

EFFECTS OF DIVIDEND POLICY ON SHAREHOLDERS WEALTH: EVIDENCE FROM INSURANCE FIRMS IN THE KENYA

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ABSTRACT

As a company earns profits it can pay it back to its investors as dividends or it can retain it within the business for reinvesting. In determining the dividend policy to adopt, managers concentrate on how to maximize the wealth of shareholders by increasing the value of the firm. Therefore the objective of this study was to determine the effect of dividend policy on the firm value. More specifically, the study sort to evaluate the effect of; regular dividend payout policy, irregular dividend payout policy, non-dividend payout policy on the share price of registered insurance firms in Kenya. The population of interest consisted of all the 49 registered insurance firms in Kenya. Secondary Data was collected from NSE, IRA and published financial statements from

the companies' websites. Secondary data was used in this research and panel data was used to carry out the regression model. A total sample of 9 Insurance Firms was taken into account in this research from the period of year 2008 to year 2015. The model employed was random effect method. From the regression result, it found out that a positive relationship between earnings per share and dividend policy where the results showed that the regular dividend paying firms had more effect while the non-dividend paying firms were least. From the results we noted that retained earning has a negative significant effect on the shareholders' wealth.

Key Words: *dividend policy, shareholders wealth, insurance firms, Kenya*

INTRODUCTION

The primary goal of companies is the maximization of shareholders' wealth and among the factors that may influence shareholders' wealth is dividend policy. Dividend policy is mainly concerned with the decisions regarding dividend payout and retention. According to Kapoor (2009) dividend policy is concerned with the payout policy, which managers pursue in deciding the size and pattern of cash distribution to shareholders over time. Therefore, this translates into maximizing the value of the company as measured by the price of its common stock. The importance of dividend policy in the business community cannot be over-emphasized. A number of business stakeholders' i.e. Investors, managers, lenders, financial consultants etc. use it in making informed decisions. Considering the importance of dividend policy from the investors' perspective, dividend is not only a source of income but also a way to assess a company.

Dividends are important to shareholders and potential investors in showing the earnings that a company is generating. Barron (2002) stated that healthy dividends payouts indicate that companies are generating real earnings rather than manipulating the books. In the study of Lintner (1956) revealed that the determinants of changes in dividends are current earnings and the dividends distributed in the past are subject to mitigate the dividend cash flow relationships. Khan (2009) found the evidences that dividends, retained earnings and other determinants have dynamic relationship with market share price. There are two different views regarding the dividend policy and stock price. Those who think dividends have more impact in determining the share price, argues that shareholders prefer current return rather than future return and dividend distribution is an indicator of earning capacity in future. The other views are based on the importance of retained earnings. They argue that retained earnings are indicator of future investment opportunities. Chawla and Srinivasan (1987) carried out a study to identify the impact of dividend and retained earnings on stock price in the Indian context.

Insurance industry in Kenya: An Overview

Insurance practice has been around since time in memorial. However, in Kenya insurance was unknown until the early part of the 20th century initiated by early European settlers. In 1904, the London and Lancashire Insurance Company appointed agents for fire business in Nairobi. In 1922, Royal Exchange Assurance opened a branch office in Kenya and was followed by the Commercial Union in 1929 (Wachira 2008). Until the late 1970s, the Insurance industry in Kenya operated in a rather stable environment. There was little demand for services, the products offered were standardized, government supervision was minimal and competition relatively low. However, following the issuance of the government directive in 1978 which required all foreign insurance companies to be incorporated in Kenya by 1980 and the introduction of the insurance act CAP 487 of the laws of Kenya, the industry has since experienced tremendous challenges. Many insurance companies sprung up in the 1980s and many more companies were incorporated in the 1990s following the liberalization of the economy.

This move has seen the number of registered insurance companies grow from 15 in 1978 to 39 in 2001 and more than 40 in 2014. Insurance services have increased at a greater pace than the number of customers seeking the service leading to severe competition. Gross written premium from non life insurance was Ksh. 100.24 billion, while that from life insurance business was

ksh.59.97 billion representing 15.7% growth compared to 2013 (AKI annual report 2015). The opening up of the Uganda and Tanzania Insurance markets and increased emphasis on globalization and regionalization, the industry now faces greater competition from its neighbors. There are two main Associations which are The Association of Kenya Insurers (AKI) and The Association of Insurance Brokers of Kenya (AIBK). The regulating body of the industry is the Insurance Regulatory Authority. With the signing up of the East Africa Protocol accord in 2010, the territorial limits of operation have widened, and there is need for strategic approaches of reaching these new markets and increase penetration.

