**The International Journal of Business and Finance Research**
Vol. 10, No. 3, 2016, pp. 39-47
ISSN: 1931-0269 (print)
ISSN: 2157-0698 (online)

IBFR
www.theIBFR.com

# CASH DIVIDEND CHANGE ANNOUNCEMENT EFFECT ON SHARE PRICE RETURNS: EVIDENCE FROM NAIROBI SECURITIES EXCHANGE

Freshia Mugo-Waweru, Strathmore University, Nairobi, Kenya
Pauline Atieno Otieno, Strathmore University, Nairobi, Kenya

## ABSTRACT

*Whether to pay dividends or not is a critical decision that every company must make. Conversely, whether to invest in a divided paying company is decision investors must consider. However, the relationship between dividend and share returns is not clear and how shareholders react to dividend increases or decreases is still a puzzle. This paper seeks to identify if cash dividend change announcements have any effect on share returns. It also examines whether stock price returns react the same to an increase and a decrease in dividend announced. Using daily closing prices from 2005-2012, the paper employs a 40-day event methodology to examine the reaction of share price returns to dividend change announcements before, during and after the event. Results show, dividend announcements have a significant effect on share price returns. Dividend decreases resulted in negative returns while dividend increases resulted in positive returns. Dividend decreases cause a larger decline in returns than an increase leads an increase in returns. Based on this evidence, dividend announcements have information content and hence dividend-paying companies listed in Nairobi Securities Exchange (NSE) should consider this before announcing a change in dividend.*

**JEL:** G140

**KEYWORDS:** Dividend Announcements, Share Prices, Abnormal Returns, Information Content

## INTRODUCTION

"*The harder we look at the dividend picture, the more it seems like a puzzle, with pieces that just don't fit together"* Black (1976). Black's sentiments are also shared by Bhattacharya (2007) who stated that a difficult challenge facing financial economists was explaining dividend policy. He further stated that despite decades of study, factors influencing dividend policy and their interaction were yet to be understood. Baker (1999) reported that since 1976, there has been a dramatic increase in empirical and theoretical research done on dividend policy. He added that it was still not clear why companies decided to pay or not to pay dividends. Furthermore, it was still problematic why investors paid so much attention to dividends. Baker concluded that setting of a dividend policy for a company is still debatable and needs prudence by decision makers. Amidu and Abor (2006) noted that companies earn income which can be invested in the business or distributed as dividends to shareholders. They identified several issues that a company considers when it decides to distribute income; (i) how much of the income will be distributed to shareholders; (ii) if cash or stock should be distributed or buying back some shares from the shareholders and; (iii) stability of the distribution. A stable distribution produces better positive signal on the future of the company than a volatile distribution because changes cause uncertainty. There are often arguments of whether the dividend decision affects the value of the firm (relevancy theories) or not (irrelevance theories). The irrelevance of dividend policy where there are no transaction costs or taxes and all investors have full information on the uncertain future cash flows of the company was proved by Miller and Modigliani (1961). They stated the firm value cannot be altered by changing the dividend policy. In contrast, Walter's Model and Gordon's Model advocated the relevance of dividends to financial decision making.

Walter (1956) concluded that stock prices reflected the present values of the expected dividends over longer periods and so the value of the firm is affected by dividends. Conversely, Gordon (1959) asserted the price of a share equaled to the discounted value of its expected future dividends and thus concluded that current income would be preferred to future income by investors. Explanations for dividend relevance have been developed which include the signaling, agency costs, tax preference and bird-in-the-hand explanations (Baker 1999). The bird-in-the-hand argues that investors prefer dividend payment in the present to an uncertain future price appreciation. Dividend policy based on tax differential between dividends and capital gains was developed by Brennan (1970), Stapleton (1972) among others. According to the explanation of tax preference, investors favor dividends nonpayment because of tax related reasons as dividends are taxed twice while the capital gains are taxed once or not taxed in some countries. Several researchers (Ross (1977), Bhattacharya (1979, 1980), Miller and Rock (1985), John and Williams (1985), Yoon and Starks (1995), Adelegan (2009), Asamoah (2010), Akbar and Baig (2010), Aamir and Ali Shah (2011), Waweru, Pokhariyal and Mwaura (2012) and Olweny (2012)) have discussed dividend payment as a signaling tool. It suggests that dividend announcement carries information on future prospects of the company and the investors assess stock price of the firm using dividend announcements information. This paper seeks to find out if there is any relationship between dividend announcement (information content) and share price of companies listed in the Nairobi Securities Exchange (NSE). It also seeks to look into the effect of cash dividend increase as well as cash dividend decrease on the share price return. The rest of the paper is organized as follows. First, the literature review is presented followed by data and methodology. Then the results, their implications, and recommendations for further research are given. Finally, conclusions of the paper are presented.

