

**THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE PRACTICES
AND DIVIDEND PAYOUT OF COMMERCIAL BANKS IN KENYA**

BY BERINE A. ADA

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DECLARATION

I, the undersigned, declare that this research project is my original work and that it has not been presented in any other university or institution for academic credit.

BERINE A. ADA

REG. NO: D63/73209/2012

Signature.....

Date.....

This research project has been submitted for examination with my approval as university supervisor.

Herick Ondigo
Lecturer, Department of Finance and Accounting
School of Business
University of Nairobi

Signature:

Date:

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DEDICATION

I dedicate this work to my dad Mr. Joash Ada Lago and mum Mrs. Rose Ada for believing in me and for their indelible support and encouragement as well as my siblings Stephen, Milly, James and Kennedy for always being there. I love you all for giving me the courage and determination to wither the storms of the course. God Bless You.

ABSTRACT

This study has been conducted to investigate the relationship between corporate governance practices on the dividend payout of commercial banks in Kenya. The study considered a functional form relationship between corporate governance practices and dividend payout by using a regression model that related board size, insider holding, board composition, CEO duality, leverage as well as ownership and control to dividend payout. A total of 17 commercial banks in Kenya that paid dividends between 2008 - 2012 were used to determine the relationship.

The findings of the study suggest that 72.7% of dividend payout in Kenyan commercial banks could be explained by corporate governance practices. All the corporate governance variables produced statistically significant values which were positively related to dividend payout in Kenya commercial banks. As a policy recommendation, the government should ensure that the corporate governance practices as outlined by the CMA are followed by companies which in turn will ensure that the dividend payout to investors is optimal.

TABLE OF CONTENTS

DECLARATION	ii
ACKNOWLEDGEMENTS	iii
DEDICATION	iv
ABSTRACT	v
TABLE OF CONTENTS	vi
LIST OF TABLES	ix
LIST OF FIGURES	x
LIST OF ABBREVIATIONS	xi
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 Corporate Governance Practices	2
1.1.2 Dividend Payout.....	3
1.1.3 Relationship between Corporate Governance Practices and Dividend Payout	5
1.1.4 Commercial Banks in Kenya	6
1.2 Research Problem	7
1.3 Objective of the Study	9
1.4 Value of the Study	9
CHAPTER TWO	10
LITERATURE REVIEW	10
2.1 Introduction.....	10
2.2 Theoretical Review	10
2.2.1 Agency Theory.....	11
2.2.2 Stakeholder Theory	12
2.2.3 Dividend Irrelevance Theory	12
2.2.4 The Signaling Theory	13
2.2.5 Bird-In-The-Hand Theory.....	14
2.2.6 Clientele Effects of Dividends Theory	14

2.2.7 Agency Costs and Free Cash Flow Hypothesis of Dividend Policy.....	15
2.2.8 Differential Taxes Theory.....	17
2.3 Components of Corporate Governance.....	18
2.3.1 Board Size.....	19
2.3.2 Board Composition.....	21
2.3.3 CEO Duality.....	22
2.3.4 Separation of Ownership and Control.....	23
2.4 Determinants of Dividend Payout.....	24
2.4.1 Corporate Profitability.....	25
2.4.2 Cash Flow.....	25
2.4.3 Corporate Tax.....	26
2.4.4 Growth Opportunities.....	26
2.4.5 Financial Leverage.....	27
2.4.6 Firm size.....	28
2.5 Empirical Review.....	29
2.6 Summary of Literature Review.....	34
CHAPTER THREE.....	35
RESEARCH METHODOLOGY.....	35
3.1 Introduction.....	35
3.2 Research Design.....	35
3.3 Target Population.....	35
3.4 Data Collection.....	36
3.5 Data Analysis.....	36
3.5.1 Analytical Model.....	37
CHAPTER FOUR.....	39
DATA ANALYSIS, RESULTS AND DISCUSSION.....	39
4.1 Introduction.....	39
4.2 Data Analysis and Presentation.....	39
4.2.1 Descriptive Statistics.....	40

4.2.2 Correlation Analysis	48
4.2.3 Regression Analysis.....	48
4.3 Interpretation of Findings	51
CHAPTER FIVE	53
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	53
5.1 Introduction.....	53
5.2 Summary	53
5.3 Conclusion	55
5.4 Recommendations for Policy and Practice	56
5.5 Limitations of the Study.....	56
5.6 Suggestions for Further Studies	57
REFERENCES.....	59
APPENDICES	64
Appendix 1: Commercial Banks Registered in Kenya as at 31 st August 2013.....	64
Appendix 2: Data Collection Sheet.....	65
Appendix 3: Regression Analysis Statistics	66

LIST OF TABLES

Table 3.1 Summary for terms of measurement Variables	38
Table 4.1 Descriptive Statistics for Board Size	40
Table 4.2 Descriptive Statistics for Board Composition	42
Table 4.3 Descriptive Statistics for CEO Duality	43
Table 4.4 Descriptive Statistics for Leverage	44
Table 4.5 Separation of Ownership and Control	46
Table 4.6 Descriptive Statistics for Insider Holding	47
Table 4.7 Correlation matrix table	48
Table 4.8 Model Summary	49
Table 4.9 ANOVA	49
Table 4.10 Regression Coefficients	49

LIST OF FIGURES

Figure 4.1 Board size	42
Figure 4.2 Board Composition.....	42
Figure 4.3 CEO Duality	43
Figure 4.4 Insider Holding.....	47

LIST OF ABBREVIATIONS

CBK	Central Bank of Kenya
CEO	Chief Executive Officer
CMA	Capital Markets Authority
GDP	Gross Domestic Product
NSE	Nairobi Securities Exchange
OECD	Organization for Economic Co-operation and Development
PSCGT	Private Sector Corporate Governance Trust

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Corporate Governance is defined as the process and structure used to direct and manage business affairs of the Company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholder long term value while taking into account the interest of other stakeholders (CMA Act, 2002). Corporate Governance is the system by which organizations are directed and controlled. It's a set of relationships between company directors, shareholders and other stakeholder's as it addresses the powers of directors and of controlling shareholders over minority interest, the rights of employees, rights of creditors and other stakeholders (Muriithi, 2009).

Corporate governance exists to provide checks and balances between shareholders and management and thus to mitigate agency problems. Hence, firms with better governance quality should incur less agency conflicts, and managers should be less likely to adopt a sub-optimal dividend policy. As a result, the quality of corporate governance should have an impact on dividend policy. There has been renewed interest in the corporate governance practices of modern corporations, particularly due to the high-profile collapses of a number of large firms.

There is evidence in the finance literature that tends to support the hypothesis that the patterns of corporate dividend payout policies vary tremendously between developed and transition markets. In developing countries, little studies have been done to establish the correlation between corporate governance and dividend policy. For these reasons, a study on

this relationship between dividend policy and corporate governance in a transition economy offers an interesting subject and complements the existing corporate governance literature.

1.1.1 Corporate Governance Practices

Corporate governance has for more than a decade dominated policy agenda in developed market economies and it is gradually making its way to the top of the policy agenda on the African continent (Abor and Adjasi, 2007). The global economic crisis and the relative poor performance of the corporate sector in Sub-Saharan Africa have made corporate governance a catchphrase in the development debate (Brown and Caylor, 2004; Dahawy, 2009). Developing countries, of which Kenya is no exception, have increasingly embraced the concept of good corporate governance, because of its ability to impact positively on sustainable growth since it is believed that, good governance generates investor goodwill and confidence.

Gompers, Ishii, and Metrick (2003) study revealed that companies with strong shareholder rights yielded annual returns that were 8.5 percent greater than those with weak rights. The more democratic firms also enjoyed higher valuations, higher profits, higher sales growth, and lower capital expenditures. Corporate governance helps in defining the relation between the company and its general environment, the social and political systems in which it operates. Corporate governance is linked to economic performance. The way management and control are organized affects the company's performance and its long run competitiveness. It determines the conditions for access to capital markets and the degree of investors' confidence (Brownbridge, 2007).

Good corporate governance contributes to the sustainable development prospects of countries, increased economic stability of nations, institutional reforms and improved governance in both public and private sector. Alternatively, corporate governance failures undermine development efforts by misallocating the much needed capital and resource (Hontz *et al.*, 2009).Corporate Governance has gained prominence in Kenya as is the case in other countries (Ekadah and Mboya, 2011). This has been caused partly by corporate failure or poor performance of public and private companies (Barako, Hancock and Izan, 2006). The PSCGT Kenya has been the greatest advocate of CG in Kenya. In later years the CMA made it mandatory for the listed companies to adopt those Corporate Governance practices. These Corporate Governance practices mainly dealt with the issues of the board such as board composition, role of audit committee, separation of the role of CEO and the Chair. In addition, they focused on the rights of the shareholders. The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act, and the various prudential guidelines issued by the Central Bank of Kenya (CBK).

1.1.2 Dividend Payout

While the argument of the irrelevance of corporate dividend policy in perfect capital markets has been very important in financial theory, there is also much controversy about dividend policy in the real world where market imperfections exist, (Poterba and Summers, 1984). The presence of information asymmetry, agency problems, taxes, and transaction costs all seem to make dividend policy matter. A large body of theoretical and empirical research has attempted to identify the determinants of corporate dividend policy. To date, however, there

is no consensus about what factors affect corporate payout policy. The issue gets even more complicated when it comes to emerging markets.

Following Miller and Modigliani's (1961) pioneering dividend irrelevance hypothesis, financial economists have advanced a number of contradicting theories in an attempt to explain why corporate dividend policy does seem to matter in practice. Some theories have developed around the proposition that dividend policy is relevant due to the existence of (differential) taxes (Poterba and Summers, 1984). Others argue that clientele effects matter in dividend policy (Allen et al., 2000). Another dividend policy hypothesis suggests that dividend policy is affected by other market imperfections such as information asymmetries and agency costs. The former, known as signaling theory, predicts that firms can convey information to the market by paying dividends (Miller and Rock, 1985, and Bali, 2003).

The patterns of corporate payout policies not only vary over time but also across countries, especially between developed and emerging capital markets. Glen et al. (1995) found that dividend policies in emerging markets differed from those in developed markets. They reported that dividend payout ratios in developing countries were only about two thirds that of developed countries. Ramcharran (2001) also observed low dividend yields for emerging markets.

Emerging markets differ from those in developed countries in many aspects. They are often of more recent origins, have less information efficiency, more volatility, and are smaller in size (Kumar and Tsetsekos, 1999). Emerging markets also differ from those developed markets in other characteristics such as corporate governance, taxation on dividends and capital gains, and ownership structure.

In this case, banks can play an important role in closing the information gap between firm management and the market, rendering the role of dividends as a device for signalling or reducing agency costs less important. In addition, firms in emerging markets are subject to more financial constraints than their counterparts in developed markets, which may have some influence on their dividend policy. These differences, and the peculiarities of the particular markets themselves, raise the question about the extent to which competing dividend policy theories can apply to such markets.

