Cross Listing and Dividend Policy: Evidence From Cross Listings within East Africa

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Abstract
The purpose of this study is to examine the impact of cross listing on dividend policy for cross listed firms within East Africa and to test the substitute hypothesis. The study first conducts univariate analysis for the before-after effects of cross listing using paired tests, then includes non cross listed firms in multivariate analysis using pooled Time Series Cross Section, Panel Corrected Standard Errors regressions for a period of 13 years (1998 to 2010). The study’s findings provide empirical evidence to indicate that the dividend payouts for cross listed firms were relatively higher than the dividend payouts for then non cross listed firms. The findings lend credence to the substitute hypothesis, the payment of higher dividends by cross listed firms may well result from a voluntary commitment on the part of these firm to protect their investors and maintain credible reputation for fair treatment. These findings are contrary to the prediction investor recognition/visibility hypothesis

Keywords: cross listing, dividend policy, bonding hypothesis, outcome hypothesis, substitute hypothesis

INTRODUCTION
Though substantial literature exist on dividend policy especially those focusing on a single country and at firm levels (Easterbrook, 1984; Jensen, 1986; Gugler, 2003; Goergen 2005), all of which point to a positive relationship between dividend policy and corporate governance, very few studies have been conducted on cross-country level (La Porta et al., 2000; Faccio et al., 2001; Adjaoud et al., 2006; Abdallah and Goergen, 2008; Petrasek 2009). These studies are influenced by the bonding hypothesis1 advanced by Coffee (1999; 2002).1 The bonding hypothesis posits that firms from countries with poor protection of minority shareholders signal their desire to respect the rights of shareholders by listing in jurisdictions with higher scrutiny, tougher regulations, and better enforcement. The bonding hypothesis does not however provide formal link between dividend policy and cross listing. Empirical studies by Reese and Weisbach (2002), Doidge et al., (2004); Doidge (2004), and Dyke and Zingales (2004) support the bonding hypothesis. Licht (2003) has however put forth divergent theoretical views on the bonding hypothesis. He argues that the bonding hypothesis is completely unfounded and contends that instead of bonding, most issuers of foreign securities may actually be avoiding better governance.

Building on theoretical arguments of the bonding hypothesis, La Porta et al., (2000) advances two agency hypotheses of dividends. The first one referred to as the outcome hypothesis postulates that, minority shareholders use their legal powers to force companies to disgorge cash consequently, the hypothesis predicts that dividend payout ratios are higher in countries with good shareholder protection ceteris paribus. Additionally, in countries with good shareholder protection, companies with better investment opportunities should have lower dividend payout ratios. Abdallah and Goergen (2008) find empirical support for the outcome hypothesis. The second referred to as the substitute hypothesis views dividend as a substitute for legal protection. It posits that a reputation for good treatment of shareholders is worth the most in countries with weak legal protection of minority shareholders. The hypothesis predicts that dividends payout ratios should be higher in countries with weak legal protection of shareholders than in those with strong protection.

1 Though not offering an alternative explanation for cross listings, Jordan (2006) regards the bonding hypothesis as unfounded. She questions the main assumption of the bonding hypothesis that the American legal system is superior to others such as the UK or Canada in the protection of shareholders. She regards this assertion “the classic blunder of the amateur comparativist, confounding difference with deficiency”.

2 Though exist literature attribute bonding hypothesis to coffee (1999) Fuerst (1998) present a formal model analyzing the investor protection regulations argument for cross listing which is the basis of the bonding hypothesis. The model lends credence to the bonding hypothesis.
Additionally, in countries with poor shareholder protection, firms with better investment opportunities might pay out more to maintain reputation. Empirical findings by O’Connor (2006) support the substitute hypothesis.

The focus of this study is on the impact of cross listings on dividend policy within East Africa because, from the few studies conducted on cross-listing and dividend policy, cross listings within the African continent receive sparse attention. Abdallah and Goergen (2008) only include firms from the Johannesburg Stock Exchange, a majority of which are cross listed in Europe and the US. Faccio et al., (2001) on the other hand studies cross listings in Europe and Asia, while Adjaoud et al., (2006) concentrated on Canadian financial firms cross listed in the US. Petrasek (2009) on the other hand concentrates on firms cross listed in the U.S. and U.K.