STATEMENT OF THE PROBLEM

Brealey and Myers (2005) described dividend policy as one most difficult and unsolved problems in financial economics. The relationship of dividend policy on firm valuation has been debated for several decades since Modigliani and Miller (1961) seminal paper. They advocated that the value of a firm is determined by its investment policy and not how it distributed its earnings based on following assumptions: that there exists perfect capital markets, taxes do not exist, firms have fixed investment policy and finally risk and uncertainty do not exist (all investors are able to forecast future prices and dividends with certainty).

However, different theories emerged that supported the view that dividends have an influence on firm valuation. Ross (1977) through his signaling theory, argued that issuance of dividends may convey positive information to the public which may cause prices to increase. Gordon (1963) in the Bird in Hand Theory supported dividends due to the uncertainty in capital gains which will translate to a high discount rate being used. Thus, firms which issue dividends are likely to report high prices. This contrasts the Efficient Market Hypothesis (Fama, 1970) which advocates for capital market efficiency such that share prices should always reflect the prevailing information implying that issuance or non-issuance of dividends should not affect share prices. Dividend allocation decision is one of the four decision areas in finance. Dividend decisions are important because they determine what funds flow to investors and what funds are retained by the firm for investment (Westerfield *et al*, 2002).

As a result of all these, managers are in a dilemma as to whether to pay large, small or zero percentage of their earnings as dividends or to retain them for future investments. This situation

is occasioned by the different shareholder interests which management has to satisfy. Dividend policy is therefore, considered to be one of the most important financial decisions that corporate managers encounter (Baker and Powell, 1999). It has potential implications for share prices and hence returns to investors, the financing of internal growth and the equity base through retentions together with its gearing and leverage (Omran & Pointon, 2004). Frankfurtet & McGoun (2000) concluded that the dividend puzzle, both as a share value-enhancing feature and as a matter of policy is one of the most challenging topics of modern financial economics.

In Kenya, empirical studies have been done to establish the effects of dividend policy and firm value but none has covered the insurance sector. This study therefore comes in to fill the void by establishing whether there is any effect between dividend policy employed and shareholders' wealth of the insurance firms in Kenya given the fact that the insurance industry in Kenya is still developing.

GENERAL OBJECTIVE

To analyze the effect of dividend policy on shareholders' wealth on registered insurance firms in Kenya.

SPECIFIC OBJECTIVES

1. To determine the effect of a regular dividend payout policy on shareholders' wealth on insurance firms in Kenya.
2. To determine the effect of an irregular dividend payout policy on shareholders wealth on insurance firms in Kenya
3. To determine the effect of a non-dividend payout policy on shareholders' wealth on insurance firms in Kenya.

RESEARCH HYPOTHESES

H₀₁ There is no significant effect of a regular dividend payout policy on shareholders' wealth on insurance firms in Kenya.

H₀₂ There is no significant effect of an irregular dividend payout policy on shareholders' wealth on insurance firms in Kenya

H₀₃ There is no significant effect of a non-dividend payout policy on shareholders' wealth on the insurance firms in Kenya.

THEORETICAL REVIEW

Dividend irrelevant theory

In the irrelevance theory, (Miller & Modigliani, 1961) suggested that the market price of shares is not affected by dividend policy under the following conditions of: perfect capital market, rationally behaving investors, absence of tax discrimination between dividend income and capital appreciation and firm's given investment policy. It is argued in that the value of the firm is subjected to the firm's earning, which comes from company's investment policy. They argued that dividend and capital gain is two main ways that can contribute profits of firm to shareholders. When a firm chooses to distribute its profits as dividends to its shareholders, then the stock price will be reduced automatically by the amount of a dividend per share on the ex-dividend date. So, they proposed that in a perfect market, dividend policy does not affect the shareholder's return.

Black & Scholes (1974) in their study, created 25 portfolios of common stock in New York Stock Exchange for studying the impact of dividend policy on share price from 1936 to 1966. They used capital asset pricing model for testing the association between dividend yield and expected return. Their findings showed no significant association between dividend yield and expected return. They reported that there is no evidence that difference dividend policies will lead to different stock prices. Their findings were consistent with dividend irrelevance hypothesis. According to Hakansson (1982) he supported the irrelevance theory of Miller and Modigliani and claimed that dividends, whether informative or not, is irrelevant to firm's value when investors have homogeneous belief and time additive utility and market is fully efficient.