## LITERATURE REVIEW

Bhattacharya (1979), Miller and Rock (1985) and John and Williams (1985) are credited with developing the classical signaling models based on information asymmetry hypothesis. They showed that under imperfect information, dividends act as a costly signal of expected future performance of a firm. These models showed that informed insiders use dividends as signals to convey the future prospects of firms to the outsiders who are less informed. They assumed that dividends are the only signaling mechanism. Moreover, Waweru et. al. (2012) suggests that dividend announcement carries information on future prospects of the company and the investors assess stock price of the firm using dividend announcements information. Information signaling therefore suggests that dividend changes should lead to earnings changes as dividend change announcements are positively associated with share returns in the days surrounding the announcement (Baker 1999).

According to Lintner (1956), managers prefer stable dividends and they are reluctant to dividend changes that might be reversible. He further stated that stable and predictable dividends provide smaller uncertainty to the investors than the variable dividends because of the information content effect. Aharony and Swary (1980) in their study of quarterly dividends and earnings announcement and stockholders' returns showed that increasing (decreasing) dividend announcements resulted in positive (negative) abnormal returns around the announcement days meaning that changes in dividend payments carried new information about the firm. Their findings were corroborated by Allen and Michaely (2003) who established that dividend changes were associated with stock price changes of the same sign around the dividend change announcement and immediate price reaction was related to the size of the dividend. On the contrary, Uddin and Chaundhary (2005) investigated dividend announcement impact on stock prices of Dhaka stock exchange and found that dividend had no information content and returns supported the dividend irrelevance theory. Their findings were corroborated by Mamun and Hogue (2013) did a study on stock price reaction to dividend announcement for companies listed on the Dhaka Stock

Exchange in Bangladesh. They concluded that dividend declaration does not bring any gains to investors, they instead lose due to substantial fall in share prices both in the pre and post dividend period.
According to Chen et al. (2009), a cash dividend increase announcement is an optimistic signal on a firm's future operation and cash flow for investors. They stated that an increase in cash dividend is usually followed by positive abnormal returns. On the contrary, they further stated that, negative abnormal returns follow the announcement of a cash dividend decrease as it is a pessimistic signal. They concluded that these empirical studies support the dividend signaling hypothesis and investors' expectations of a firm's cash flow are adjusted after cash dividend changes. Gupta et al. (2012) did a study on stock price reaction to dividend announcements for listed companies in the Bombay Stock Exchange who announced dividend increases. The study exposed the fact that stock prices react to increase in dividend announcements and that dividend announcements possess signaling property. According to Akron (2011), business cycle is a critical parameter in investor's interpretation of dividend announcements as during busts a dividend announcement is perceived as a strong and reliable signal about the state of the corporation compared to times of normality.

He examined the impact of business cycles on the market reaction to dividend announcements for large capital firms in the Tel-Aviv Stock Exchange. Among listed firms in the Nairobi Securities Exchange, the relationship between firm performance and dividend payout was sought by Murekefu and Ouma (2012). Their findings pointed out there were a strong and positive relationship. They also showed that among listed firms in Kenya, cash dividends were the commonly used type of dividends while other types of dividends were not employed by firms. They concluded that firm performance was mainly affected by dividend payout and this showed that dividend policy was relevant. Their finding was corroborated by Olweny (2012) who sought to determine the extent to which there is information content in dividend announcements, the effect dividend announcements had on the firm value and its implications on the semi strong efficiency of the Nairobi Stock Exchange (NSE). He concluded there was information content in dividend announcements which affected the value of the firm.