The cross listings within East Africa provide better opportunity to test the substitute hypothesis because, all the cross-listings in the East African region have originated from Kenya to the other East African countries of Tanzania, Uganda, and Rwanda. The status of development of legal systems in the East African countries is not markedly different and the perceived difference points to a relatively slightly developed legal system in Kenya. If both the outcome hypothesis and the substitute hypothesis by La Porta et al., (2000) are correct, cross listings in East Africa should be accompanied by an increase in dividend payout. If the dividend payouts are found to increase following cross listing in the East African context, this should provide support for the substitute hypothesis rather than the outcome hypothesis since the destinations of the cross listings are considered to have relatively lesser developed legal systems.

METHODOLOGY
This study uses two types of analysis techniques, a univariate analysis and a multivariate analysis.

Univariate Analysis
The aim of the univariate analysis is to investigate whether the dividend behavior of cross listed firms changes as a result of the cross-listing. As in Goergen and Abdallah (2008) the univariate analysis is done for each of the cross listed firms by comparing their dividend policy two years prior to the cross-listing and two years after the cross-listing.

Multivariate Analysis
Given that the univariate analysis uses cross listed firms only, the results cannot provide conclusive evidence unless the non cross listed firms are included in the analysis. This will ensure that any change in dividend policy unique to the cross listed firms and can be delineated and therefore make it possible to attribute it to the action of cross listing. We therefore conduct multivariate regression analysis using a Time Series Cross Section (TSCS) pooled data. TSCS designs have long been considered one of the best designs for the study of causation, next to a purely random experiment (Stimson 1985). Campbell and Stanley (1967), for example, refer to TSCS designs as “excellent quasi-experimental designs”, perhaps the best of the more feasible designs.” Lempert (1966) states that TSCS designs are research designs “par excellence.” In addition to their potential for detecting causal relationships, TSCS designs offer a number of distinct advantages. Pennings, et al., (1999), contends TSCS designed are superior in capturing not only the variation of what emerges through time or space, but the variation of these two dimensions simultaneously. Hsiao (1986) adds that, by utilizing information on both the intertemporal dynamics and the individuality of the entities being investigated, one is better able to control in a more natural way for the effects of missing or unobserved variables.

Several complications have however been attributed to TSCS designs. Hicks (1994) contend that TSCS often violate the Standard Ordinary least Square (OLS) assumptions about the error process; the OLS regression estimates are likely to be biased, inefficient and/or inconsistent when they are applied to pooled data. In particular Hicks (1994) argues that errors tend to be serially and contemporaneously correlated. The errors also tend to be heteroskedastic.

In view of these complications, it is not practical to use OLS regression for TSCS data. Parks (1967) and Kmenta (1986) recommend an application of the Generalized Least Squares (GLS) estimation on the assumption that the variance-covariance matrix is known. However since this assumption does not usually hold (Kmenta, 1986) recommend the use Feasible Generalized Least Squares (FGLS). Beck and Katz (1995; 1996) however review FGLS and claim the FGLS is not optimal, they recommend

3 For OLS to be optimal it is necessary that all the errors have the same variance (homoskedasticity) and that all of the errors are independent of each other.

4 An unbiased estimator is one that has a sampling distribution with a mean equal to the parameter to be estimated. An efficient estimator is one that has the smallest dispersion, (i.e., one that one whose sampling distribution has the smallest variance). An estimator is said to be consistent if its sampling distribution tends to become concentrated on the true value of the parameter as sample size increases to infinite (Kmenta 1986).

5 Serially correlated errors tend to be independent form one period to the next.

6 Contemporaneously correlated errors tend across individual observations.

7 Beck and Katz (1995; 1996) claim that, although FGLS uses an estimate of the error process, the FGLS formula for standard errors assumes that the variance-covariance matrix of the errors is known, not estimated. This is a problem for TSCS models because the error process has a large number of parameters. This oversight causes estimates of standard errors of the estimated coefficients to understated their true variability.
application of Panel Corrected Standard Errors (PCSE). In line with Beck and Katz’s recommendation this study applied PCSE to TSCS data. Unlike previous studies that employ OLS regressions, this study different in this respect.