The Bird in the Hand Theory

Gordon and Linter (1962) established that shareholders prefer dividends than future uncertain capital gains. They believe that since the future is uncertain the present is better. Gordon and Linter (1962) conflicted with the irrelevance theory and established that dividend is relevant under uncertainty environment where investors are rationale and risk averse thus prefers current dividends to future capital gains which are uncertain. The Bird in the hands theory is relevant to the study because most investors advance finances to firms that pay current dividend as compared to future capital gains. This increases the current financial leverage and growth of a firm as compared to the future. The theory implies that current financial leverage and growth of a

firm increases as compared to the future. Despite the tax disadvantage of paying dividends, management still go ahead to pay dividends to send a positive signal about the firm's future prospects. The cost of this signaling is that cash dividends are taxed higher than capital gains. While some investors would rather have capital gains to cut down on tax impact, others may want dividend because of immediate cash requirement. He also assumed that assets in which management invest in, outlive the stay of management in position, and that ownership of the assets is transferred to other management overtime.

The Signaling Theory

Ross (1995) highlighted that dividend is used as a signaling mechanism to portray firm's present and future performance thus managers release information to aid investors in making sound decisions. The theory further holds that information is not readily available to related parties since managers hold more information about firm's performance than shareholders. Ross (1995) conducted a study on the relationship between change in dividend policies and reaction of investors and found that those firms that had increased dividends had a corresponding increase in share prices while those firms that reduced had a decline in share prices. Therefore, the signaling theory is deemed relevant as it encourages firms to pay dividend. Through this, financial leverage increases since firms are able to access debt to increase their growth by investing in profitable projects. The theory has impacts on growth, liquidity, size and return on equity. In that, when firms declare dividend, they are able to boost their growth, liquidity, size and profitability levels since dividend is a viewed as a sign of prosperity.

An increase in dividend may be interpreted as good news and brighter prospects and vice versa. But Lintner (1956) observed that management is reluctant to reduce dividend even when there is the need to do so. And only increase dividend when it is believed that earnings have permanently increased. Though Modigliani and Miller (1961), assumed that there is perfect knowledge about a firm by investors and management, this has been countered by many researchers as management who look after the firm tend to have more precise and timely information about the firm than outside investors. This therefore creates a gap between managers and investors and to bridge this gap, management uses dividend as a tool to convey private information to shareholders Al-Malkawi (2007). Pettit (1972) observed that the amount of dividend paid seem

to carry great information about the prospects of a firm, this can be evidenced by the movement of share price.

Clientele Effect of Dividend Theory

Pettit (1977) investigated the reaction of investors due to change in dividend policy in the USA. He studied 914 investors' portfolios and reported that retirees prefer to invest in high paying dividend firms while young investors would prefer low paying dividend firms and would reinvest dividend for the future. From this point of view, firms use dividend as an incentive to attract investors. The theory is relevant as firms opt to pay low dividend to young investors in order to sustain future growth and the level of financial leverage. The theory implies that for young investors, financial leverage and return on equity variables decreases as compared to when a firm declare dividend to old investors. Firms attract different clientele based on their dividend policies. Though it is argued that even though clientele effect may change a firms dividend policy, one clientele is as good as another, therefore dividend policy remains irrelevant. Al-Malkawi (2007) affirms that firms in their growth stage, which tend to pay lower dividend would attract a clientele that desire capital appreciation, while those firms in their maturity stage which pay higher dividends attract clientele that require immediate income in the form of dividend.