This conclusion arose from the findings there was a significant relationship between abnormal stock returns and unexpected dividend announcements. Mokaya et al. (2013) did a study on the effect of dividend policy on market share value in the banking industry in Kenya. Their study sought to establish the effects dividend policy had on the value of shares in the banking industry using National Bank of Kenya as a case study. They found out that according to the investors, dividend payments influenced the share value and as dividend payments increase so does the price of the share. Waweru et al. (2012) investigated the signaling hypothesis by testing the displacement property of dividends for 40 companies listed on the Nairobi securities Exchange between 1998 and 2010. The study applied panel corrected standard errors (PCSE) to time series cross section (TSCS) data. The findings provided further empirical evidence that dividends are used as signals about future earnings prospects of the firm and shed further insights on the controversy about the information content of dividend changes about future profitability.

## DATA AND METHODOLOGY

### Data Presentation

The paper investigated the effect of cash dividend announcement on abnormal return using 40 days' event study. It focused on the companies listed on the Nairobi Securities Exchange (NSE) for the period 2005 to 2012. This period is significant as Kenya experienced postelection violence (PEV) in 2007/2008 where NSE recorded one of the worst performances. In addition, the companies must have declared a final dividend each year resulting to a sample of 44 companies. Daily closing prices data was collected from the NSE website while the dividend paid was collected from the company's annual financial report and prospects. For the dividend change model, 325 observations were used.

Methodology

The study used the event study method to investigate the effect on cash dividend announcement on prices of shares for firms listed on the NSE. The event window was 41 days; 20 days before and 20 days after the event date which is the announcement date with the announcement day being day 0. The choice of the event window was made to consider other possible pre-event reaction due to the peculiar nature of the information environment in developing countries; there are possibilities that market reaction starts long before the actual announcements. A 352 dividend event observations were used (44 companies paying annual dividend for eight years). Stock price reaction is the drift or change in the share price. To estimate abnormal returns for the different event windows, the Market Adjusted Return Model was used. In Market Adjusted Return Model, the measure of risk (β) is assumed to be 1 and the intercept (α) to be zero. It is argued that using Market Model Adjusted Return Model is not superior to Market Adjusted Return Model and in small markets; Market Adjusted Return Model gives good results as the Market Model Adjusted Return Model (Brown and Warner, 1980; Armitage, 1995; Travlos et al., 2001). The market adjusted return was calculated as below:

$$AR_{it} = R_{it} - R_{mt} \qquad (1)$$

Where:

$AR_{it}$ is the Market Adjusted Abnormal return of firm *i* on day *t* in the event window

$R_{it}$ is the return of firm *i* on day *t* within the event window

$R_{mt}$ is the NSE 20 return on day *t* within the event window

The Average Abnormal Return (AAR) and Cumulative Abnormal Return (CAR) were used to measure and test the abnormal return significance. The AAR and CAR was calculated as below:

$$AAR_t = \sum_t^i AR\,/N \qquad t = -20, -19, \ldots ..,20 \qquad (2)$$

$$CAR_t = \sum_t^i AR \qquad t = -20, -19, \ldots ..,20 \qquad (3)$$

Collected data was subjected to statistical analysis using Gen Stat ver. 14 software. Dividend change was calculated by the dividend change model. The event date was then established for companies with dividend changes to determine the event window.

## RESULTS AND DISCUSSION

Effect of Dividend Cash Announcement on Share Price

A two-sample t-test for AAR and CAR was carried out to find out whether cash dividend announcement had a general effect on share price returns regardless of other market environment and economic factors. The results are as presented in Table 1.