1.1.3 Relationship between Corporate Governance Practices and Dividend Payout

Fluck (1998), Myers and Majluf (1984) recognize that dividend policies address agency problems between corporate insiders and shareholders. Grossman and Hart (1980) point out that the dividend payouts mitigate agency conflicts by reducing the amount of free cash flow available to managers, who do not necessarily act in the best interests of shareholders. There are several studies that have found a positive relationship between corporate governance and dividend policy, (Michaely and Roberts, 2006; Farinha, 2003; Smith et al, 2008; Aggarwal and Williamson, 2006). Studies of determinants of dividend policy have recently attracted considerable attention. Barclay et al. (1995) claim that dividends are affected by investment opportunity, regulation, real sales, and the signaling effect of abnormal earnings.

Rozeff (1982) suggests that, besides the above first three factors, agency problems, such as the level of insider stock holdings, could also influence dividend policy. Casey and Theis (1997) use the example of the petroleum industry and find support for agency problems and systemic risk but not real sales and signaling effect. Dickens et al. (2003) use the example of the banking industry and find that investment opportunity, signaling effect, ownership, and

systemic risk are relevant to dividend payouts. Fama and French (2001) also find similar results. Further studies regarding influences on dividend payout ratio can be found in Dhanani (2005), Michaely and Roberts (2006) and DeAngelo and DeAngelo (2007).

1.1.4 Commercial Banks in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act, and the various prudential guidelines issued by the Central Bank of Kenya (CBK). Given that the banks under study are listed the banks are also required to adhere to NSE rules. The banking sector was liberalised in 1995 and exchange controls lifted. The Central Bank of Kenya, which falls under the Ministry of Finance, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. Central Bank of Kenya publishes information on Kenya's commercial banks and non-banking financial institutions, interest rates and other publications and guidelines. (CBK, 2011)

Banks represent a significant and influential sector of business worldwide that plays a crucial role in the global economy. Commercial banks are financial intermediaries that serve as financial resource mobilization points in the global economy. They channel funds needed by business and household sectors from surplus spending to deficit spending units in the economy. A well-developed efficient banking sector is an important prerequisite for saving and investment decisions needed for rapid economic growth.

A well-functioning banking sector provides a system by which a country's most profitable and efficient projects are systematically and continuously funded. The role of banks in an economy is paramount because they execute monetary policy and provide means for

facilitating payment for goods and services in the domestic and international trade (Government of Kenya, 2007). Commercial banks are custodians of depositor's funds and operate by receiving cash deposits from the general public and loaning them out to the needy at statutorily allowed interest rates.

1.2 Research Problem

Corporate governance has become an issue of global significance (Donaldson, 2003). It has attracted worldwide attention because of its apparent importance for strategic health of organizations and society in general (Klein, 2002). The importance of corporate governance practices cannot therefore, be understated as they are strong determinants in the survival or collapse of corporate bodies (Schilling, 2003). Improvement in corporate governance as found out by researchers such as Nam *et al* (2002) and Sanda *et al* (2005) results in improved performance.

Empirical research has shown that there is a relationship between corporate governance and firm performance, which in turn influence the dividend policy of the company (Klapper and Love, 2002; Gompers *et al.* 2003; and Sanda *et al.* 2003). Bebchuk and Cohen, (2004) shows that well-governed firms have higher firm performance by 34.5 percent, which is translated into higher dividend payout ratio. There is a view that larger boards are better for corporate performance because they have a range of expertise to help make better decisions, and are harder for a powerful CEO to dominate. Research into dividend policy has shown not only that a general theory of dividend policy remains elusive, but also that corporate dividend practice varies over time, among firms and across countries (Amidu, 2007).

Corporate governance has dominated policy agenda in developed market economies for more than a decade and it is gradually warming its way to the top of the policy agenda on the African continent (Abor, 2007). Developing countries are now increasingly embracing the concept of good corporate governance because of its ability to impact positively on sustainable growth (Abor, 2007). Corporate governance is a collection of processes, policies and laws which direct or control an organization and its concerned individuals, with an ultimately aim to improve firm's performance and minimize or eliminate agency cost. The involved regulatory bodies in corporate governance are board of directors, management, shareholders and auditors. These corporate governance practices are considered a way to protect shareholders' rights and thus have a significant impact on the decision of dividend policy (Kowalewski et al., 2007; Bebczuk, 2005).

Empirical studies on corporate governance practices in Kenya include; Ngugi (2007) who did a study on the relationship between corporate governance structures and the performance of insurance companies in Kenya, Gatauwa (2008) who studied the relationship between corporate governance practices and stock market liquidity for firms listed on the Nairobi Stock Exchange. Matengo (2008) also conducted a study on the relationship between corporate governance practices and performance the case of banking industries in Kenya.

Most empirical studies have focused on the effect of corporate governance on organizational performance; there is scanty literature on the relationship between corporate governance and the dividend payout in Kenya. It is therefore crucial and will provide the initial argument for other researchers to build on. This study seek to fill the existing research gap by conducting a study to determine the relationship between corporate governance practices and dividend

payout of commercial banks in Kenya, the study will seek to answer the following research question; is there exist a relationship between corporate governance practices and dividend payout of commercial banks in Kenya?

1.3 Objective of the Study

To determine the relationship between corporate governance practices and dividend payout of commercial banks in Kenya.

1.4 Value of the Study

This study explores the relationship between corporate governance practices and dividend payout of commercial banks in Kenya. The banking industry is an important component of the financial sector of the economy because of its financial intermediation role. The findings of this study will be of value to the government, the banking industry, academics and other stakeholders. Whereas it is true that various studies have been carried out on this subject in developed countries, their findings are not directly applicable in developing economies because of political, economic, technological and cultural differences (Mensah, 2002).

The findings of this study will therefore help the policy makers to develop a model of Corporate Governance that considers the conditions in Kenya and its banking industry and that is not borrowed directly from developed countries. Academics will benefit from having more research papers to refer to. Similarly, other stakeholders will have a deeper understanding of the role of Corporate Governance on corporate payout decision of insurance firms and therefore make a significant contribution to governance of their organizations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter brings up relevant literature required to find answers and connect to our research objective. First, a review of theories that guide this study will be presented to give the research a firm theoretical base. Then, empirical studies done on this research topic will be looked at which will make it easier to understand the research area. Various theories have been put forward to help us understand the concept of Corporate Governance as well as Dividend Policy. Neuman (2006) defines a theory as a system of interconnected ideas that condense and organize knowledge about the world.

2.2 Theoretical Review

The agency theory and the stakeholder theory are the main theories underlying the concept of Corporate Governance (Mulili and Wong, 2010). The theories underlying Dividend Policy are dividend irrelevance theory, signaling theory, bird-in-hand theory, clientele effects of dividend theory as well as agency costs and free cash flow hypothesis of dividend policy. Dividend policy has been remained one of the most controversial matters in corporate finance literature. More than a half century, financial economists and experts have been engaged in examining corporate dividend policy. “The harder we look at the dividend picture, the more it seems like a puzzle, with pieces that don’t fit together” (Black, 1976).

2.2.1 Agency Theory

Agency theory is defined as the relationship between the principals, such as shareholders and agents such as the company executives and managers. In this theory, shareholders who are the owners or principals of the company, hires the agents to perform work. Principals delegate the running of business to the directors or managers, who are the shareholder's agents (Clarke, 2004). Agency theory suggests that employees or managers in organizations can be self-interested.

The agency theory shareholders expect the agents to act and make decisions in the principal's interest. On the contrary, the agent may not necessarily make decisions in the best interests of the principals (Padilla, 2000). The agent may be succumbed to self-interest, opportunistic behavior and falling short of congruence between the aspirations of the principal and the agent's pursuits. Even the understanding of risk defers in its approach. Although with such setbacks, agency theory was introduced basically as a separation of ownership and control (Bhimani, 2008). The agents are controlled by principal-made rules, with the aim of maximizing shareholders value. Hence, a more individualistic view is applied in this theory (Clarke, 2004).

Indeed, agency theory can be employed to explore the relationship between the ownership and management structure. However, where there is a separation, the agency model can be applied to align the goals of the management with that of the owners. The model of an employee portrayed in the agency theory is more of a self-interested, individualistic and are bounded rationality where rewards and punishments seem to take priority (Jensen & Meckling, 1976).

The relationship between payout policy and agency cost is the recent development in corporate finance literature. Besides dividend, corporate governance is also considered a useful tool to control agency cost, as a result it affects the payout policy of a firm. If managers are well controlled due to the good governance practices then it results in low free cash flow available to the managers to distribute among the shareholders, thus reducing the payout (John and Knyazeva, 2006). In this way, both theoretical and empirical studies suggest a relation between corporate governance characteristics and corporate payout policy.

2.2.2 Stakeholder Theory

Wheeler et al, (2002) argued that stakeholder theory was derived from a combination of the sociological and organizational disciplines. Stakeholder theory can be defined as any group or individual who can affect or is affected by the achievement of the organization's objectives. Stakeholder theorists suggest that managers in organizations have a network of relationships to serve – this include the suppliers, employees and business partners. And it was argued that this group of network is important other than owner-manager-employee relationship as in agency theory. On the other end, Sundaram & Inkpen (2004) contend that stakeholder theory attempts to address the group of stakeholders deserving and requiring management's attention.

2.2.3 Dividend Irrelevance Theory

This was founded by Miller and Modigliani (1961) when they published a theoretical paper showing the irrelevance of dividend policy in a world without taxes, transaction costs or market imperfections. The payout decision is irrelevant because it neither creates nor

destroys value for shareholders. If the investment decision is held constant, higher dividends result in lower capital gains, leaving the total wealth of shareholders unchanged.

They stated that because investors do not need dividends to convert their shares into cash they will not pay higher prices for firms with high dividend payout. In other words payout policy will have no impact on the value of the firm. However in real world situations where there are market imperfections such as taxation effects, transaction costs, asymmetric information and agency cost. Lintner, 1956 and Brav et al., 2005 have shown that a firm's dividend policy might impact on the value of the firm.

2.2.4 The Signaling Theory

The signaling theory of dividends states that managers use dividend policy to send signals about the firm's future earnings (Bhattacharya, 1979; Miller and Rock, 1985; John and Williams, (1985). This theory is based on the assumption that information is not equally available to all parties at the same time, leading to information asymmetry rule. This states that the markets will be more efficient if sellers provided more information to the buyers. This theory is applied in the financial markets for instance a company increasing its dividends is signaling that its prospects are better.

Signal theory is based on the premise that the management of a company knows more about the future earnings prospects of a company than do the stockholders. According to the theory if a company declares dividends more than that anticipated by the market, this will be interpreted that the future financial prospects of the company will be good. Conversely, if a company cuts its dividends the markets take this as a signal that the management expects

poor earnings and does not believe that the current earnings will be maintained. The market price of a firm will drop when dividend falls because investors will sell their stocks in anticipation of difficult times for the firm (Miller and Rock, 1985).

