study recommended that management of insurance firms should strive to declare higher dividends to spur share price upwards. The findings of this study benefits insurance firms and regulators like CMA, IRA and NSE in decision making. Further studies to be conducted regarding dividend policy on share price with expanded time frame on all listed companies at NSE.

**Keywords:** Dividend Policy, Share Price Performance, Listed Insurance Companies

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## 1. Introduction

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 (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. According to Linter (1956), who was the first to recognize the information content of dividends, established that 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.

Dividend policy is 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. 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 to the firms efficiently like earnings per share, retained earnings, firm size, book value among others.

Insurance firms penetration in Kenya has remained low with total of six listed companies. However despite their few numbers, 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 (Charumathi, 2012).

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.

### **1.1. 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 facilitating 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 past studies conducted on the effect of dividend policy on share prices have been carried out in both developed and emerging securities 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 *et 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 dividend policy on share price over the period 2006-2015.

From the previous findings it has demonstrated 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.

### **1.2. Objective of the Study**

- i. To determine the effect of dividend payout on share price of listed insurance companies at the Nairobi Securities Exchange, Kenya.
- ii. To examine the effect of dividend yield on share price of listed insurance companies at the Nairobi Securities Exchange, Kenya.
- iii. To analyze the effect of earning per share on share performance of listed insurance companies at the Nairobi Securities Exchange, Kenya.
- iv. To determine the effect of inflation on share price of listed insurance companies at the Nairobi Securities Exchange, Kenya.

### **1.3. Research Hypotheses**

Ho<sub>1</sub>: Dividend payout has no significant effect on share price of listed insurance companies at the Nairobi Securities Exchange, Kenya.

Ho<sub>2</sub>: Dividend yield has no significant effect on share price of listed insurance companies at the Nairobi Securities Exchange, Kenya.

Ho<sub>3</sub>: Earning per share has no significant effect on share price of listed insurance companies at the Nairobi Securities Exchange, Kenya.

Ho<sub>4</sub>: Inflation has no significant effect on share price of listed insurance companies at the Nairobi Securities Exchange, Kenya.

### **1.4. Conceptual Framework**

The study sought to establish the effect of dividend policy on share price performance. The independent variables in this study were; dividend payout and dividend yield, while control variables were earning per share and inflation and intervening variable were firms size and government policy. The interaction of the above variables is illustrated in figure 1.

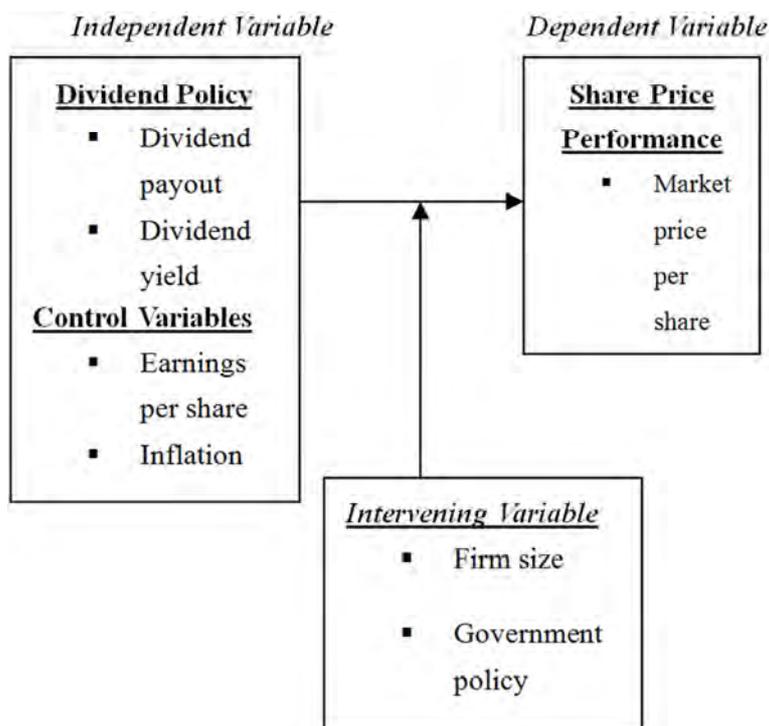


Figure 1. Conceptual Framework.

## 2. Literature Review

### 2.1. 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 this theory (Allen & Michaely, 2002; & Sarig, 2000; Amidu & Abor, 2006). Who suggested that market imperfections exist in reality and should be considered when evaluating corporate dividend payment.

### 2.2. 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 and get higher rating, hence able to easily raise funds externally. This model 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 this theory are studies

conducted by (Khan, 2012).