**MODEL SPECIFICATION**

The study uses the following model for the multivariate analysis:

\[
\ln M_{PS_t} = \alpha_0 + \alpha_3 D_t + \alpha_4 EPS_t + \alpha_5 BPS_t + \alpha_6 \ln MC_t + \epsilon_t
\]

Where:

- \( \ln M_{PS_t} \) is the natural log of market price per share of equity;
- \( D_t \) is the cross listing dummy (takes the value of one (1) for cross listed firms and zero (0) otherwise)
- \( EPS_t \) is the accounting earning per share;
- \( BPS_t \) is the book value per share;
- \( \ln MC_t \) is the natural log of market capitalization

The model borrows from Adjaoud *et al.*, (2006). The study’s approach however differs from Adjaoud *et al.*, (2006) in several respects, first they do not control for size. Pagano *et al.*, (2000) contend that size influences the dividend policy of firms. Baker *et al.*, (2002) contend that market capitalization may be used to control for size. In fact Rulan and Zhou (2006) use market capitalization to control for size. Following Baker *et al.*, (2002), the study controls for size through the incorporation of the log of market capitalization in the model. Secondly this study uses TSCS pooled panel data and control for its limitations using PCSE regressions. Lastly, Adjaoud *et al.*, (2006) conduct their study on Canadian financial firms that have cross listed from Canada in the U.S. (a developed economy context). This study examines all firms in the NSE cross listed in East African countries (a developing economy context)

**Data and Summary Statistics**

There are 58 listed firms in the NSE which form the population of the study. Of the 58 firms, 7 firms are cross listed. Based on the need to provide adequate data, to be included in the study, the firms must have been listed on or before the year 2006, and must not have been suspended from trading in the NSE for the period 1998 to 2010. Of the 58 listed firms, only 40 firms including the cross listed firms met these requirements, in total 512 firm observations were used in the study. Firms in the study come from the following sectors: Agricultural (17.5%), Automobiles and Accessories (10%), Banking (22.5%), Commercial (12.5%), Construction & Allied (12.5%), Energy & Petroleum (7.5%), Insurance (7.5%), Investment (2.5%) and Manufacturing & Allied (7.5%).

**RESULTS AND DISCUSSIONS**

**Descriptive Statistics**

Out of the 58 firms listed on the NSE 40 firms met the data requirements spelt out on section on data and summary statistics. To reduce the effects of outliers on the results, the number of firms used in the analysis was trimmed to 36 firms. This action was motivated by the high degree of skewness in the data for DPS, ROE price to book (PTB) and EPS results indicated that 53 percent of the firms listed on the NSE have had stable dividends, 28 percent increased their dividends and 19 percent decreased their dividends during the study period. Intuitively, firms that increased their dividend during the study period reported higher ROE, PTB and EPS compared to those with stable and decreased dividends and those of the entire sample. The results provide evidence to support the view that firms which increase dividend payments tend to have higher than average ROE, PTB and EPS. Additionally the higher PTB may be taken to mean that investors correlate higher dividend payments with managerial action to reduce free cash flows.

**Univariate Analysis**

Following Abdallah and Goergen (2008) the study investigated evolution of the dividend payout ratio defined as the ratio of dividends over earnings, with earnings being defined as net earnings before extraordinary items and preferred dividends. Results are presented in Table 1 for the year of cross listing (year 0) as well as 2 years prior and after cross listing. A clear decreasing trend in mean dividend payout from the second year prior to cross listing to the second year after cross listing emerges. Taken on face value, these results appear to support the study’s hypothesis that, in line with increased investor base and liquidity occasioned by the action of cross listing, management desire to used dividends is reduced. Another explanation could be that those firms that cross list are potential growth firms in need for more capital and therefore reduce their dividend payouts. Evidence contrary to the substitute hypothesis cannot however be ruled out. The study went further and conducted paired tests of significance on the mean dividend payouts for the two years before the cross listing year and two years after the cross listing year. Table 2(a) reports the t-test statistics for individual years before and after the year of cross listing. Table 2(b) reports the t-test statistics for the two years before cross listing combined and the two years after cross listing combined.

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8 Vaughan and Williams (1998) and Lang *et al.*, (2002) use total assets to control for firm size

9 These results are line with Adjaoud *et al.*, (2006) who studies Canadian financial firms cross listed in the U.S.
Though the descriptive statistics show that there was a decrease in mean dividend payouts from year -2 to year -1 relative to the cross listing year, the paired t-test for the two years indicate that there was no significant difference in the mean dividend payout for the years -2 and -1 (t = 0.748, p-value = 0.488). This was further confirmed by a Wilcoxon test (z = -0.105, p-value = 0.917). For the years 1 and 2 after cross listing, the decrease in mean dividend payouts was found to be significant at 5% level (t = 3.280, p-value = 0.46). The t-test result was however not confirmed by the Wilcoxon test (z = -1.826, p-value = 0.068).