2.2.5 Bird-In-The-Hand Theory

Lintner (1962) and Gordon (1963) have advanced “Bird-in-the-hand” theory which states that investors prefer to receive certain dividend rather than a future risky capital gain. One alternative and older view about the effect of dividend policy on a firm’s value is that dividends increase firm value. In a world of uncertainty and imperfect information, dividends are valued differently to retained earnings (or capital gains). Investors prefer the “bird in the hand” of cash dividends rather than the “two in the bush” of future capital gains.

Increasing dividend payments, *ceteris paribus*, may then be associated with increases in firm value. As a higher current dividend reduces uncertainty about future cash flows, a high payout ratio will reduce the cost of capital, and hence increase share value. That is, according to the so-called “bird-in-the hand” theory high dividend payout ratios maximize a firm’s value. Studies that provide support for the “bird-in-the hand” theory include Gordon and Shapiro (1956) Gordon (1959, 1963), Lintner (1962), and Walter (1963).

2.2.6 Clientele Effects of Dividends Theory

Others argue that “Clientele Effects” matter in dividend policy decisions (Pettit, 1977; Scholz, 1992). It is because investors’ preferences divide them in groups (clienteles) that tend them to select a company where their investment goals and dividend policy are aligned. In their seminal paper Miller and Modigliani (1961) noted that the pre-existing dividend

clientele effect hypothesis might play a role in dividend policy under certain conditions. They pointed out that the portfolio choices of individual investors might be influenced by certain market imperfections such as transaction costs and differential tax rates to prefer different mixes of capital gains and dividends. They argued that these imperfections might cause investors to choose securities that reduce these costs. They termed the tendency of investors to be attracted to a certain type of dividend-paying stocks a “dividend clientele effect”.

These clienteles will be attracted to firms that follow dividend policies that best suit their particular situations. Similarly, firms may tend to attract different clienteles by their dividend policies. For example, firms operating in high growth industries that usually pay low (or no) dividends attract a clientele that prefers price appreciation (in the form of capital gains) to dividends. On the other hand, firms that pay a large amount of their earnings as dividends attract a clientele that prefers high dividends. Allen, Bernardo and Welch (2000) suggest that clienteles such as institutional investors tend to be attracted to invest in dividend-paying stocks because they have relative tax advantages over individual investors.

2.2.7 Agency Costs and Free Cash Flow Hypothesis of Dividend Policy

“Agency” theory, argues that dividend reduces the costs of shareholder-manager conflict and it performs a controlling function where monitoring of firm’s management by its shareholders is inactive (Rozeff, 1982; Easterbrook, 1984; Jensen, 1986). Jensen (1986) argues that by paying dividend the discretionary resources under managerial control can be decreased and in this way the overinvestment problem can be resolved. The relationship

between payout policy and agency cost is the recent development in corporate finance literature.

One of the assumptions of Miller and Modigliani's perfect capital market is that there are no conflicts of interests between managers and shareholders. In practice, however, this assumption is questionable where the owners of the firm are distinct from its management. In these cases managers are always imperfect agents of shareholders (principals). This is because managers' interests are not necessarily the same as shareholders' interests, and they might conduct actions that are costly to shareholders, such as consuming excessive perquisites or over-investing in managerially rewarding but unprofitable activities.

Shareholders therefore incur (agency) costs associated with monitoring managers' behaviour, and these agency costs are an implicit cost resulting from the potential conflict of interest among shareholders and corporate managers. The payment of dividends might serve to align the interests and mitigate the agency problems between managers and shareholders, by reducing the discretionary funds available to managers (Rozeff, 1982, Easterbrook, 1984, Jensen, 1986, and Alli, Khan and Ramirez, 1993).

Another source of the agency costs problem that may be influenced by dividend policy is the potential conflict between shareholders and bondholders. Shareholders are considered as the agents of bondholders' funds. In this case, excess dividend payments to shareholders may be taken as shareholders expropriating wealth from bondholders (Jensen and Meckling, 1976). Shareholders have limited liability and they can access the company's cash flow before

bondholders; consequently, bondholders prefer to put constraints on dividend payments to secure their claims.

Conversely, for the same reasons, shareholders prefer to have large dividend payments (Ang, 1987). In an often-cited article, Easterbrook (1984) argued that dividends could be used to reduce the free cash flow in the hands of managers. In addition, Easterbrook hypothesized that dividend payments will oblige managers to approach the capital market to raise funds. In this case investment professionals such as bankers and financial analysts will also be able to monitor managers' behaviour. Therefore, shareholders are able to monitor managers at lower cost (and minimize any collective action problems). This suggests that dividend payments increase management scrutiny by outsiders and reduce the chances for managers to act in their own self-interest.

2.2.8 Differential Taxes Theory

Some theories have established the opinion that dividend policy is relevant due to the existence of differential taxes in the market (Litzenberger and Ramaswamy, 1979; Poterba and Summers, 1984; Ang et al., 1991; Barclay, 1987).

The Miller and Modigliani assumptions of a perfect capital market exclude any possible tax effect. It has been assumed that there is no difference in tax treatment between dividends and capital gains. However, in the real world taxes exist and may have significant influence on dividend policy and the value of the firm. In general, there is often a differential in tax treatment between dividends and capital gains, and, because most investors are interested in after-tax return, the influence of taxes might affect their demand for dividends. Taxes may

also affect the supply of dividends, when managers respond to this tax preference in seeking to maximize shareholder wealth (firm value) by increasing the retention ratio of earnings.

The tax-effect hypothesis suggests that low dividend payout ratios lower the cost of capital and increase the stock price. In other words low dividend payout ratios contribute to maximizing the firm's value. This argument is based on the assumption that dividends are taxed at higher rates than capital gains. In addition, dividends are taxed immediately, while taxes on capital gains are deferred until the stock is actually sold. These tax advantages of capital gains over dividends tend to predispose investors, who have favourable tax treatment on capital gains, to prefer companies that retain most of their earnings rather than pay them out as dividends, and are willing to pay a premium for low-payout companies.

2.3 Components of Corporate Governance

Corporate Governance is defined as the process and structure used to direct and manage business affairs of the Company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholder long term value while taking into account the interest of other stakeholders (CMA Act, 2002). Corporate Governance is the system by which organizations are directed and controlled. It's a set of relationships between company directors, shareholders and other stakeholder's as it addresses the powers of directors and of controlling shareholders over minority interest, the rights of employees, rights of creditors and other stakeholders (Muriithi, 2009).

A variety of Corporate Governance frameworks have been developed and adopted in different parts of the world. According to Mulili and Wong (2010), countries that followed

civil law (such as France, Germany, Italy and Netherlands) developed corporate frameworks that focused on stakeholders. On the other hand, countries that had a tradition of common law (Australia, United Kingdom, USA, Canada and New Zealand) developed frameworks that focused on shareholders returns or interests.

Corporate Governance has become a topical issue because of its immense contribution to the economic growth and development of nations. The absence of good Corporate Governance is a major cause of failure of many well performing companies. Existing literature generally support the position that good Corporate Governance has a positive impact on organizational performance; OECD (2009), Gompers, Ishii and Metrick (2003), Claessens, Djankov and Fan (2002) and others. The economic well-being of a nation is the reflection of the performance of its companies. Thus the low level of development of developing nations is attributed to the low level of good Corporate Governance practices. Hence the emphasis placed on good Corporate Governance in the existing literature as the most important problem facing the development of countries, such as Kenya.

2.3.1 Board Size

Hermalin and Weisbach (2003) argued the possibility that larger boards can be less effective than small boards. When boards consist of too many members agency problems may increase, as some directors may tag along as free-riders. They argued that when a board becomes too big, it often moves into a more symbolic role, rather than fulfilling its intended function as part of the management. On the other hand, very small boards lack the advantage of having the spread of expert advice and opinion around the table that is found in larger boards.

Furthermore, larger boards are more likely to be associated with an increase in board diversity in terms of experience, skills, gender and nationality (Dalton and Dalton, 2005). Expropriation of wealth by the CEO or inside directors is relatively easier with smaller boards since small boards are also associated with a smaller number of outside directors. The few directors in a small board are preoccupied with the decision making process, leaving less time for monitoring activities.

Vafeas (2000) reported that firms with the smallest boards (minimum of five board members) are better informed about the earnings of the firm and thus can be regarded as having better monitoring abilities. Echoing the above findings, Mak and Yuanto (2003) reported that listed firm valuations of Singaporean and Malaysian firms are highest when the board consists of five members. Bennedsen, Kongsted and Nielsen (2004), in their analysis of small and medium-sized closely held Danish corporations reported that board size has no effect on performance for a board size of below six members but found a significant negative relation between the two when the board size increases to seven members or more.

In investigating the changes in board size over time, Wu (2000) discovered that on average, board sizes of corporations (Forbes 500) decreased over the 1991-95 periods. Wu argued that the cause of the decrease could partly be due to pressure from large active investors. This implies that the market generally is more confident if monitoring is carried out by smaller boards. Bhagat and Black (2002), found no solid evidence on the relationship between board size and performance, although there are hints of an inverse correlation between the two. Thus their results do not fully support Earmark's findings.

2.3.2 Board Composition

Boards mostly compose of executive and non-executive directors. Executive directors refer to dependent directors and non-Executive directors to independent directors (Shah et al., 2011). At least one third of independent directors are preferred in board, for effective working of board and for unbiased monitoring. Dependent directors are also important because they have insider knowledge of the organization which is not available to outside directors, but they can misuse this knowledge by transferring wealth of other stockholders to themselves (Beasley, 1996).

A board composed of members who are not executives of a company, nor shareholders, nor blood relatives or in law of the family (Gallo, 2005). An independent board is generally composed of members who have no ties to the firm in any way, therefore there is no or minimum chance of having a conflict of interest because independent directors have no material interests in a company. Dalton, Daily, Ellstrand, & Johnson (1998) saw Jacobs (1985) stating that independent directors are important because inside or dependent directors may have no access to external information and resources that are enjoyed by the firm's outside or independent directors (e.g., CEOs of other firms, former governmental officials, investment bankers, Social worker or public figures, major suppliers). Moreover, for advice/counsel inside or dependent directors are available to the CEO as a function of their employment with the firm; their appointment to the board is not necessary for fulfillment of this function.

Dependent board members are associated with or employed by the company, for which they receive remuneration or salary. These directors are mostly working in upper levels of

management of a company or have a vested interest in the company. Dependent directors have a full time job with the firm. As compared to outside or independent directors, dependent directors have insider knowledge of the organization which can be a benefit because they know better about an organization, but they can misuse this knowledge by transferring wealth of other stockholders to themselves (Beasley, 1996).

Staikouras et al. (2007) find that board composition does not affect firm performance although its relationship with performance was found to be positive. These findings were similar to those of Adusei (2010) who found no relationship between board composition and bank performance in Ghana although board composition was found to have positive effect on bank efficiency. A positive relation is expected between non-executive directors and dividend payments.