CONCEPTUAL FRAMEWORK

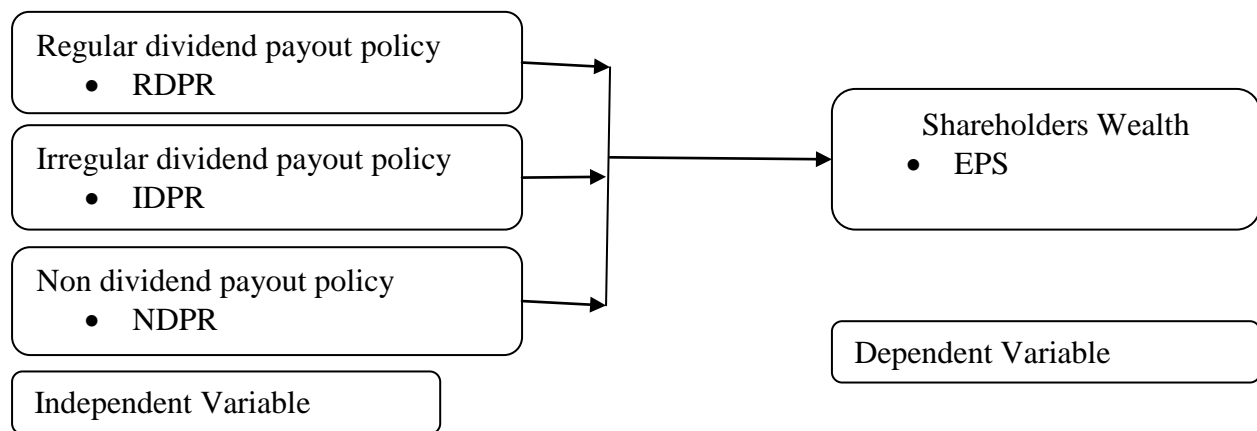


Figure 1: Conceptual Framework

EMPIRICAL REVIEW

Lintner (1956) interviewed managers from 28 companies and found that rather than setting dividends each year independently based on that year's earnings, they first decide whether to change dividends from the previous year's level. Managers claimed to reduce dividends only when they had no other choice, and increase dividends only if they were confident that future cash flows could sustain the new dividend level. Two beliefs were expressed strongly: that investors put a premium on companies with stable dividends, and that markets penalize firms that cut dividends. Furthermore, Lintner found that managers were setting the dividend policy first, while adjusting other cash-related decisions to the chosen dividend level.

Kumaresan (2014), in a the study of Impact of dividend policy on shareholders' wealth: A study of listed firms in hotels and travels sector of Sri Lanka" focused on top ten firms under hotel and travel sectors in Sri Lanka during the period from 2008 to 2012. Shareholders' wealth (EPS) was considered as response variable while predictor variables were: return on equity (ROE), dividend payout ratio (DPR), dividend per share (DPS) and retention ratio (RR). The study used correlation and regression to analyse the data collected from top ten listed firms under hotel and travel sectors. The study found that there was a positive relationship between return on equity (ROE), dividend per share (DPS) and dividend payout ratio (DPR) and shareholders' wealth of the selected firms under hotel and travel sectors in Sri Lanka and the study also proved that there was a negative relationship between retention ratio and shareholders' wealth.

In their study Sharif, et al (2015) on factors affecting the stock price revealed that the share price in the Bahrain market is significantly determined by variables of return on equity, book value per share, dividend per share, dividend yield, price earnings, and firm size. Much as their findings identified a number of factors, dividends given to stockholders were key among them. From their study, it was evident that dividends could not be ruled out in establishing the determinants of stock prices on the Bahrain market as corroborated by the findings of Masum (2014), whose study indicates that a dividend policy a company chooses has a significant positive effect on stock prices.

Empirical evidences from Wet and Mpinda (2013) confirmed that the payment of dividends positively affect the market price per share (MPS). Similarly, Azhagaiah and Priya (2008) also

reported that higher dividend increases the market value of the share and vice versa. They also suggested that dividend is an important factor that determines the shareholders' wealth. Njoroge (2001) determined the relationship between dividend policies and return on assets and return on equity of companies listed at the NSE and found out that there was a positive correlation between dividends paid and both return on equity and return on assets.

Tiriongo (2004) in his study of dividend policy practices for the companies listed at NSE concluded that there was a positive relationship between dividend paid and factors such as financial performance of the firm and general economic performance. Muindi (2006) studied the relationship between EPS & DPS of companies listed at the NSE. He established that there was a positive relationship between EPS & DPS. However, Jensen and Johnson (1995) were set apart by these studies since they concentrated specifically on dividend decrease or increase announcements rather than on dividend changes. In their study, that investigates whether firms reducing dividend by at least 20 percent after twelve consecutive quarters of positive, non-decreasing dividends, also experience a decline in earnings.

Chidinma et al. (2013), in their study Shareholders' value and firms' dividend policy: Evidence from public firms on Nigeria stock exchange used secondary data of 216 public limited firms listed on Nigerian stock exchange for the period of 2000-2011. Dividend per share (DPS) was considered as response variable, while earnings per share (EPS) and market price per share (MPS) were considered as predictor variables. The study found that earnings per share and market price per share had significant impact on shareholders wealth; a high dividend payout increases the market value of shares and thus, the shareholders' value. Chawla and Srinivasan (1987) carried out a study to identify the impact of dividend and retained earnings on stock price in the Indian context. They attempted to test the dividend retained earnings hypothesis and examine the structural changes in the estimated relations over time. The results indicate that in case of chemical industry both dividends and retained earnings significantly explain the variations in share price. The impact of dividends is more pronounced than that of the retained earnings. But the market has started the shifting towards more weight for retained earnings.