Table 1: Two-Sample T-Test for AAR and CAR for the Period 2005 – 2012

| Sample | AAR | | CAR | |
|---|---|---|---|---|
| | **Before** | **After** | **Before** | **After** |
| Size | 20 | 20 | 20 | 20 |
| Mean | -0.603 | 1.867 | -135.1 | 418.2 |
| Variance | 16.22 | 6.32 | 813,604 | 316,935 |
| Standard deviation | 4.027 | 2.513 | 902.0 | 563.0 |
| Standard error of mean | 0.9004 | 0.5620 | 201.7 | 125.9 |
| Test statistic t | -2.33** | | -2.33** | |
| Probability | 0.026** | | 0.026** | |
| 95% Confidence interval | -4.632, -0.3078 | | -1,038, -68.94 | |

*This table shows the two sample t-test analysis. Column two and three shows results for AAR while column four and five shows results for CAR. ** indicates significance at 5 percent level.*

The results showed there was statistically significant ($P<0.05$) difference between the means before cash dividend announcements and after cash dividend announcements in both AAR and CAR. In addition, the mean before was negative while after was positive suggesting a positive change in mean return after the dividend announcement. It can therefore be inferred the difference in the means before and after cash dividend announcements were likely due to the cash dividend announcements. Consequently, the dividend announcements had a significant effect on the share prices. The announcements had information content that determined the share prices.

The empirical findings of this study corroborated those of Dasilas and Leventis (2011) who did a study in the Greek market on the trading volume and stock price sensitivity to dividend announcements. In their conclusion, they supported the information content in dividends as they found out there was a significant market reaction to announcements. The study however, contrasted that of Uddin and Chaundhary (2005) who did a study on the Dhaka Stock Exchange to investigate dividend announcement impact on stock prices of Dhaka market and concluded that dividend had no information content and the returns supported the dividend irrelevance theory. In conclusion therefore, the cash dividend announcement has effect on the abnormal returns and subsequently on the share prices.

Effect of Dividend Increase and Decrease Announcements

The paper first established the frequency of dividend increases, decreases and those that remained constant for the 8-year period. As shown in Table 2, the panel data consisted of 352 observations which were divided into; dividend increase events (137), no change events (119) and dividend decrease events (96).

Table 2: Frequency of Dividend Changes Per Year for the Period 2005-2012

| | **Dividend Increases** | **No Change** | **Dividend Decreases** | **Total Per Year** |
|---|---|---|---|---|
| | **Number** | **Number** | **Number** | **Number** |
| 2005 | 19 | 18 | **7** | 44 |
| 2006 | 12 | 17 | 15 | 44 |
| 2007 | 18 | 21 | 5 | 44 |
| 2008 | 15 | 16 | 13 | 44 |
| 2009 | 16 | 15 | 13 | 44 |
| 2010 | 20 | 13 | 11 | 44 |
| 2011 | 15 | 11 | 18 | 44 |
| 2012 | 22 | 8 | 14 | 44 |
| | **137** | **119** | **96** | **352** |

*This table shows the frequency of dividend changes per year. Column two shows dividend increases, column three no changes, column four dividend decreases and column five the total dividends per year.*

The paper further investigated the effect of cash dividend increase and cash dividend decrease announcements on share price returns. A two-sample t-test was done for the abnormal returns and results presented in Table 3.

Table 3: Two-Sample T-Test for Dividend Increase and Decrease for the Period 2005 – 2012