2.3.3 CEO Duality

The Chief Executive Officer (CEO) of an organization can play an important role in creating the value for shareholders. The CEO can follow and incorporate Governance provisions in a firm to improve its value (Defond and Hung, 2004). In addition, the shareholders invest heavily in the firms having higher Corporate Governance provisions as these firms create value for them (Morin and Jarrell, 2001). The decisions of the board about hiring and firing a CEO and their proper remuneration have an important bearing on the value of a firm. The board usually terminates the services of an underperforming CEO who fails to create value for shareholders.

The turnover of CEO is negatively associated with firm performance especially in developed markets because the shareholders lost confidence in these firms and stop making more

investments. It is the responsibility of the board to determine the salary of the CEO and give him proper remuneration for his efforts (Monks and Minow, 2001). The board can also align the interests of the CEO and the firm by linking the salary of a CEO with the performance of a firm. This action was motivated by the CEO to perform well because his own financial interest is attached to the performance of the firm.

The tenure of a CEO is also an important determinant of the firm's performance. CEOs are hired on short-term contracts and are more concerned about the performance of the firm during their own tenure causing them to lay emphasis on short and medium-term goals. This tendency of the CEO limits the usefulness of stock price as a proxy for corporate performance (Bhagat and Jefferis, 2002). The management of a firm can overcome this problem by linking some incentives for the CEO with the long-term performance of the firm (Heinrich, 2002).

CEO duality plays an important role in affecting the value of a firm. A single person holding both the Chairman and CEO role improves the value of a firm as the agency cost between the two is eliminated (Alexander, Fennell and Halpern, 1993). On the negative side, CEO duality lead to worse performance as the board cannot remove an underperforming CEO and can create an agency cost if the CEO pursues his own interest at the cost of the shareholders (White and Ingrassia, 1992).

2.3.4 Separation of Ownership and Control

Separation between ownership and control of corporations characterizes the existence of a firm. The design of mechanisms for effective corporate control to make managers act in the best interest of shareholders has been a major concern in the area of corporate governance

and finance (Abor, 2007) and continuing research in agency theory attempts to design an appropriate framework for such control. In a corporation, the shareholders are the principals and the managers are the agents working on behalf of, and for the interests of, the principals. In agency theory, a well-developed market for corporate controls is assumed to be non-existent, thus leading to market failures, non-existence of markets, moral hazards, asymmetric information, incomplete contracts and adverse selection among others. Various-governance mechanisms have been advocated which include monitoring by financial institutions, prudent market competition, executive compensation, debt, developing an effective board of directors, markets for corporate control, and concentrated holdings.

Developing an effective board of directors remains an important and feasible option for an optimal corporate governance mechanism. Agents or managers may not always act in the best interest of shareholders when the control of a company is separate from its ownership. Baysinger and Hoskisson, (1990) proclaimed that managers might be "satisfiers" rather than "maximizers" that is, they tend to play it safe and seek an acceptable level of growth because they are more concerned with perpetuating their own existence than with maximizing the value of the firm to its "shareholders. But shareholders delegate decision-making authority to the agent (CEO) with the expectation that the agent will act in their best interest.

2.4 Determinants of Dividend Payout

Factors that may be instrumental in affecting the dividend payout decision, based on literature include:

2.4.1 Corporate Profitability

The financial literature documents that a firm's profitability is a significant and explanatory variable of dividend policy (Jensen et al., 1992; Han et al., 1999; Fama and French, 2000). However, there is a significant difference between dividend policies in developed and developing countries. This difference has been reported by Glen et al. (1995), showing that dividend payout rates in developing countries are approximately two-thirds of those in developed countries. Moreover, emerging market corporations do not follow a stable dividend policy; dividend payment for a given year is based on firm profitability for the same year. Profitability (PROF) is the ratio of net profits to the amount of money that shareholders have put into the company. ROE has been used in several studies as a proxy for firm profitability (Aivazian et al., 2003, ap Gwilym et al., 2004.) and is calculated as follows:

$$\text{PROF} = (\text{Net profit/shareholder's equity}) * 100$$

This creates the assumption that the dividend ratio per year is based on firm earnings for the same year. Amidu and Abor (2006) find dividend payout policy decision of listed firms in Ghana Stock Exchange is influenced by profitability, cash flow position, and growth scenario and investment opportunities of the firms. Profits have long been regarded as the primary indicator of a firm's capacity to pay dividends. Pruitt and Gitman (1991), in their study report that, current and past years' profits are important factors in influencing dividend payments. Al Kuwari (2009) too found a significantly positive relationship between the two.

2.4.2 Cash Flow

The cash flow position of a firm is an important determinant of dividend payouts. A poor liquidity position means less generous dividend due to shortage of cash. Alli et al. (1993)

argues that dividend payments depend more on cash flows, which reflect the company's ability to pay dividends, than on current earnings, which are less heavily influenced by accounting practices. They claim that current earnings do not really reflect the firm's ability to pay dividends. Amidu and Abor (2006) found a positive relationship between cash flow and dividend payout ratios. Anil and Kapoor (2008) also indicate that cash flow is an important determinant of dividend payout ratio.

2.4.3 Corporate Tax

Omet (2004) comes to the same conclusion in case of firms listed on Amman Securities Market and further the tax imposition on dividend does not have the significant impact on the dividend behaviour of the listed firms. In Indian case Reddy (2006) show that the dividends paying firms are more profitable, large in size, and growing. The corporate tax or tax preference theory doesn't appear to hold true in Indian context. Corporate tax has been taken as an explanatory variable with the expected negative association with dividend payout by Anil and Kapoor (2008) in their study on IT sector of India and found it to be insignificant, consistent with Reddy's conclusion.

2.4.4 Growth Opportunities

Higgins (1972) shows that payout ratio is negatively related to a firm's need for funds to finance growth opportunities. D'Souza (1999) however shows a positive but insignificant relationship in the case of growth. Rozeff (1982), Lloyd et al. (1985), and Collins et al. (1996) all show a significantly negative relationship between historical sales growth and dividend payout. Higgins (1981) indicates a direct link between growth and financing needs: rapidly growing firms have external financing needs because working capital needs normally

exceed the incremental cash flows from new sales. Growth rate is measured as the growth rate of sales (Rozeff, 1982; Lloyd et al., 1985; Jensen et al., 1992; Alli et al., 1993; Moh'd et al., 1995; Holder et al., 1998; Chen et al., 1999; Sexsena, 1999; Manos, 2002; Travlos, 2002). Thus, growth rate has been identified in this study by Annual Sales Growth. Overall literature portrays a negative as well as a positive relationship between the dependent variable and sales growth.

2.4.5 Financial Leverage

A growing number of studies have found that the level of financial leverage negatively affects dividend policy (Jensen et al., 1992; Agrawal and Jayaraman, 1994; Crutchley and Hansen, 1989; Faccio et al., 2001; Gugler and Yurtoglu, 2003; Al-Malkawi, 2005). Their studies inferred that highly levered firms look forward to maintaining their internal cash flow to fulfil duties, instead of distributing available cash to shareholders and protect their creditors.

However, Mollah et al. (2001) examined an emerging market and found a direct relationship between financial leverage and debt-burden level that increases transaction costs. Thus, firms with high leverage ratios have high transaction costs, and are in a weak position to pay higher dividends to avoid the cost of external financing. To analyze the extent to which debt can affect dividend payouts, this study employed the financial leverage ratio, or ratio of liabilities (total short-term and longterm debt) to total shareholders' equity. Al Kuwari (2009) too found a significantly negative relationship between the two. The proxy used for financial leverage is Debt to Equity Ratio as used in all these studies. literature review points out to the fact that corporate profitability, cash flow, tax, sales growth, market-to-book ratio, and debt-

to-equity ratio may impact upon the dividend payout ratio. Previous researchers concentrated on the determinants of 'standard ratio of dividend to earnings, or the 'standard dividend payout ratio.' This study examines the determinants of the 'standard dividend payout ratio' and also the extended payout ratio whereby the denominator of the ratio includes net income and depreciation. The difference between the two ratios is greater for the manufacturing industry that usually has relatively high levels of depreciation, in comparison to the service industry. Clearly depreciation costs may have an impact on the dividend payout ratios.

2.4.6 Firm size

Eriotis (2005) reports that the Greek firms distribute dividend each year according to their target payout ratio, which is determined by distributed earnings and size of these firms. Research by Lloyd, Jahera, and Page (1985), and Vogt (1994) indicates that firm size plays a role in explaining the dividend-payout ratio of firms. They find that larger firms tend to be more mature and thus have easier access to the capital markets, which reduces their dependence on internally generated funding and allows for higher dividend-payout ratios. The hypothesized relationship between firm size and dividend-payout ratios is positive. Firm size (SIZE) is measured as a natural logarithm of total assets. This is due to the fact that large firms will pay large dividends to reduce agency costs (Ghosh and Woolridge, 1988; Eddy and Seifert, 1988; Redding, 1997).

Eddy and Seifert (1988), Jensen et al. (1992), Redding (1997), and Fama and French (2000) indicated that large firms distribute a higher amount of their net profits as cash dividends, than do small firms. Several studies have tested the impact of firm size on the dividend-agency relationship. Lloyd et al. (1985) were among the first to modify Rozeff's model by

adding “firm size” as an additional variable. They considered it an important explanatory variable, as large companies are more likely to increase their dividend payouts to decrease agency costs. Their findings support Jensen and Meckling’s (1976) argument, that agency costs are associated with firm size. Holder et al. (1998) revealed that larger firms have better access to capital markets and find it easier to raise funds at lower costs, allowing them to pay higher dividends to shareholders. This demonstrates a positive association between dividend payouts and firm size. The positive relationship between dividend payout policy and firm size is also supported by a growing number of other studies (, Eddy and Seifert, 1988; Jensen et al., 1992; Redding, 1997; Holder et al., 1998; Fama and French, 2000; Manos, 2002; Mollah 2002; Travlos et al., 2002; Al-Malkawi, 2007). Al Kuwari (2009) too found a significantly positive relationship between the two.

2.5 Empirical Review

A rich literature on dividend policy has been produced for developed capital markets, mainly in countries like Germany, UK and USA (see for example, Jensen and Meckling, 1976; Rozeff, 1982; Easterbrook, 1984). The researchers, in Pakistan, have identified and tested different determinants of dividend policy (see for example, Afza and Mirza, 2010; Ahmed and Javid, 2010; Ahmed and Javid, 2009; Naeem and Nasr, 2007). Moreover, Mehar (2005) has linked corporate governance with the dividend payout policy in Pakistan. But, to the best of my knowledge, very few detailed works have specifically been carried to analyze the impact of corporate governance practices on dividend policy in Kenya.

Dividend is considered as an unresolved issue in the field of corporate finance. Many explanations have been presented in this regard. By using a sample of 1000 US firms, Rozeff

(1982) argued that in the presence of inside equity holders, the need to pay high dividend is decreased. He considered average payout ratio for a period of seven years (1974-1980) as a dependent variable. The results showed a negative relationship between inside shareholders and dividend payout, while a positive relationship between dispersed shareholding and dividend payout. Jensen et al., (1992) examined interdependence between the determinants of the three policy choices, level of inside ownership, leverage and dividend levels, by applying three stage least squares (3SLS). A cross-sectional firm data was analyzed at two points in time, 565 firms for 1982 and 632 firms for 1987. The results proved insider ownership as an important determinant of a firm's dividend policy and debt. Investment and growth were related negatively to dividend, while profitability was found positively associated with dividend.