RESEARCH METHODOLOGY

The research design used is descriptive survey since it sorts to establish the relationship between dividend policy and share price. The population comprised of the 49 insurance firms registered in Kenya (IRA reports 2015). A total of 9 insurance firms registered in Kenya in the period between 2008-2015 was taken in this research. The 9 firms were selected for the study on the basis of accessibility of data and other constrains such as the registration year of the firm i.e. some of the insurance firms were either not formed or their data was missing for some of the years under study. The study collected secondary data from the firms' published financial statements available on their websites, Insurance Regulatory Authority and also from Capital Markets Authority (CMA) for the past eight years. This includes profits before tax, Market price per share, share capital, retained earnings and dividends.

This study used multiple regression analysis to determine the relationship between the dependent and independent variables the results of which were presented out in tables. Dividend Payout Ratio will was used as a proxy for dividend policy over the 8 year period from 2008 to 2015. Net Earned premiums and Earnings per Share were also obtained from the annual reports of respective companies. Net earned premiums were used as control variables. The significance of the relationship between dividends policy and share prices was tested at a confidence level of 95% using t-values. The insurance firms were grouped into three classes i.e. Regular dividend paying firms, Irregular Dividend paying and No-dividend paying insurance firms. Data was regressed for the first two classes and a trend analysis of the firms' performance for all the classes was also carried out. There was also graphical representation of data.

In the first regression, regular dividend paying insurance firms, Earnings per share (EPS) was as the dependent variable whereas regular dividend payout ratio (RDPR) was used as the independent variable. Net earned premiums (NEP), was used as a measure of size the insurance firm size and therefore as a control variable.

The model used in this case was as follows:

Without the control variables:

$$y_{it} = \alpha + \beta_1 X_{i,t} + \beta_2 X_{i,t} + \beta_3 X_{i,t} + \beta_4 X_{i,t} + \varepsilon$$

With the control variable:

$$y_{it} = \alpha + \beta_1 Z_{i,t} + \beta_2 X_{i,t} + \beta_3 X_{i,t} + \beta_4 X_{i,t} + \varepsilon$$

Where;

i indexes the insurance firms where $i =$ insurance firm 1,2,3

t indexes time where $t =$ year 1,2,3

Y_{it} denotes the dependent variable, Earning per share of insurance firm i in year t , expressed by EPS

$X_{j,t}$ denotes the independent variable, Regular dividend paying firms measured by Dividend payout ratio expressed as (X1), and net premiums earned expressed as (X2).

Z represents the control variables.

α is the value of the intercept.

β_i is the coefficient of the explanatory X variables.

e is the error term.

RESEARCH RESULTS

Effects of regular dividend payout policy on earnings per share

The study sought to establish the effect of regular dividend payout on shareholders wealth without including any control variable. The model inferential statistics R and R – Square are summarized in below.

Table 1: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig
.469 ^a	.22	.337	53.46578	.004

a. Predictors: (Constant), RDPR

b. Dependent Variable: EPS

The study results revealed that there is a weak relationship between earnings per share and Dividend policy employed by the insurance firms as depicted by coefficient of determination R of 0.469 and R – Square of 0.22. This means that a change in DPS has a 22% influence in any change on the EPS the insurance firms in Kenya.

The study conducted an Analysis of Variance, in order to test the significance of the model and the findings were as shown in table 2.

Table 2: ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	955617.642	1	955617.642	334.297	.004 ^b
Residual	62888.976	22	2858.590		
Total	1018506.618	23			

a. Dependent Variable: EPS

b. Predictors: (Constant), RDPR

From the ANOVA results, the probability value of 0.004 was obtained implying that the regression model was significant in predicting the relationship between earning per share and regular dividend policy since it was less than $\alpha = 0.05$.