| Sample | Dividend Increase | | | | Dividend Decrease | | | |
|---|---|---|---|---|---|---|---|---|
| | CAR | | AAR | | CAR | | AAR | |
| | Before | After | Before | After | Before | After | Before | After |
| Size | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 |
| Mean | -282.3 | 258.6 | -2.107 | 1.930 | 159.6 | 147. | 1.773 | 1.635 |
| Variance | 513,713 | 181,194 | 28.61 | 10.09 | 124,260 | 127,417 | 15.34 | 15.73 |
| Std. deviation | 716.7 | 425.7 | 5.349 | 3.177 | 352.5 | 357.0 | 3.917 | 3.966 |
| Std. error of mean | 160.3 | 95.2 | 1.1960 | 0.7103 | 78.82 | 79.82 | 0.8758 | 0.8869 |
| Test statistic t | -2.90** | | -2.90** | | -0.11** | | -0.11** | |
| Probability | 0.007** | | 0.007** | | 0.012** | | 0.012** | |
| 95% Confidence interval | -921.1, -160.7 | | -6.874, -1.199 | | -239.5, 214.6 | | -2.662, 2.385 | |

*This table shows the two sample t-test analysis for dividend increases and decreases. Column two shows results for dividend increases for both AAR and CAR before and after announcement. Column three shows results for dividend decreases for both AAR and CAR before and after announcement. ** indicates significance at the 5 percent level.*

The results showed there was statistically significant ($P<0.05$) difference between the means before cash dividend increase announcements and after cash dividend increase announcements. It can therefore be concluded the difference in the means before and after cash dividend increase announcements was due to the cash dividend increase announcements. Consequently, the dividend increase announcements had a significant effect on the share prices indicating the dividend increase announcement was received positively by the investors as the share price returns increased after the announcement. It was therefore, concluded that dividend increase announcement affected the share prices positively. The dividend increase announcement met the investors' expectations therefore the share price increased.

Further, the results (Table 3) indicated there was statistically significant ($P<0.05$) difference between the means before cash dividend decrease announcements and after cash dividend decrease announcements. This could imply the difference in the means of before and after cash dividend decrease announcements was due to the cash dividend decrease announcements. Therefore, the dividend announcements had a significant effect on the share prices. The dividend decrease announcement was received negatively by the investors as the share price reduced after the announcement. It was therefore, concluded that dividend decrease announcement affected the share prices negatively. The value of the firm is determined by investors' expectations, investors rate badly firms that do not meet their expectations and so the dividend decrease announcement did not meet the investors' expectations hence affected the share price. The study contrasted a study done by Uddin and Chaundhary (2005) who concluded that dividend announcements did not have any effect on share price. The results are however similar to Waweru et.al. (2012) who found dividends carry certain information and hence to have signaling effects. Similarly, Olweny (2012) found there was information content in dividend announcements which affected the value of the firm. He found out there was a significant relationship between abnormal stock returns and unexpected dividend announcements. We can therefore conclude that cash dividend increases signals the market to expect an increase in share price while a cash dividend decreases signals a decrease in share prices.

## CONCLUSION

The paper looked into the information content of cash dividend announcement. A 40 days' event window was used to determine the effect of cash dividend on abnormal return of shares 20 days before and after the event. The abnormal return was determined using both the Average Abnormal Return (AAR) as well as Cumulative Abnormal Return (CAR). T-test analysis was done and both measures produced similar results. There was statistically significant difference in returns before and after the event. Further, the paper investigated the effect of cash dividend increase and decrease on share price. A two-sample t-test for the abnormal returns for both dividend increases and decreases was run and the results showed there was statistically significant difference between the abnormal returns before cash dividend announcements and after cash dividend announcements. It was also evident that share prices reacted positively to dividend increase and negatively to dividend decrease. Dividend increase announcements had positive returns while dividend decrease announcement had negative returns and so there was information content in the dividend announcements which affected the share prices. In conclusion therefore, the paper found that cash dividend paid had information content.