### 2.3. Empirical Review

#### *Dividend Policy on Share Price Performance*

Dividends policy is the challenging aspects in finance, because of varied findings in the literature. 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 unique characteristics of insurance firms as they adjust their dividends creating a unique signal that differs with other firms. They concluded that share price respond positively on dividend announcements.

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. They conducted their research using event study, for twenty-year period from 1990-2009 on dividend announcements (dividend initiation) and dividend omission (non- payment of dividend) of 40 firms in both dividend initiation and 44 firm's dividend omission. From the enormous findings established dividend carry new

information to market participants which reflect in market share performance. They also found that dividend omission was greater than dividend initiation. This study supports both the Clientele theory of dividends which was advanced by Pettit (1977) and Bird in hand theory (Godon, 1963).

According to Khan (2012) who suggested that financial analysts use dividend policies to make informed decisions pertaining investments. Dividends payments are not the only source of funds but indicate 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 managers believe that one of the key principles of paying dividend is either a strategic tool to be able to answer the dividend puzzle that divided increase or decrease the stock price.

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 five 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 distribute dividends 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.

Al-Shuburi (2011) undertook an investigated the determinants of dividend change policy on 60 quoted companies on ASE (Amman stock exchange) for a period ranging 2005-2009. In their study by use of Tobit and Logit regression analysis. They established, that leverage, institutional proprietorship, risk of firm, assets composition and growth opportunities, affects the dividend payout in listed firms of Amman stock exchange.

According to Mokaya, Nyang'ara & James (2013) 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, by targeting 47,000 populaces by use of explanatory design covering a sample of 100 shareholders of National Bank of Kenya. They concluded that a significant association between dividend declaration and market share.

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. They further explain that dividends payout is a crucial factor investors monitor before investing in a company. The shareholders shift loyalties to firms which post higher dividends, they recommend that dividend should be taken with decisive mind in dividend policy making.

Yegon, Cheruiyot, Rotich & Sang (2014) conducted a research 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, Wekesa (2013) analyzed the determinants influence of dividend policy by Kenyan agricultural companies at the Nairobi Securities Exchange; he established dividends payout had a strong indicator of share price in agricultural sector.

Similarly, findings in Kenya perspective reinforces preceding findings from emerging and developed economies, study by Waithaka, Jonah, Julius, & Patrick (2012) 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 securities market.

Again in Kenya, other scholars namely Matoke & Marangu (2014) examined the payments of dividends on their share performances of the firms listed in the Nairobi Securities Exchange. They examined 29 quoted firms with a span of ten years from the year 2003 up to the year 2012. They selected dividends paying firms with comparison with share price movements. From their findings they found that firms paying dividends had strong positive impact on the share prices due to their dividend policy.

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 of perfect information available to all the players and the share prices adjust and 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 by brokers and the stock exchange employees who acted 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.

On the contrary findings Gitau (2011) studied the relationship between payment of dividends and share price for firms at the NSE, Kenya. They found a weak positive relationship between dividend payout ratio and market share prices.

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 of 38 local and multinationals firms chosen for the analysis. Through the use of panel data. from the findings found a significant relationship between market price performance with three measures of independent variable namely; dividend per share, earnings per share and dividend payout ratio. She further

concluded that both have significant effect on the share price on multinationals firms however, the effect was not significant for the local firms.

### 3. Research Methodology

#### 3.1. 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, to enable the researcher to plan and answer the research questions. 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.

#### 3.2. 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 listed insurance companies at the NSE (Kombo & Tromp, 2006).

#### 3.3. 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.

#### 3.4. Data Analysis and Presentation

By use of stata, 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;

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

Where;

Y= Market price per share

$\alpha$  =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

$\epsilon$  =Error term

### 4. Findings and Recommendations

#### 4.1. Descriptive Statistics

Table 1. 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	0.00	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 in Kenya. On the other hand the rest of the variable had posted stable volatility, dividend yield (dy) was least volatile with a mean of 0.04[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.

#### 4.2. Panel Unit Root Test

This study conducted panel unit root in order to avoid the problem of spurious regression results.

(i) Stationarity Test

Table 2. Test for stationarity.

Variable	ADF level form		ADF 1 <sup>st</sup> 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)

From the results presented at level form for unit root test, the variable for the average marketprice (avmp), dividend payout (dpo), earning per share (eps) both exhibit non-stationarity at level form. However, the results at the level

form of the variables namely, divided yield and inflation exhibited stationarity. 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 1<sup>st</sup> difference. Meaning they are intergrated of order i(1) as shown in the Table 2 above.