Table 1: Dividend payout (dividends/earnings)

<table>
<thead>
<tr>
<th>Year relative to cross-listing</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Min</th>
<th>Max</th>
<th>25th (Median)</th>
<th>75th</th>
</tr>
</thead>
<tbody>
<tr>
<td>-2</td>
<td>.7183</td>
<td>.94835</td>
<td>.21</td>
<td>2.64</td>
<td>2569 .3429</td>
<td>1.0358</td>
</tr>
<tr>
<td>1</td>
<td>.4304</td>
<td>.98377</td>
<td>.21</td>
<td>.60</td>
<td>2145 .5435</td>
<td>.5898</td>
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<tr>
<td>0</td>
<td>.3948</td>
<td>.13563</td>
<td>.26</td>
<td>.58</td>
<td>2669 .3639</td>
<td>.5421</td>
</tr>
<tr>
<td>-1</td>
<td>.4471</td>
<td>.19137</td>
<td>.19</td>
<td>.70</td>
<td>2637 .4475</td>
<td>.6321</td>
</tr>
<tr>
<td>2</td>
<td>.3158</td>
<td>.18647</td>
<td>.09</td>
<td>.54</td>
<td>1371 .3141</td>
<td>.4961</td>
</tr>
</tbody>
</table>

Note: N = 6

Table 2(a): Test Statistics for individual years before and after the year of cross listing

<table>
<thead>
<tr>
<th>Year</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Std. Error Mean</th>
<th>95% Confidence Interval of the Difference Lower</th>
<th>Upper</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pair 1</td>
<td>-2 -1</td>
<td>.0271</td>
<td>.0887</td>
<td>.0362</td>
<td>-.660</td>
<td>1.202</td>
<td>.748</td>
<td>5</td>
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<tr>
<td>Pair 2</td>
<td>1 - 2</td>
<td>.0170</td>
<td>.0103</td>
<td>.051</td>
<td>.005</td>
<td>.335</td>
<td>3.280</td>
<td>3</td>
</tr>
</tbody>
</table>

In order to compare the dividend behavior before and after cross listing, the mean dividend payments for the two years before the cross listing were combined and then compared with the combined mean payments after cross listing. Results indicate that even if there was a decreasing trend in mean payments from year -2 to year 2, the decrease was not significant enough to differentiate the before-after mean dividend payouts at 5% level (t = 1.032, p-value = 0.332). This result was also confirmed by the Wilcoxon test (z = -0.889, p-value = 0.374).

Another measure of dividend payout, is dividend over sales. As reported in Table 3 results indicate a decreasing trend in the mean dividend payouts for the two years before cross listing, an increase in the year after cross listing and a decrease in the second year after cross listing.

Table 2(b): Test Statistics for the two years before cross listing combined and the two years after cross listing combined

<table>
<thead>
<tr>
<th>Year</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Std. Error Mean</th>
<th>95% Confidence Interval of the Difference Lower</th>
<th>Upper</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pair 1</td>
<td>-1 -2</td>
<td>.0246</td>
<td>.0716</td>
<td>.02387</td>
<td>-.3042</td>
<td>0.7970</td>
<td>1.03</td>
<td>8</td>
</tr>
</tbody>
</table>

Table 3: Descriptive statistics- dividend Payout (Dividend/Sales)

<table>
<thead>
<tr>
<th>Year</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Min</th>
<th>Max</th>
<th>25th (Median)</th>
<th>75th</th>
<th>Percentiles (Median)</th>
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</thead>
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<td>-2</td>
<td>.0197</td>
<td>.01975</td>
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<td>.05</td>
<td>.0043</td>
<td>.0143</td>
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<td>.0404</td>
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<td>.11573</td>
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<td>.29</td>
<td>.0181</td>
<td>.0612</td>
<td>.1893</td>
<td>.1893</td>
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<tr>
<td>0</td>
<td>.0993</td>
<td>.12220</td>
<td>.00</td>
<td>.34</td>
<td>.0213</td>
<td>.0648</td>
<td>.1583</td>
<td>.1583</td>
</tr>
<tr>
<td>-1</td>
<td>.1043</td>
<td>.15326</td>
<td>.00</td>
<td>.41</td>
<td>.0405</td>
<td>.0586</td>
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<td>.1732</td>
</tr>
<tr>
<td>2</td>
<td>.0751</td>
<td>.07011</td>
<td>.00</td>
<td>.17</td>
<td>.0120</td>
<td>.0672</td>
<td>.1463</td>
<td>.1463</td>
</tr>
</tbody>
</table>