Table 3: Model Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.349	13.528		.026	.980
RDPR	4.322	.236	.969	18.24	.004

a. Dependent Variable: EPS

The study established that the model depicting the relationship between earnings per share and policy and earnings per share of the insurance firms in Kenya as depicted by coefficient of Regular dividend payout policy can be expressed as; $\text{Earnings per share} = -0.349 + 4.322X_1 + e$, where X_1 is the regular dividend payout policy. With the coefficient/slope being negative, the findings depict an inverse causation between EPS and stock RDPR. However, since the P-Value result equal to 0.0251; which is less than the accepted threshold of $\alpha = 0.05$, the findings reveal that the effect of changes in regular dividend payout policy on earnings per share is significant.

The study sought to establish the relationship between the earning per share and regular dividend policy while controlling for variances by including a control variable. The researcher regressed earning per share against regular dividend payout ratio alongside the control variable net earned premiums.

The analysis findings showed that there is a stronger relationship between regular dividend payout policy and earnings per share of the insurance firms in Kenya as depicted by coefficient of determination R of 0.687 (as compared to 0.469 when no control variables were included) and a Correlation Coefficient R – Square of 0.472 (as compared to 0.22 when no control variable was

included) in the regression analysis. Consequently, since the inclusion of control variables; net earned premiums improved the strength of the relationship between the dependent and the predictor variable, the study results reveal that there is a stronger relationship between earning per share and regular dividend payout policy, Net earned premiums. Nonetheless, the relationship was very weak. Also, the study conducted an analysis of Variance, in order to test the significance of the model. The findings were as shown in table 5 below.

Table 5: ANOVA^a

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	955995.653	2	477997.826	160.576	.019 ^b
	Residual	62512.114	21	2976.767		
	Total	1018507.767	23			

a. Dependent Variable: EPS

b. Predictors: (Constant), NEP, DPS

From the ANOVA results, the probability value of 0.019 was obtained implying that the Regression model was significant in predicting the relationship between earning per share and regular dividend policy since it was less than $\alpha = 0.05$.

Table 6: Model Summary^b

R	R Square	Adjusted Square	R	Std. Error of the Estimate	Sig.
.687 ^a	.472	.331		54.55976	.019

a. Predictors: (Constant), NEP, DPS

b. Dependent Variable: EPS

The study sought to establish the model depicting the contribution of regular dividend payout policy as well as the control variables on the shareholders wealth of the insurance firms in Kenya. The analysis results are shown in table 7 below.

Table 7: Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-4.417	17.924		-.246	.808
DPS	4.350	.253	.975	17.161	.019
NEP	8.890E-010	.000	.020	.356	.726

a. Dependent Variable: EPS

The study established that the model depicting the relationship between earnings per share and regular dividend payout policy can be expressed as; $\text{Earnings per share} = -4.417 + 4.350X_1 + 8.890E-010 X_2 + e$, where X_1 is the regular dividend payout policy and X_2 is the net earned premiums.

With the coefficient/slope being negative, the findings depict an inverse causation between EPS and stock RDPR. However, since the P-Value result equal to 0.019; which is less than the accepted threshold of $\alpha = 0.05$, the findings reveal that the effect of changes in regular dividend payout policy on earnings per share is significant.

Effects of irregular dividend payout policy on earnings per share

The study sought to establish the effect of irregular dividend payout policy on shareholders wealth without including any control variable. The model inferential statistics R and R – Square are summarized in table 8 below.

Table 8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig.
1	.048 ^a	.002	.043	18.88647	.002

a. Predictors: (Constant), IDPR

The study results revealed that there is a weak relationship between earnings per share and Dividend policy employed by the insurance firms as depicted by coefficient of determination R of 0.048 and R – Square of 0.002. This means that a change in irregular dividend payout ratio does not influence any change on the earnings per share of the insurance firms in Kenya.

The study conducted an Analysis of Variance, in order to test the significance of the model and the findings were as shown in table 9 below.

Table 9: ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	18.284	1	18.284	.051	.002 ^b
Residual	7847.374	22	356.699		
Total	7865.659	23			

a. Dependent Variable: EPS

b. Predictors: (Constant), IDPR

From the ANOVA results, the probability value of 0.002 was obtained implying that the regression model was significant in predicting the relationship between earning per share and Regular dividend policy since it was less than $\alpha = 0.05$.

The study sought to establish the model depicting the contribution of retained earnings on the returns of the listed companies. The results are shown in table 10 below.

Table 10: Model Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	10.513	4.062		2.588	.017
IDPR	.062	.273	.048	.226	.000

a. Dependent Variable: EPS

The study established that the model depicting the relationship between earnings per share and Regular dividend payout policy can be expressed as; $\text{Earnings per share} = 10.513 + 0.062X_1 + e$, where X_1 is the Irregular dividend payout ratio. The findings depict an direct causation between EPS and stock IDPR.