Bathala and Rao (1995) used OLS to examine the interrelation between board composition and debt, managerial ownership, and dividend payout for a sample of 261 firms. The findings showed a negative relationship between outside board directors and inside ownership, dividend and debt leverage. The results described that outside directors on the board provided important monitoring function to control agency conflicts.

Belden et al., (2005) studied the relationship between outside directors and dividend policy by using pooled OLS regression on the data from 524 companies, listed on the Forbes 500 list of the largest American companies, for the years 1998 and 2000. The results found that companies with more outside directors pay higher dividend. Khan (2006) studied the relationship between dividend policy and ownership structure for a panel of 330 large listed UK firms over the period of 1985–1997. Generalized Method of Moments (GMM) was

applied. The results revealed that ownership concentration and individual ownership were negatively related with dividend. A positive relationship was observed for shareholding by insurance companies and dividend.

Kumar (2006) analyzed a panel of Indian firms over the period of 1994-2000 to test the relationship between corporate governance, ownership structure and dividend payout. The results revealed that ownership by corporations and directors was positively related with dividend but the squared corporate ownership was negatively related. Earning trends and investment opportunities were positively associated with dividend. The relationship between debt to equity ratio and dividend was negative.

Al-Malkawi (2007) examined the determinants of corporate dividend policy in the emerging market of Jordan by using a firm level panel data of publicly traded 160 firms on the Amman stock exchange between 1989 and 2000. The results described significant negative relationship between insiders' ownership and dividend. Firm size, age, and profitability showed a positive and significant relationship with dividend policy. The analysis also found that a firm's financial leverage significantly and negatively related to its dividend policy. Market to book ratio did not show any relationship with dividend.

Li and Huang (2007) examined the relationship between institutional ownership and cash dividend for 364 manufacturing listed companies of China over the period of 2001-2003. The results showed a significant positive impact of institutional ownership on the payout of cash dividend. The earning per share and debt ratio also was positively associated with cash dividend. By using pooled cross-sectional observations from the top 50 listed Egyptian firms between 2003 and 2005, Abdelsalam et al., (2008) examined the effect of board composition

and ownership structure on dividend policies in an emerging capital market of Egypt. A positive relationship was found in institutional non- governmental ownership and dividend policy. The results confirmed that firms with a higher return on equity and a higher institutional ownership distributed higher levels of dividend. No significant association was found between board composition and dividend decisions or payout ratio.

Kouki and Guizani (2009) tested the impact of shareholder ownership on the level of dividend paid by using a panel data of a sample of 29 Tunisian firms over the period of 1995-2001. A significant negative correlation is found between institutional ownership and dividend policy. Moreover, it was found that large size and high leverage firms pay low dividend, whereas firms with better investment opportunities pay high dividend. Sharif et al., (2010) tested the impact of shareholder ownership on payout ratio for a panel of 41 listed companies on Tehran stock exchange (TSE) for 2002-2008.

The results found a significant positive relationship between ownership concentration, institutional shareholding and payout ratio. A negative association was found between the individual shareholders and payout ratio. Pakistan's Scenario Mehar (2005) investigated the impact of some corporate governance factors on the long term return behavior of dividend changing firms over the period of 1981-2002. OLS technique was applied on the pooled data of annual audited accounts of 180 Karachi stock exchange listed companies. The results also showed that only 23% profits in Pakistan are transformed into dividend. A positive relationship was observed between concentrated inside ownership and dividend. The results supported that companies start paying dividend after a certain level of growth.

In Kenya, Wanjiku et al (2011) carried out a study to establish the Corporate Governance practices of firms and its relationship with the growth of Companies listed at the Nairobi Securities Exchange using a causal comparative research design. The study focused on corporate communication, leadership and technology application. The study found a positive linear dependence of growth and Corporate Governance. Ongore and K'Obonyo (2011) conducted a similar study in Kenya to examine the interrelations among ownership, board and manager characteristics and firm performance in a sample of 54 firms listed at the Nairobi Securities Exchange. The findings from this study show a positive relationship between managerial discretion and performance. However, the relationship between ownership concentration and government on firm performance was significantly negative.

Mang'unyi (2011) carried out a study to explore the ownership structure and Corporate Governance and its effects on performance of firms. His study focused on selected banks in Kenya. His study revealed that there was significant different between Corporate Governance and financial performance of banks. The study recommended that corporate entities should promote Corporate Governance to send positive signals to potential investors and that regulatory agency including the government should promote and socialize Corporate Governance and its relationship to firm performance across industries.

The above reviewed literature helps in identifying the gaps in the existing literature on relationship between corporate governance practices and dividend policy particularly in Kenya. Due to the unavailability of empirically determined studies, this study is first of its kind that tests the impact of corporate governance practices on dividend policy of commercial banks listed at the Nairobi Securities Exchange.

2.6 Summary of Literature Review

Corporate Governance is important in all organizations regardless of their industry, size or level of growth. Good Corporate Governance has a positive economic impact on the Institution in question as it saves the organization from various losses such as those occasioned by frauds, corruption and similar irregularities. Good Corporate Governance practices aims at increasing profitability and efficiency of organizations and their enhanced ability to create wealth for shareholders, increased employment opportunities with better terms for workers and benefits to stakeholders. The studies cited in the literature mostly concentrate on the developed countries whose strategic approach and Corporate Governance systems which are not similar to that of Kenya; there are is limited empirical evidence on the relationship between corporate governance practices and dividend decisions.

In Kenya, the studies done in financial services sector have focused on other companies other than banking service providers in Kenya. For instance, Jebet (2001) conducted a study of Corporate Governance practices among the quoted companies in Kenya, Muriithi (2005) did a study on the relationship between Corporate Governance mechanisms and performance of firms quoted on the NSE, Manyuru (2005) researched on Corporate Governance and organizational performance the case of companies quoted at the NSE while Matengo (2008) did a study on the relationship between Corporate Governance practices and performance: the case of banking industries in Kenya. None of these studies have focused specifically on the relationship between corporate governance practices and dividend decisions among listed commercial banks in Kenya. It is against this background that I found it necessary to carry out this study so as to bridge the gap that exists.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section provides information on the type of research design that was adopted for the study. It gives the population and sample selected for the study. It also show which sample was used in the current research. Furthermore it discusses the data collection, analysis and presentation techniques that were used in the study.

3.2 Research Design

Kumar (2005) defined a research design as a procedural plan that is adopted by the researcher to answer questions validly, objectively, accurately and economically. A research design helps a researcher to conceptualize an operational plan to undertake the various procedures and tasks required to complete the study and to ensure that these procedures are adequate to obtain valid, objective and accurate answers to the research questions.

A Correlation research design was undertaken in order to ascertain reliability of data collected so as to describe the relationship between the variables of interest in the study and consequently test the research hypothesis. This is consistent with other previous researches that have successfully been analyzed using the same design and proven appropriate, Mpuga, (2004), Kimuyu and Omiti (2000) and Atieno (2001).

3.3 Target Population

A population refers to an entire group of individuals, events or objects having common observable characteristics (Mugenda and Mugenda, 2003). Target population is defined as a

computed set of individuals, cases or objects with some common observable characteristics of a particular nature distinct from other population. According to Ngechu (2004), a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. This definition ensures that population of interest is homogeneous. A sample of companies that paid dividends between 2008-2012 was studied. The population consisted of Commercial banks in Kenya (Appendix 1).

3.4 Data Collection

The study used secondary data sources in gathering data for analysis. Secondary data was collected from published annual reports of the selected Commercial Banks. The secondary data provided a reliable source of the information needed by a researcher to investigate the phenomenon and seek efficient ways for problem solving situations (Sekaran, 2003).

Secondary data was collected by gathering published annual accounts from these Commercial banks, Central Bank of Kenya and Nairobi Securities Exchange. Specifically the data was collected from the portion expounding on corporate information, statement of Corporate Governance as well as the directors' profile. Data on Dividend Payout was collected from final statements such as balance sheets, statements of cash flows, statements of changes in equity and statements of comprehensive incomes provided in the cash flows. Secondary data was easy to collect owing to the ease of availability.

3.5 Data Analysis

Multiple regression analysis is a statistical method utilized to determine the relationship between one dependent variable and one or more independent variables (Hair et al., 2010).

This study employed a multiple linear regression analysis using Dividend payout ratio as proxy for Dividend Payout as dependent variable and independent variables comprising of Board Size, Board Composition, CEO Duality, separation of ownership and control, Leverage and Insider holdings. A computer package SPSS (Statistical Package for the Social Sciences) version 19 was employed to solve the multiple regression equation used in this study. Analysis of Variance (ANOVA)-According to Tredoux & Durrheim (2002), ANOVA is used to test for differences between the means of more than two groups, and can be used in designs with more than one independent variable. In the present study, ANOVA was used to test for significance at 95% confidence level and 5% level of significance.

3.5.1 Analytical Model

This study employed the following multiple regression model;

$$DPR_{it} = f(BOS_t, BODCOMP_t, CEODUAL_t, LEVERAGE_t, SOC_t, INSHOLD_t) \dots \dots \dots (1)$$

The Conceptual model for the study was

$$Y_{it} = \beta_0 + \beta_1 BOS + \beta_2 BODCOMP + \beta_3 CEODUAL + \beta_4 LEVERAGE + \beta_5 SOC + \beta_6 INSHOLD e_t \dots (2)$$

Where:

Y_{it} represents dividend payout variable which will be measured using the dividend payout ratio at time t.

BOS represents Board Size

BODCOMP represents Board Composition,

CEODUAL represents CEO Duality

LEVERAGE represents Leverage as a control variable

SOC represent the separation of ownership and control

INSHOLD represents the level of insider holding and

e_t , the error term which account for other possible factors that could influence Y_{it} that are not captured in the model. The terms of measurement were used are described as in table below.

Table 3.1 Summary for terms of measurement Variables

Measurement Variables	Terms of measurement
BOS (Board Size)	Total number of directors on the board
BODCOMP (Board Composition)	Ratio of outside directors to total number of directors
CEODUAL (CEO Duality)	Dummy variable 1 if CEO and Chairman are the same person; 0 if CEO and Chairman are different persons
LEVERAGE Leverage %	Ratio of total liabilities to total assets for all commercial banks as a control variable
SOC (Separation of ownership and control)	Dummy variable 1 if CEO is an insider ; 0 if CEO is an outsider
INSHOLD (Insider holding)	The insider holding will be determined by the shares held by the directors as a proportion of total shares
Dividend Payout (Dividend Payout Ratio)	The company dividend policy will be determined by the dividend payout ratio of the company and for this study this ratio will be computed as total dividends to total earnings

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis of data collected from the financial statements and annual reports of commercial banks which had issued dividends over a five year period between 2008-2012. The researcher managed to obtain information from all the 17 commercial banks in Kenya which had issued dividends within that period. The research sought to establish the relationship between corporate governance practices and dividend payout of commercial banks in Kenya.