When significance tests were conducted, results indicated that the decrease was not significant at 5% level for years -2 and -1 (t = -1.777, p-value = 0.174) and years 1 and 2 (t = 0.849, p-value = 0.458) respectively as reported in Table 4(a). Further tests using the Wilcoxon test (z = -1.461, p-value = .144 for years -2 and -1), years and (z = -0.365, p-value = 0.715 for years 1 and 2) confirmed that there was no significance difference in the dividend payout ratio before and after cross listing.

Table 4(a): T-Test Statistics for individual years before and after cross listing year

<table>
<thead>
<tr>
<th>Year</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Std. Error Mean</th>
<th>95% Confidence Interval of the Difference Lower</th>
<th>Upper</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pair 1</td>
<td>-2</td>
<td>.0340</td>
<td>.0383</td>
<td>.0191</td>
<td>-.0951</td>
<td>.0269</td>
<td>1.77</td>
<td>3</td>
</tr>
<tr>
<td>Pair 2</td>
<td>1 - 2</td>
<td>.0285</td>
<td>.0672</td>
<td>.0336</td>
<td>-.0784</td>
<td>1.355</td>
<td>.84</td>
<td>3</td>
</tr>
</tbody>
</table>

Significance test for years -2,-1 combined and years 1, 2 combined (t = 0.312, p-value = 0.763), reported in Table 4(b) also showed that the decrease was not significant. When we conducted the Wilcoxon test, the results (z = -0.770, p-value = -0.441) also confirmed the t-test result. Based on the univariate analysis therefore, we do not find evidence to indicate any relationship between cross listing and dividend policy
Based on the before-after analysis for the two years prior and two years after cross listing, for the cross listed firms, there is no evidence to indicate that there is change in dividend policy after cross listing. The results lend credence to the argument that the firms have cross listed in relatively weaker regulatory framework/lesser developed capital markets (USE, TSE and RSE) than the NSE are not pressurized to increase dividend payouts. The results provide evidence contrary to the substitute hypothesis. Abdallah and Goergen (2008) do not find evidence that firm’s change their dividend behavior after cross listing be it on weaker or better regulatory framework than the home market. Given that all the firms studied here cross listed in host markets considered to have a relatively weaker regulatory framework, the evidence adduced so far is one sided.

Multivariate Analysis

The univariate results presented in the preceding section related to cross listed firms only. They do not portray the overall picture of the cross listing in the East African region, without the inclusion of the non cross listed firms in the analysis. It could be for instance, that even if the there is no evidence of change in dividend policy after cross listing, if the cross listed firms are compared with the non cross listed ones the dividend payout could have been higher, similar or lower. To make this and other comparisons, there was need to conduct multivariate analysis. The multivariate analysis used pooled TSCS data. It was therefore necessary to justify the PCSE estimation adopted by first conducting correlation analysis of the key variables of the study (see section 3.1 research design). The Pearson’s correlations presented in Table 5 reveal that apart from EPS, all the other independent variables are significantly correlated with the dependent variable and to a certain degree among each other. With this hindsight this study differs from previous studies in the area by acknowledging the limitation of OLS, GLS or FGLS estimation methods in dealing with autocorrelation and heteroskedasticity by adopting PCSE regression.10

Table 5: Pearson’s Correlations for model variables

<table>
<thead>
<tr>
<th></th>
<th>lnMPS</th>
<th>DPS</th>
<th>EPS</th>
<th>BVPS</th>
<th>lnMCap</th>
</tr>
</thead>
<tbody>
<tr>
<td>lnMPS</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DPS</td>
<td>0.531***</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EPS</td>
<td>0.217</td>
<td>0.515***</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BVPS</td>
<td>0.404**</td>
<td>0.352*</td>
<td>0.423**</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>lnMCap</td>
<td>0.595***</td>
<td>0.329*</td>
<td>0.416**</td>
<td>-0.011</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Notes: *, **, *** indicates significance at 10%, 5% and 1% levels respectively

Table 6 presents summary statistics from PCSE regressions linking equity value to accounting information with a dummy variable on the intercept term and on the dividend variable where EPS is positive. Results indicated that $\alpha_0 = 0.063$, $t = 3.45$, for panel A, $\alpha_0 = 0.051$, $t = 2.25$, for panel B and $\alpha_0 = 0.069$, $t = 2.27$, for panel C. Panel A is statistically significant at 1% level while b and C are significant at 5% level. For panel D, $\alpha_0 = -0.157$ however the low number of observations does not permit the calculation of the t-test and the level of significance. These findings provide empirical evidence to suggest that upon cross listing dividend payouts increase to serve as a signal by cross listed firms of their better treatment of shareholders in the absence of a regulatory framework supporting stronger shareholder protection. In other words there is evidence to suggest dividends serve as substitutes for poor protection of shareholders.