The researcher regressed earning per share against regular dividend payout ratio alongside the control variable net earned premiums and established the findings as shown in table 4.4 below;

Table 11: Model Relationship Statistics Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig.
1	.117 ^a	.014	-.080	19.21977	.012

a. Predictors: (Constant), NEP, IDPR

With the inclusion of the control variable, the analysis findings showed that there is a stronger relationship between irregular dividend payout ratio and earnings per share of the insurance firms in Kenya as shown by R of 0.117 (as compared to 0.048 when the control variable is not included) and a Correlation Coefficient R – Square of 0.014 (as compared to 0.002 when no control variable was included) in the regression analysis.

The inclusion of control variables; net earned premiums improved the strength of the relationship between the dependent and the predictor variable, the study results again revealed that there is a

stronger relationship between earning per share and regular dividend payout policy, Net earned premiums.

The study conducted an analysis of Variance, in order to test the significance of the model. The findings were as shown in table 12 below.

Table 12: ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	108.266	2	54.133	.147	.012 ^b
Residual	7757.392	21	369.400		
Total	7865.659	23			

a. Dependent Variable: EPS

b. Predictors: (Constant), NEP, IDPR

From the ANOVA results, the probability value of 0.012 was obtained implying that the Regression model was significant in predicting the relationship between earning per share and Regular dividend policy since it was less than $\alpha = 0.05$.

Table 13: Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	12.241	5.417		2.260	.035
IDPR	.085	.281	.066	.301	.012
NEP	1.906E-009	.000	-.108	-.494	.627

a. Dependent Variable: EPS

The study sought to establish the model depicting the contribution of Irregular dividend payout ratio as well as the control variables on earnings per share and it established that the model can be expressed as; $\text{Earnings per share} = 12.241 + 0.085X_1 + 1.906E-009X_2 + e$, where X_1 is the irregular dividend payout policy and X_2 is the net earned premiums.

With the coefficient being positive, the findings depict a direct relationship between earnings per share and stock irregular dividend payout ratio.