The investors in Kenya are aware of dividends as a signal of a firm's future earnings. The management of a company should therefore pay close attention to dividend paid and more importantly, to the dividend increase or decrease as it has an effect on the future share prices. Fluctuating dividend send mixed signal to the market and the market may not be able to interpret it. For future research, a study based on the other types of dividends like stock dividends which was not the focus of this study should be done with a view of finding out how they affect the share price during different economic periods. This will establish whether investors react the same way to all types of dividends or they have a preferred type of dividend. Future research may focus on various aspects. First, scholars should consider both the interim and final dividend and whether there is any difference. Further, it will be important to test whether the dividend increase or decrease had same effect on the share price. Second, a sector by sector research of the firms listed in NSE should be done to find out how share prices react to dividend change announcement during different economic periods as particular sectors/ industries tends to be affected in a similar manner. Third, it would be important to determine the best days to be used for the event window in the Kenyan market. This is so because days that apply for the developed countries may not apply for the developing countries. There is a difference in development of countries and markets react differently depending on the level of development and so it would be important to know the best days to use for event window for the Kenyan market according to her development level and based on how long the market reacts to announcements and the efficiency of the market.

## REFERENCES

Aamir, M. & Ali Shah, S.Z. (2011) "Dividend Announcement and the Abnormal Stock Returns for the Event Firm and Its Rivals," *Australian Journal of Business and Management Research*, vol.1 (8), p. 72-76.

Adelegan, O.J. (2009) "Price Reactions to Dividend Announcements on the Nigerian Stock Market" AERC Research Paper No. 188. African Economic Research Consortium, Nairobi.

Aharony, J. and Swary, J. (1980) "Quarterly dividend and earnings announcements and Stockholders returns: An empirical analysis," *Journal of Finance*, vol.35, p. 1-12.

Akbar, M. and Baig, H.H. (2010) "Reaction of Stock Prices to Dividend Announcements and Market Efficiency in Pakistan," *The Lahore Journal of Economics,* vol.15 (1), p. 103-125.

Akron, S. (2011) "Market Reactions to Dividend Announcements under Different Business Cycles," *Emerging Markets Finance and Trade,* vol. 47(5), p. 72-85.

Allen, F. and Michaely, R. (2003) "Payout policy," *Handbook of the economics of finance,* vol.1, p. 337-429.

Amidu, M. and Abor, J. (2006) "Determinants of Dividend Payout Ratios in Ghana," *Journal of Risk Finance,* vol. 7(2), p. 136-145.

Armitage, S. (1995) "Event Study Methods and Evidence on Their Performance," *Journal of Economic Surveys,* vol. 8 (4), p. 25-52.

Asamoah, G.N. (2010) "The Impact of Dividend Announcement on Share Price Behavior in Ghana," *Journal of Business and Economics Research,* vol. 8(4), p. 47-58.

Baker, H.K. (1999) "Dividend Policy Issues in Regulated and Unregulated Firms: A Managerial Perspective," *Managerial Finance,* vol. 8(6), p. 1-19.

Bhattacharya, S. (1979) "Imperfect information, dividend policy, and "the bird in the hand" Fallacy," *Bell Journal of Economics,* vol. 10, p. 259-270.

Bhattacharya, S. (1980) "No dissipative Signaling Structures and Dividend Policy," *Quarterly Journal of Economics,* vol. 95, p. 1-14.

Bhattacharyya, N. (2007) "Dividend Policy: A Review," *Managerial Finance*, vol. 33(1), p. 4-13.

Black, F. (1976) "The Dividend Puzzle," *Journal of Portfolio Management,* vol. 2(2), p. 5-8.

Brennan, M. (1970) "Tax reform and the stock market: An Asset Price Approach," *American Economic Review,* vol. 23(4), p. 417-427.

Brown, S. J. and Warner J. B. (1980) "Measuring security price performance," *Journal of Financial Economics,* vol. 8, p. 205-258.

Chen, D., Liu, H. and Huang, C. (2009) "The announcement effect of cash dividend changes on Share prices: An empirical analysis of China," *The Chinese Economy,* vol. 42(1), p. 62-85.

Dasilas, A. and Leventis, S. (2011) "Stock Market Reaction to Dividend Announcements: Evidence from the Greek Market," *International Review of Economics and Finance,* vol. 20(2), p. 302-311.

Gordon, M.J. (1959) "Dividends, Earnings and Stock Prices," *The Review of Economics and Statistics,* vol. 41(2), p. 99-105.