4.2 Data Analysis and Presentation

The researcher extracted the published annual reports and financial statements of the commercial banks which had issued dividends from their respective websites and Capital Markets Authority (CMA) library. The financial statements disclosed information on dividend payout and leverage while annual reports disclosed information on board size, board composition, separation of ownership and control and CEO duality.

The information was coded and entered into the Statistical Package for Social Sciences for analysis. Both descriptive statistics and inferential statistics were run to determine the relationship between corporate governance practices and dividend payout of commercial banks in Kenya.

4.2.1 Descriptive Statistics

The mean and standard deviations for corporate governance practices and actual dividends paid out were run. Analysis was done for both the composite variables and individual variables respectively.

4.2.1.1 Board Size (BOS)

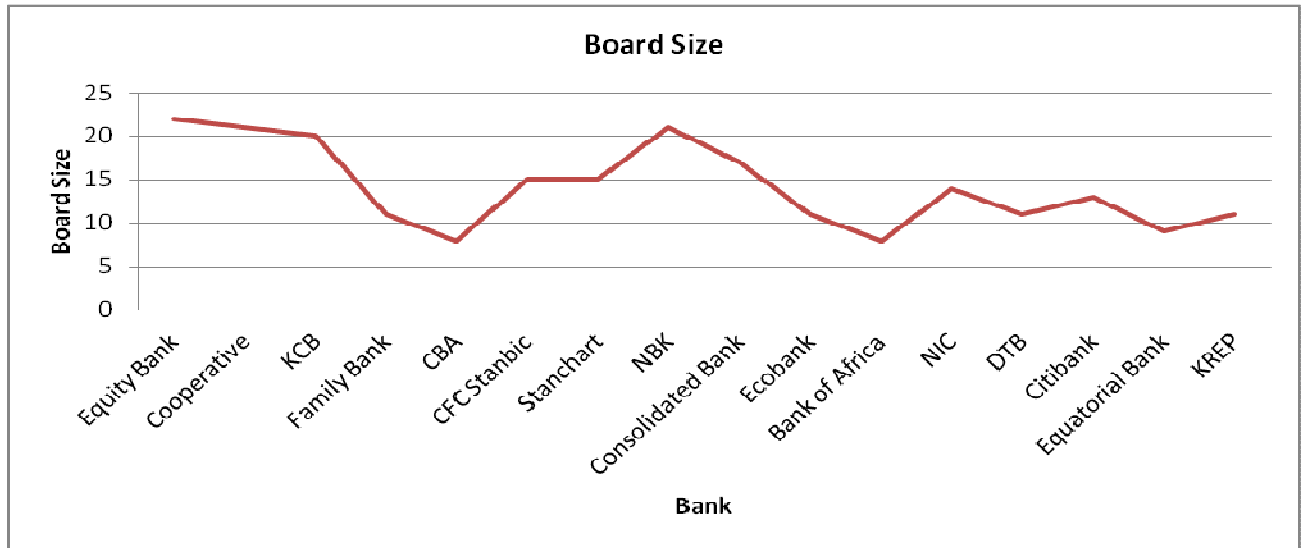
The research findings revealed that the commercial banks under study had on average board sizes of between 9 and 22 members over the five year period. Equity bank, Cooperative bank and KCB had the biggest number of board members at 22, 21 and 20 members respectively. Equatorial bank, CBA and Bank of Africa on the other hand had the smallest board size represented by 9 and 8 members each respectively. The findings are as shown in Table 4.1 and Figure 4.1.

Table 4.1 Descriptive Statistics for Board Size

BANK	2008	2009	2010	2011	2012	Mean
Equity Bank	19	20	21	22	26	22
Cooperative	19	20	21	21	22	21
KCB	12	19	22	22	23	20
Family Bank	10	10	11	11	12	11
CBA	7	7	8	9	11	8
CFC Stanbic	11	13	17	17	17	15
Stanchart	13	13	15	15	19	15
NBK	19	21	21	21	21	21
Consolidated Bank	16	16	16	17	19	17
Ecobank	7	9	11	15	15	11
Bank of Africa	7	7	9	9	9	8
NIC	9	11	11	19	19	14
DTB	7	9	11	15	15	11
Citibank	9	13	13	13	15	13
Equatorial Bank	7	7	8	11	13	9
KREP	9	9	11	12	12	11

Source: Research Findings

Figure 4.1 Board Size



4.2.1.2 Board Composition (BODCOMP)

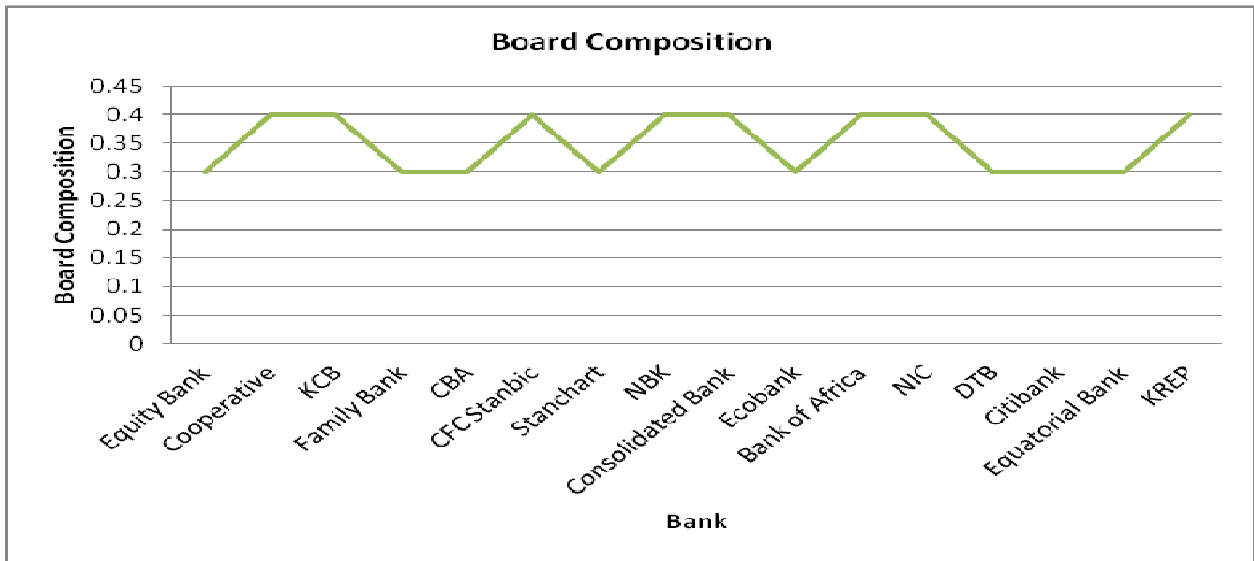
Boards mostly compose of executive and non-executive directors. Executive directors refer to dependent directors and non-Executive directors to independent directors. The findings revealed that the ratio between executive and non-executive directors of majority of the commercial banks which had issued dividends was between 0.3 -0.4. Equity bank, family bank, CBA, Stanchart, Ecobank, DTB, Citibank and Equatorial bank had 30% of their boards comprising of non-executive directors and 70% of them were executive. On the other hand, Cooperative bank, KCB, CFC Stanbic, NBK, Consolidated bank, Bank of Africa NIC and KREP bank had 40% of their boards comprising of non-executive directors and the other 60% of them were executive. The findings are as shown in Table 4.2 and Figure 4.2.

Table 4.2 Descriptive Statistics for Board Composition

BANK	2008	2009	2010	2011	2012	Mean
Equity Bank	0.3	0.3	0.3	0.3	0.3	0.3
Cooperative	0.3	0.3	0.4	0.4	0.4	0.4
KCB	0.4	0.4	0.3	0.4	0.4	0.4
Family Bank	0.2	0.2	0.2	0.3	0.4	0.3
CBA	0.2	0.2	0.3	0.4	0.4	0.3
CFC Stanbic	0.4	0.4	0.4	0.4	0.5	0.4
Stanchart	0.3	0.3	0.3	0.3	0.3	0.3
NBK	0.4	0.4	0.4	0.4	0.4	0.4
Consolidated Bank	0.4	0.4	0.5	0.3	0.5	0.4
Ecobank	0.3	0.3	0.3	0.3	0.3	0.3
Bank of Africa	0.3	0.4	0.4	0.4	0.4	0.4
NIC	0.3	0.3	0.4	0.4	0.4	0.4
DTB	0.3	0.3	0.3	0.3	0.4	0.3
Citibank	0.3	0.3	0.3	0.3	0.3	0.3
Equatorial Bank	0.2	0.2	0.3	0.3	0.3	0.3
KREP	0.3	0.3	0.4	0.4	0.4	0.4

Source: Research Findings

Figure 4.2 Board Composition



4.2.1.3 CEO Duality

The Chief Executive Officer (CEO) of an organization can play an important role in creating the value for shareholders. The research findings further revealed that majority of the banks under study had different individuals holding the positions of CEO and Chairman of the board. This included: Equity bank, Cooperative bank, KCB, CFC Stanbic, Stanchart, NBK, Ecobank, NIC, DTB and Citibank. These banks registered better financial performance as revealed in their financial statements attributable to the fact that when a single person holds both the role of chairman and CEO improves the value of a firm as the agency cost between the two is eliminated. On the other hand Family bank, CBA, Consolidated Bank, Bank of Africa, Equatorial bank and KREP had their CEO serving as Chairmen of their boards. The findings are as presented in Table 4.3.