Note that in table 6 shown below, the model is

$$\ln MPST_t = \alpha_0 + \alpha_1 D_t + \alpha_2 DPS_t + \alpha_3 EPS_t + \alpha_4 \ln MCap_t + \epsilon_t$$

Where: $\ln MPST_t$ is the natural log of market price per share of equity; $D_t$ is the cross listing dummy {takes the value of one (1) for cross listed firms and zero (0) otherwise}; $DPS_t$ is the dividend per share; $EPS_t$ is the accounting earning per share; $BVPS_t$ is the book value per share; $\ln MCap_t$ is the natural log of market capitalization

Panel D variance matrix is non-symmetric or highly singular thus no output for the t-test values or $P$ values.

For each PCSE regression, the first row reports the estimated coefficient, and the corresponding $T$/Z statistic is reported in second row.

Corresponding levels of significance are in the third row. *, **, *** indicates significance at 10%, 5% and 1% levels respectively.

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10 Panel regressions conducted by this study using OLS and GLS revealed a confounding problem especially with the coefficients, and the $R^2$ scores were lower than those reported for PCSE. GLS, fixed effects coefficients were however less confounded and the $R^2$ higher than those estimated using OLS regressions.
DISCUSSION

The findings of the multivariate analysis are contrary to the results from the univariate analysis which did not find significant evidence to indicate a change in dividend payouts upon cross listing for the cross listed firms. However when the non cross listed firms are included in the analysis, the results indicate that cross listed firms have significantly higher dividend payouts compared to non cross listed firms. Though the findings appear contradictory, the explanation is quite straightforward. The results point out that when dividend payout is considered in terms of dividend over earnings and in terms of dividend over sales, for the cross listed firms; there is no evidence to indicate that there was a change after cross listing. However when the analysis is extended to include cross listed firms, there is evidence to indicate that the dividend payouts for cross listed firms were relatively higher than the dividend payouts for non cross listed firms. Given that the cross listings have been from the NSE to USE, TSE or RSE, the findings lend credence to the substitute hypothesis.

The results of this study are in line with Abdallah and Goergen (2008) who find evidence to support the view that firms that cross list in markets with poor investor protection increase their dividend payouts. As in O’Connor (2006) the payment of higher dividends by cross listed firms may well result from a voluntary commitment on the part of these firms to protect their investors and maintain credible reputation for fair treatment. Adjaoud et al.,(2006) on the other hand find that cross listing does not replace dividends as substitutes for agency costs against free cash flows. The findings are also contrary to the prediction investor recognition/visibility hypothesis Merton (1987). It posits that since cross listing increases visibility, it should be accompanied by a reduction in the use of dividends as a signaling device. Results indicated that $\alpha_0 > 0$ for all panels A to D. The study infers this finding to mean that there is no evidence to suggest that in line with the recognition/visibility hypothesis the dividend policy of cross listed NSE firms will reduce, rather the explanation that dividends are used as signaling devices and cannot be replaced by cross listing appears more plausible.

CONCLUSION

This study examines the impact of cross listing on dividend policy for cross listed firms within East Africa. We conduct univariate analysis for the before-after effects of cross listing using paired tests. We then non cross listed firms in multivariate regressions using pooled TSCS, PCSE regressions for a period of 13 years to find out if there is a difference in the dividend payouts between cross listed firms and non cross listed firms. Our findings provide empirical evidence to indicate that the dividend payouts for cross listed firms were relatively higher than the dividend payouts for non cross listed firms. Our findings lend credence to the substitute hypothesis. The fact that we report significantly higher dividends for the full sample and partitioned data provides evidence contrary to the prediction of the visibility hypothesis which anticipates reduced dividends following cross listing. Future studies may consider elasticities of the model parameters and their consequences.

REFERENCES


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