Trend analysis and comparison of performance of the three policies

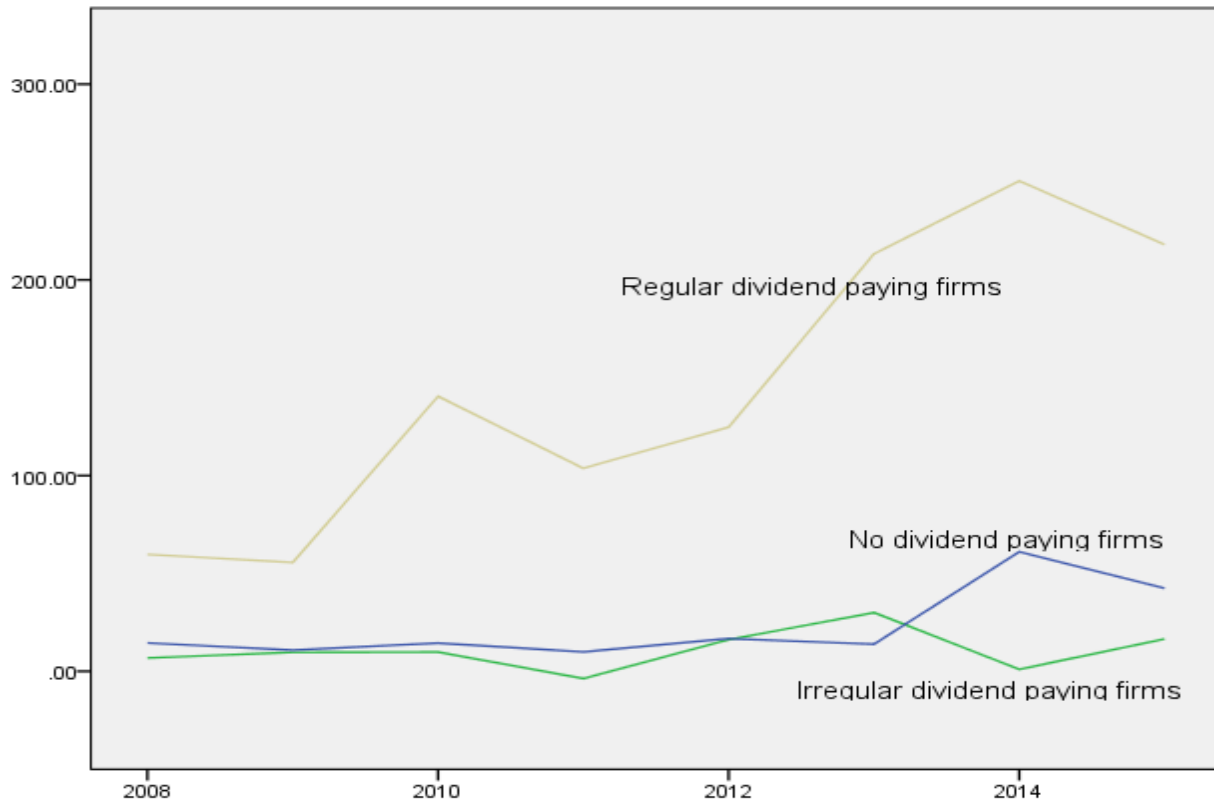


Figure 1: Trend analysis

The study sought to establish the trend in EPS for each category of the dividend policy employed by the different firms as shown in the graph. The graph above shows that regular dividend paying firms have a high performance in terms of the shareholders wealth whereas the irregular and no dividend paying firms have almost the same trend in performance.

Hypotheses Testing

In this section, the specific objective to the research is highlighted, hypotheses are tested and implications discussed.

H₀₁ There is no significant effect of a regular dividend payout policy on firm value of registered insurance firms in Kenya

From the regression results, the sign of the coefficient is positive in both cases i.e. with or without the control variable, indicating a positive relationship between earnings per share and regular dividend payout ratio. This suggests that a rise in dividend initiates a direct reaction on the earnings per share on the value of shareholders on. The analysis findings show that there is a stronger relationship between regular dividend payout policy and earnings per share of the insurance firms in Kenya as depicted by coefficient of determination R of 0.687 (as compared to 0.469 when no control variables were included) and a Correlation Coefficient R – Square of 0.472 (as compared to 0.22 when no control variable was included) in the regression analysis.

Therefore, the inclusion of control variables; net earned premiums improved the strength of the relationship between the dependent and the predictor variable, the study results improved the relationship between earning per share and regular dividend payout ratio.

The study therefore rejected the null hypothesis and concluded that dividend payout ratio does have a significant positive effect on the earning per share for the insurance firms.

H₀₂ There is no significant effect of an irregular dividend payout policy on firm value of registered insurance firms in Kenya

From the regression it can be noted that Irregular dividend payout ratio impacts positively on the earnings per share of the insurance firms in Kenya. With the inclusion of the control variable, the analysis findings showed that there is an improved relationship between irregular dividend payout ratio and earnings per share of the insurance firms in Kenya as shown by R of 0.117 (as compared to 0.048 when the control variable is not included) and a Correlation Coefficient R – Square of 0.014 (as compared to 0.002 when no control variable was included) in the regression analysis.

The inclusion of control variables; net earned premiums improved the strength of the relationship between the dependent and the predictor variable, the study results again revealed that there is a stronger relationship between earning per share and regular dividend payout policy, Net earned premiums.

We therefore reject the null hypothesis while accepting the alternate and conclude that dividend payment has a positive and significant effect on the earning per share insurance registered in Kenya.

H₀ There is no significant effect of a non-dividend payout policy on firm value of the registered insurance firms in Kenya

From the research study lack of dividend payment has no positive or negative effect on the earnings per share.

CONCLUSIONS

The objective of the study is to investigate the effect of dividend policy on shareholders wealth with a focus on the 49 insurance firms registered in Kenya. For this purpose, a sample 15 registered insurance firms was selected and the influence of dividend payout ratio and net earnings per share was used as a control variable on earning per share were examined by applying multiple regression for a period of eight years from 2008 to 2015.

The empirical results of this study showed significant positive relationship between earnings per share with our two measurements of dividend policy i.e. regular dividend payout ratio and irregular dividend payout ratio while there was no effect on the none dividend payout policy. From the results we conclude that dividend policy has a significant effect on the shareholders wealth.

RECOMMENDATIONS

The researchers recommend that the management of companies should clearly map out the dividend policies that they want their firms to follow. Dividend decisions should not be by the way decisions but should carefully be considered since dividends policy has an impact on firm value. Furthermore, these decisions should not be generalized since the effect of dividend policy on share prices vary depending on whether a firm pays, does not pay or partially pays dividend.

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