Table 4.3 Descriptive Statistics for CEO Duality

BANK	2008	2009	2010	2011	2012
Equity Bank	0	0	0	0	0
Cooperative	0	0	1	1	0
KCB	0	0	0	0	0
Family Bank	1	1	1	1	1
CBA	1	1	1	1	1
CFC Stanbic	0	0	0	0	0
Stanchart	0	0	0	0	0
NBK	0	0	0	0	0
Consolidated Bank	1	1	1	1	1
Ecobank	0	0	0	0	0
Bank of Africa	1	1	1	1	1
NIC	0	0	0	0	0
DTB	0	0	0	0	0
Citibank	0	0	0	0	0
Equatorial Bank	1	1	1	1	1
KREP	1	1	1	1	1

Source: Research Findings

4.2.1.4 Leverage

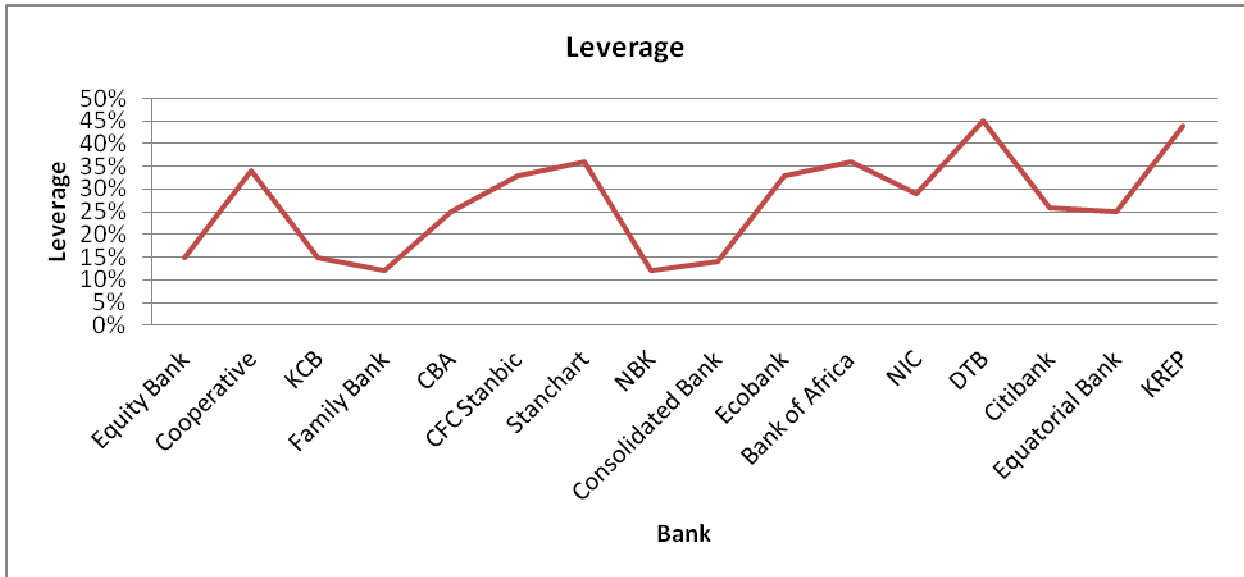
Liability refers to the ratio of total liabilities to total assets for all commercial banks. The research findings revealed that majority of the banks registered leverage levels of between 12% to 45%. DTB and KREP registered high leverage levels of 45% and 44% respectively. The high leverage levels revealed that the two commercial banks had more liabilities than assets. They were followed by Bank of Africa, Stanchart bank each at 36% leverage levels and Cooperative bank at 34%. On the other hand NBK, Family bank and Equity bank registered low leverage levels at 12%, 12% and 15% respectively during the period under study. The findings are as shown in Table 4.4 and Figure 4.3.

Table 4.4 Descriptive Statistics for Leverage

BANK	2008	2009	2010	2011	2012	Mean
Equity Bank	14%	14%	14%	16%	17%	15%
Cooperative	33%	30%	39%	32%	36%	34%
KCB	18%	14%	14%	14%	16%	15%
Family Bank	15%	12%	11%	12%	12%	12%
CBA	22%	22%	27%	22%	31%	25%
CFC Stanbic	26%	31%	36%	37%	35%	33%
Stanchart	44%	42%	33%	32%	28%	36%
NBK	15%	12%	11%	12%	12%	12%
Consolidated Bank	16%	12%	14%	14%	16%	14%
Ecobank	30%	33%	30%	39%	32%	33%
Bank of Africa	36%	37%	38%	35%	34%	36%
NIC	27%	22%	31%	34%	29%	29%
DTB	46%	42%	41%	50%	46%	45%
Citibank	29%	33%	22%	26%	22%	26%
Equatorial Bank	22%	23%	28%	26%	24%	25%
KREP	41%	46%	42%	41%	50%	44%

Source: Research Findings

Figure 4.3Leverage



4.2.1.5 Separation of Ownership and Control

Further the research sought to establish separation of ownership and control of commercial banks which had issued dividends during the period under study. The research findings revealed that 8 of the commercial banks had their CEO being insiders while the remaining 9 banks had their CEO being outsiders. The commercial banks which had CEO being insiders included: Equity bank, Cooperative bank, KCB, Family bank, CFC Stanbic, Stanchart, DTB and KREP. A conflict of interest exists where the CEO are insiders hence a weakness in corporate governance practices. On the other hand commercial banks which had their CEOs being outsiders included: CBA, NBK, Consolidated bank, Ecobank, Bank of Africa, NIC, Citibank and Equatorial bank. The findings are as presented in Table 4.5.

Table 4.5 Separation of Ownership and Control

BANK	2008	2009	2010	2011	2012
Equity Bank	1	1	1	1	1
Cooperative Bank	1	1	1	1	1
KCB	1	1	1	1	1
Family Bank	1	1	1	1	
CBA	0	0	0	0	0
CFC Stanbic	1	1	1	1	1
Stanchart	1	1	1	1	1
NBK	0	0	0	0	0
Consolidated Bank	0	0	0	0	0
Ecobank	0	0	0	0	0
Bank of Africa	0	0	0	0	0
NIC	0	0	0	0	0
DTB	1	1	1	1	1
Citibank	0	0	0	0	0
Equatorial Bank	0	0	0	0	0
KREP	1	1	1	1	1

Source: Research Findings

4.2.1.6 Insider Holding

Insider holding refers to the shares held by the directors as a proportion of total shares. The research findings further revealed that on average shares held by directors of commercial banks under study ranged between 4% and 20%. Family bank had 20% of its shares held by its directors. Cooperative bank had 17% of its shares held by its directors. Banks with a significant director shareholding perform better because of vested interest of the directors in better financial performance. This is attributable to the fact that directors have better knowledge on how the day to day running of the banks should be done. Citibank, DTB and

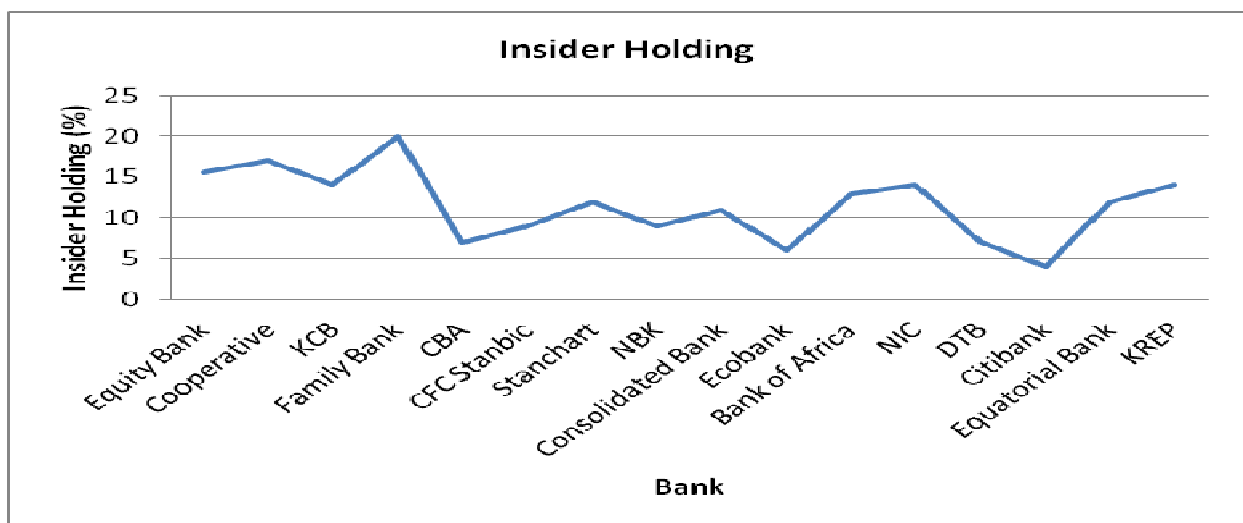
CBA were represented by 4% and 7% each respectively. The findings are as shown in Table 4.6 and Figure 4.4.

Table 4.6 Descriptive Statistics for Insider Holding

BANK	2008	2009	2010	2011	2012	Mean
Equity Bank	14	14	16	17%	17%	15.6
Cooperative	16%	16%	18%	18%	18%	17%
KCB	13%	13%	13%	15%	15%	14%
Family Bank	17%	20%	21%	22%	22%	20%
CBA	6%	6%	7%	7%	8%	7%
CFC Stanbic	8%	8%	10%	10%	10%	9%
Stanchart	12%	11%	12%	12%	12%	12%
NBK	9%	9%	9%	9%	11%	9%
Consolidated Bank	11%	11%	11%	11%	12%	11%
Ecobank	6%	6%	6%	6%	8%	6%
Bank of Africa	12%	13%	13%	13%	14%	13%
NIC	13%	14%	14%	14%	14%	14%
DTB	5%	7%	7%	7%	7%	7%
Citibank	4%	4%	4%	5%	5%	4%
Equatorial Bank	12%	12%	12%	12%	12%	12%
KREP	14%	14%	14%	14%	14%	14%

Source: Research Findings

Figure 4.4 Insider Holding



4.2.2 Correlation Analysis

The Pearson's coefficient was used to verify the existence or non-existence of linear correlation between and among the quantitative variables as indicated above. However, there is little evidence of multicollinearity among the explanatory variables since the correlations among them are not very strong hence all the variables can be incorporated into the subsequent regression analysis.

Table 4.7 Correlation matrix table

	Board Size	Insider Holding	Board Composition	CEO Duality	Leverage	Ownership and control
Board Size	1					
Insider Holding	0.275	1				
Board Composition	0.365	0.26	1			
CEO Duality	-0.39	0.398	0.126	1		
Leverage	-0.408	-0.178	0	0.001	1	
Ownership and control	0.338	0.487	0	-0.126	0.199	1

Source: Research Findings

4.2.3 Regression Analysis

The research study wanted to establish the relationship between corporate governance practices and dividend payout of commercial banks in Kenya for the period 2008-2012. The research findings indicated that there was a very strong positive relationship ($R= 0.852$) between the variables. The study also revealed that 72.7% of dividend payout in Kenyan commercial banks could be explained by corporate governance practices. From this study it is evident that at 95% confidence level, the variables produce statistically significant values and can be relied on to explain dividend payout in Kenyan commercial banks. The findings are as shown in the Tables 4.8, 4.9 and 4.10.

Table 4.8 Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.852	.727	.398	.95469

Source: Research Findings

Table 4.9 ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	1.518	16	.138	.746	.003
Residual	.185	1	.185		
Total	1.702	17			

Source: Research Findings

From this study it was evident that at 95% confidence level, the variables produce statistically significant values for this study (high t-values, $p < 0.05$). A positive effect is reported for all the variables under study hence influencing payment of dividends positively.

Table 4.10 Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Intercept	1.518	16	.138	.746	.003
Board size	.185	1	.185	2.526	.027
Board composition	.253	.244	.323	1.039	.047
CEO duality	.136	.232	.157	.587	.053

Leverage	.147	.358	.172	.410	.049
Separation of ownership and control	.266	.254	.310	.048	.034
Insider holding	.384	9.291	.717	2.302	.040

Source: Research Findings

The results of the regression equation below shows that for a 1- point increase in the corporate governance practices, dividend payout is predicted to increase by 1.518, given that all the other factors are held constant. Board size, board composition, separation of ownership and control as well as insider holding are positively significantly related to the determination of dividend payout by commercial banks held it upholds the findings of Abor (2007).