Gupta, S., Balram, D., Vashisht, A. K. and Gjai, S. (2012) "Stock Price Reaction to Dividend Announcements," *International Journal of Financial Management,* vol. 2(2), p. 23-31.

John, J. and Williams, J. (1985) "Dividends, Dilution and Taxes: A Signaling Equilibrium," *Journal of Finance*. 40(4), 1053-1070.

Litner, J. (1956) "Distribution of Incomes of Corporations among dividends, retained earnings and taxes," *American Economic Review,* vol. 46, p. 97-113.

Mamun, A. and Hoque, N. (2013) "Stock Price Reaction to Dividend Announcement: The Case of Bangladesh Capital Market," *Journal of Economic & Sustainable Development,* p. 89-95.

Miller, M.H. and Modigliani, F. (1961) "Dividend policy, growth and the valuation of shares," *Journal of Business,* vol. 34(4), p. 411-433.

Miller, M. and Rock, K. (1985) "Dividend Policy Under Asymmetric Information," *Journal of Finance,* vol. 40(4), p. 1031-1051.

Mokaya, S.O., Nyang'ara, D.M. and James, L.T. (2013) "The effects of dividend policy on market Share value in the banking industry; the case of National bank of Kenya," *International Journal of Arts and Commerce.* Vol. 2(2), p. 91-101.

Murekefu, T.M. and Ouma, O.P. (2012) "The Relationship Between Dividend Payout and Firm Performance: A Study of Listed Companies in Kenya," *European Scientific Journal,* vol. 8(9), p. 199-215.

Nairobi Securities Exchange. www.nse.co.ke. Accessed on 17 April 2013.

Olweny, T. (2012) "Dividend Announcement and Firm Value: A Test of Semi Strong Form of Efficiency at the Nairobi Stock Exchange," *Asian Social Science,* vol. 8(1), p. 161-75.

Ross, S. (1977) "The Determination of Financial Structures: The Incentive Signaling Approach," *Bell Journal of Economics,* vol. 8, p. 23-40.

Stapleton, R.C. (1972) "Taxes, the cost of capital and the theory of investment value," *Economic Journal,* vol. 82, p. 1273-1292.

Travlos, N., Trigeorgis, L. and Vafeas, N. (2001) "Shareholder Wealth Effects of Dividend Policy Changes in an Emerging Stock Market: The Case of Cyprus," *Multinational Finance Journal,* vol. 5 (2), p. 87-112.

Uddin, M.H. and Chaundhary, G.M. (2005) "Effect of Dividend Announcement and Shareholders' Value: Evidence from Dhaka Stock Exchange," *Journal of Business Research*. Vol. 7, p. 61-72.

Walter, J.E. (1956) "Dividend Policies and Common Stock Prices," *The Journal of Finance,* vol. 11(1), p. 29-41.

Waweru, K.M., Pokhariyal, G.P. and Mwaura, M.F. (2012) "The signaling hypothesis: Evidence from the Nairobi Securities Exchange," *Journal of Business Studies Quarterly,* vol. 3(4), p. 105-118.

Yoon, P.S. and Starks, L.T. (1995) "Signaling, Investment Opportunities and Divided Announcements," *Review of Financial Studies*, vol. 8, p. 995-1018.

## BIOGRAPHY

Freshia Mugo – Waweru holds a Doctorate in International Finance from Sogang University in Seoul, S. Korea. She is a Senior Lecturer of Finance at Strathmore University, Kenya. She is also a member of the Capital Markets Authority of Kenya Master Plan Implementation Committee and a member of the Kenya Anti – Money Laundering Advisory Board. She has authored and coauthored various articles in Finance and Business Disciplines. Her email address is fwaweru@strathmore.edu

Pauline Atieno Otieno holds a Master of Commerce (MCOM) in Finance from Strathmore University in Nairobi, Kenya. She is the Financial Controller at Kibo Africa Limited, Kenya and also a member of the Institute of Certified Accountants of Kenya. Her email address is paulineoyoo@gmail.com