(ii) Cointegration

**Table 3. Cointegration 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; Significant level: 5%  
Source (Research data, 2016)

The data was subjected to cointegration test based on augmented Dickey-Fuller tests fisher-type for residuals, and results presented in Table 3 above, showing their long run association of variables.

#### 4.2. Regression Analysis

Having undertaken satisfactorily panel root tests, this study proceeded to conduct the dynamic regression analysis, in order to assess the effects of dividend policy on share price performance of listed Insurance firms in the NSE as presented in Table 4 below.

**Table 4. Regression Results.**

Avmps	Coef.	Std. Err.	Z	P> t	[95% Conf. Interval]
davmp- L1	1.097	0.1485	7.39	0.000	0.80570 1.3878
Ddpo	-30.83	12.620	-2.44	0.015	-55.571 -6.1016
Ddy	157.35	47.587	3.13	0.001	64.088 250.624
Deps	4.348	1.0277	4.23	0.000	2.3383 6.3624
dInfl	-2.033	0.8101	-2.51	0.012	-3.6211 -0.4454
Con	-1.047	4.652	-0.23	0.822	-10.165 -8.0714

Number of Obs = 40; Wald chi2 (5) = 68.26; Prob > chi2 = 0.0000; No. groups = 6; Hetttest fstat prob > F = 0.7301; VIF = 1.11; Ramsey Prob > F = 0.9951.  
Source (Research data, 2016)

##### 4.2.1. 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, it shows that Z- calculated for payout ratio was -2.44 which was greater than Z- critical range in between -1.96 and +1.96. The null hypothesis stated below is therefore rejected.

*H<sub>01</sub>: 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 ( $\beta = -30.83$ ,  $P = \text{value } 0.015$ ). 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. This findings were consistent with signaling theory by (Lintner, 1956) who found that the share price of a firms change 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, this finding 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 due to perfect market.

##### 4.2.2. 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, it shows that Z- calculated for dividend

yield was 3.13 which was greater than Z- critical range between -1.96 to +1.96. The second null hypothesis stated below is rejected.

*H<sub>02</sub>: There is no significant effect of dividend yield and share price*

Therefore this implies that dividend yield was positive and significant on share price. From the results it had a coefficient of ( $\beta = 157.35$ ,  $p = \text{value } 0.001$ ) 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.

##### 4.2.3. 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, 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<sub>03</sub>: 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 ( $\beta = 4.35$ ,  $p = \text{value } 0.000$ ) 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.

#### 4.2.4. Effects of Inflation on Share Price

Lastly on the control variable, the inflation rate. The results of this findings is presented in Table 4, it shows that Z- calculated for inflation was -2.51 which was greater than Z- critical value between -1.96 and +1.96. The null hypothesis stated below is 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 ( $\beta = -2.03$ ,  $p$ -value = 0.012). Meaning a unit increase in inflation led to a 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. This was in tandem with findings in Greece by Ioannides *et 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.

#### 4.3. Diagnostic Test

(i) Multicollinearity

Table 5. Multicollinearity.

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)

Kennedy (2008) noted that multicollinearity refers to the presence of highly inter-correlated predictor variables in regression models. 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. 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 5 above.

(ii) 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). 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.

(iii) Heteroscedasticity

Breusch- Pagan test for heteroskedasticity was conducted and with  $H_0$ : constant variance. In line with Stock and Watson (2011) by default Stata assumes homoskedastic standard errors. 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 as shown below.

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

## 5. Conclusions

The objective of the study was to establish the effect of dividend policy on share price performance of listed insurance firms at NSE Kenya. Therefore from the findings this study concludes that, dividend policy decisions affect share price because it make prices of stocks move either up or down depending on dividends policy by management. Since most investors at NSE peg their investments with short term gains.

## Recommendations and Policy Implication of the Study

This study recommends that management of insurance firms should consider their dividend policy seriously and shall exercise prudence management and sound decision practices on dividend payments. They are expected to make their dividend policies for long term sustainability of the firm to enable them maximize shareholders wealth through dividend payments, therefore this study recommends management of insurance companies strive to declare higher dividends to spur share price upwards.

The study also recommends that regulators like insurance regulatory authority (IRA) and capital market authority (CMA) shall adopt policies that enhance market efficiency for better predictability of the market and investor confidence. Through compliance and surveillance also harsh laws to deter non compliance of the market plays particularly Insurance companies.

## Limitations of the Study

The limitation that researcher faced was the inconsistencies in companies financial year end reports and dividend announcements. 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 all listed and unlisted insurance companies at the NSE.

## Suggestions for Further Research

Future studies to consider the effect of dividend policy on share price on all listed firms at the NSE with expanded time frame. Also given that Kenya firms experience political and high exchange rates, future studies should consider incorporating those variables in their study.

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