The equation for the regression model is expressed as:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \epsilon$$

$$Y = 1.518 + 0.185X_1 + 0.253X_2 + 0.136X_3 + 0.147X_4 + 0.266X_5 + 0.384X_6$$

Where

β is a correlation coefficient

Y= Dividend payout

X₁= Board size

X₂= Board composition

X₃= CEO duality

X₄= Leverage

X₅= Separation of ownership and control

X₆= Insider holding

4.3 Interpretation of Findings

This research sought to evaluate the relationship between corporate governance practices and dividend payout of commercial banks in Kenya. Five major corporate governance practices were considered ranging from board size, board composition, and CEO duality, separation of ownership and control and insider holding. The researcher managed to obtain information on dividend payout and corporate governance practices from all the 17 commercial banks in Kenya which had issued dividends within that period.

The research findings revealed that the commercial banks under study had on average board sizes of between 9 and 22 members over the five year period. Equity bank, Cooperative bank and KCB had the biggest number of board members at 22, 21 and 20 members respectively. On the other hand Equatorial bank, CBA and Bank of Africa on the other hand had the smallest board size represented by 9 and 8 members each respectively.

Further the research findings revealed that the ratio between executive and non-executive directors of majority of the commercial banks which had issued dividends was between 0.3 - 0.4. Equity bank, family bank, CBA, Stanchart, Ecobank, DTB, Citibank and Equatorial bank had 30% of their boards comprising of non-executive directors.

The research findings further revealed that majority of the banks under study had different individuals holding the positions of CEO and Chairman of the board. The banks included: Equity bank, Cooperative bank, KCB, CFC Stanbic, Stanchart, NBK, Ecobank, NIC, DTB and Citibank.

Majority of the banks registered leverage levels of between 12% to 45%. DTB and KREP registered high leverage levels of 45% and 44% respectively. The high leverage levels revealed that the two commercial banks had more liabilities than assets.

Eight commercial banks had their CEO being insiders while the remaining 9 banks had their CEO being outsiders. The commercial banks which had CEO being insiders included: Equity bank, Cooperative bank, KCB, Family bank, CFC Stanbic, Stanchart, DTB and KREP.

Further, the research findings revealed that on average shares held by directors of commercial banks under study ranged between 4% and 20%. Family bank had 20% of its shares held by its directors. Cooperative bank had 17% of its shares held by its directors. Banks with a significant director shareholding perform better because of vested interest of the directors in better financial performance.

The inferential statistics revealed that there was a very strong positive relationship ($R=0.852$) between the variables. The study also revealed that 72.7% of dividend payout in Kenyan commercial could be explained by corporate governance practices. From this study it is evident that at 95% confidence level, the variables produce statistically significant values and can be relied on to explain dividend payout in Kenyan commercial banks.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary of the study, discussions and conclusions. The researcher then presents the major limitations of the study and the recommendations for both the research and for the policy and practice.

5.2 Summary

This research sought to evaluate the relationship between corporate governance practices and dividend payout of commercial banks in Kenya. A correlation research design was adopted where all banks which had issued dividend between the period 2008-2012 formed the population. This population was given importance due to ease accessibility of information.

This research relied on secondary data which was collected from the commercial banks financial statements and annual reports from their websites and the CMA library. Information on dividend payout was obtained from published financial statements whereas information on corporate governance practices was obtained from annual reports of the respective commercial banks.

Six major corporate governance practices were considered ranging from board size, board composition, CEO duality, and leverage, separation of ownership and control and insider holding. The researcher managed to obtain information on dividend payout and corporate governance practices from all the 17 commercial banks in Kenya which had issued dividends within that period.

The research findings revealed that the commercial banks under study had on average board sizes of between 9 and 22 members over the five year period. The research findings complement the findings of Hermalin and Weisbach (2003) who contend that that larger board can be less effective than small boards. When boards consist of too many members agency problems may increase, as some directors may tag along as free-riders.

Further the research findings revealed that the ratio between executive and non-executive directors of majority of the commercial banks which had issued dividends was between 0.3 - 0.4. At least one third of independent directors are preferred in board, for effective working of board and for unbiased monitoring (Beasley, 1996).

The research findings further revealed that majority of the banks under study had different individuals holding the positions of CEO and Chairman of the board. These findings are similar to those of (Defond and Hung, 2004) who argue that the Chief Executive Officer (CEO) of an organization can play an important role in creating the value for shareholders. The CEO can follow and incorporate Governance provisions in a firm to improve its value. Elsewhere, Alexander, Fennell and Halpern (1993) also argue that the CEO duality plays an important role in affecting the value of a firm. A single person holding both the Chairman and CEO role improves the value of a firm as the agency cost between the two is eliminated.

Majority of the banks registered leverage levels of between 12% to 45%. DTB and KREP registered high leverage levels of 45% and 44% respectively. The high leverage levels revealed that the two commercial banks had more liabilities than assets. Eight commercial banks had their CEO being insiders while the remaining 9 banks had their CEO being

outsiders. The commercial banks which had CEO being insiders included: Equity bank, Cooperative bank, KCB, Family bank, CFC Stanbic, Stanchart, DTB and KREP.

Further, the research findings revealed that on average shares held by directors of commercial banks under study ranged between 4% and 20%. Family bank had 20% of its shares held by its directors. Cooperative bank had 17% of its shares held by its directors. Banks with a significant director shareholding perform better because of vested interest of the directors in better financial performance.

The inferential statistics revealed that there was a very strong positive relationship ($R=0.852$) between the variables. The study also revealed that 72.7% of dividend payout in Kenyan commercial could be explained by corporate governance practices. From this study it is evident that at 95% confidence level, the variables produce statistically significant values and can be relied on to explain dividend payout in Kenyan commercial banks.

5.3 Conclusion

From the study findings, it would be safe to conclude that corporate governance practices have a positive effect on dividend payout of commercial banks in Kenya. The conclusion is supported by the study findings which showed that there was a very strong positive relationship ($R=0.852$) between the variables. The study also revealed that 72.7% of dividend payout in commercial banks in Kenya could be explained by corporate governance practices. From this study it is evident that at 95% confidence level, the variables produce statistically significant values and can be relied on to explain dividend payout of commercial banks in Kenya. Insider holding, separation of ownership and control, board composition,

board size, leverage and CEO duality explained dividend payout of commercial banks in that order.

5.4 Recommendations for Policy and Practice

With due regard to the ever increasing desire to have better dividend payout in commercial banks in Kenya, there is need to invest in proper corporate governance strategies so as to meet these expectations. This should be done in a manner in which all the stakeholders are happy. This therefore calls for embracing proper corporate governance practices which are acceptable, accessible, ethically sound, have a positive perceived impact, relevant, appropriate, innovative, efficient, sustainable and replicable.

The management of commercial banks should ensure various corporate governance practices are implemented in their institutions so as to meet the expected shareholders' needs. This will go a long way in helping them to know the needs of the shareholders so as to be competitive in dividend payout because most shareholders prefer investing where they expect high dividends.

The government should enact legislation which regulates the banking industry. This legislation should ensure that banks issue reasonable dividends to shareholders. The government should also enforce the implementation of various corporate governance practices.

5.5 Limitations of the Study

Since the research was to rely mostly on secondary data, obtained online, from published end of year accounts of financial statements, the researchers encountered many challenges

particularly during the process of data collection. Most of the financial statements were obtained online from the various reliable search engines such as Google and Yahoo. The search for the information was a bit time consuming due to slow network on the search sites such as google.co.ke.

The information posted by some banks was insufficient enough to facilitate the research. It even required the researchers to calculate some of the data. This is because some banks never disclosed the actual dividends paid out as they feared that the information might be used by competitors to disadvantage them.

There are almost no studies on the research topic done within developing countries and as such the research borrowed heavily on research done in developed countries.

5.6 Suggestions for Further Studies

Arising from this study, the following directions for future research in finance are as follows: First, this study focused on commercial banks which had issued dividends and therefore, generalizations cannot adequately extend to other non-bank organizations which had issued dividends. Future research should therefore focus on all organizations which had issued dividends in Kenya.

Secondly, a broad based study on corporate governance practices and dividend payout of both private and public business enterprises should also be carried out to give broader picture on the effect of corporate governance on dividends for business entities.

Lastly, the effect of corporate governance on the other corporate decisions such as investment decisions and financing decisions should also be researched on to determine their relationship.

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APPENDICES

Appendix 1: Commercial Banks Registered in Kenya as at 31st August 2013

1. African Banking Corporation Limited
2. Bank of Africa Kenya Ltd
3. Bank of Baroda (K) Ltd.
4. Bank of India
5. Barclays Bank of Kenya Ltd
6. CFC Bank Ltd
7. Charterhouse Bank Ltd
8. Chase Bank Ltd
9. Citibank N.A. Kenya
10. Co-operative Bank of Kenya Ltd
11. Commercial Bank of Africa Ltd
12. Consolidated Bank of Kenya
13. Credit Bank Ltd
14. Development Bank of Kenya
15. Diamond Trust Bank Ltd
16. Dubai Bank Kenya Ltd
17. Ecobank Kenya Ltd
18. Equatorial Commercial Bank Ltd
19. Equity Bank Ltd
20. Family Bank Ltd
21. Fidelity Commercial Bank Ltd
22. Fina Bank Ltd
23. First Community Bank Ltd
24. Giro Commercial Bank Ltd
25. Guardian Bank Ltd
26. Gulf African Bank Ltd
27. Habib Bank A.G. Zurich
28. Habib Bank Ltd
29. Imperial Bank Ltd
30. Investment & Mortgages Bank Ltd
31. Jamii Bora Bank Ltd
32. K-Rep Bank Ltd
33. Kenya Commercial Bank Limited
34. Middle East Bank (K) Ltd
35. National Bank of Kenya Ltd
36. NIC Bank Ltd
37. Oriental Commercial Bank Ltd
38. Paramount Universal Bank Ltd
39. Prime Bank Ltd
40. Standard Chartered Bank Kenya Ltd
41. Trans-National Bank Ltd

- 42. UBA Kenya Bank Limited
- 43. Victoria Commercial Bank Ltd

Source, Central Bank website, 30th August 2013

<http://www.centralbank.go.ke/images/docs/Bank%20Supervision%20Reports/Commercial%20Banks%20Directory%20-%202013%20December%202011.pdf>

Appendix 2: Data Collection Sheet

BANK	CORPORATE GOVERNANCE VARIABLE					Mean
	2008	2009	2010	2011	2012	
Equity Bank						
Cooperative						
KCB						
Family Bank						
CBA						
CFC Stanbic						
Stanchart						
NBK						
Consolidated Bank						
Ecobank						
Bank of Africa						
NIC						
DTB						
Citibank						
Equatorial Bank						
KREP						

Appendix 3: Regression Analysis Statistics

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Regression	1.518	16	.138	.746	.003
Board size	.185	1	.185	2.526	.027
Board composition	.253	.244	.323	1.039	.047
CEO duality	.136	.232	.157	.587	.053
Leverage	.147	.358	.172	.410	.049
Separation of ownership and control	.266	.254	.310	.048	.034