

**EFFECT OF CHIEF EXECUTIVE OFFICER OVERCONFIDENCE ON DIVIDEND
POLICY OF COMMERCIAL BANKS IN KENYA**

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DECLARATION

This research project report is my original work and has not been presented for a degree in any other University.

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This Research Project report has been submitted for examination with my approval as the University supervisor.

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DEDICATION

This research project is dedicated to my parents, who had been a source of inspiration to me; they inspired me a lot to achieve my goals when everything seemed to be against me.

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ABSTRACT

This research aimed to determine the effect of CEO overconfidence bias in dividend policy of the Kenyan commercial banks. A descriptive research design was used in the study. A census targeting Kenyan commercial banks for the year 2017 was conducted. The study used primary and secondary data attained from questionnaires and the NSE, Central Bank of Kenya annual bank supervision report and respective commercial banks' websites. Regression analysis was used to establish the effect of CEO overconfidence bias on dividend policy. Questionnaires was used to measure CEO overconfidence bias and two control variables were included, namely; size and liquidity. The data gathered was examined using Statistical Package for Social Sciences (SPSS) version 20. Descriptive statistics was used to describe the variables using mean and standard deviation. Correlation analysis was used to establish the association between the variables in form of a correlation matrix. The explanatory power of the independent variables was evaluated using the coefficient of determination R^2 . The study found that, CEO overconfidence bias had a negative effect on dividend policy. The findings of the study indicated that, the effect was not statistically significant. It also found that, size had a positive effect which was statistically significant while liquidity had a negative effect on dividend policy and was not statistically significant. The coefficient of determination for the regression was found to be 31%. This indicated that, the independent variable explained only 31% of the variation in the dependent variable. The study concluded that, CEO overconfidence bias is a costly affair for commercial banks since it has a negative effect on dividend policy. It also concluded that, size had a positive effect on dividend policy while liquidity had a negative effect. This study recommends that; banks should monitor on the rate of CEOs overconfidence because overconfidence bias appears to affect the dividend policy negatively. Further, future research could be carried on the effects of CEO overconfidence bias on the dividend policy on financial institutions.

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LIST OF ABBREVIATIONS

CEO – Chief Executive Officer

L.R – Liquidity Ratio

P.R – Payout Ratio

NSE- Nairobi Securities Exchange

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Overconfidence occurs when a relationship between confidence and accuracy is misaligned or miscalibrated such that confidence becomes higher than it should be (Meyer et al, 2013). Overconfidence can be used to refer to excessive certainty or to positive illusions. The former is the tendency to have positive illusions on our merits relative to others. The previous one describes the tendency we have to believe that our knowledge is more certain than it really is (Galloway, 2015). Overconfidence in an individual's own assessment can result from people's likelihood distributions tending to be too tight (Lichtenstein et al., 1982). Overconfidence is a term broadly used since 1960s in psychology and researchers from different fields especially finance and economics had extended their meaning to mean a wider scope than the standard scope doesn't explain (Skata, 2008). Malmendier (2008) and Tate (2005) classified CEO's who excessively invest individual funds in businesses they own as being 'over-confident'. The word 'dividend policy' refers to the process that is followed by management in creating decisions regarding payout of dividend or the pattern and size of distribution of cash to shareholders (Lease et al., 2000).

This study anchored on the following three theories; prospect theory (Kahneman & Traversky, 1979), mental accounting theory (Thaler, 1980) and regret theory (Loomes & Sugden, 1982). Kahneman and Traversky (1979) noted that in prospect theory an investor will try to evade deteriorating stock prices even if they are rewarded by higher dividends of the same amount and vice versa and hence affecting the firm's dividend policy because of loss aversion. Thaler (1980) argued that in mental accounting theory, investors often mix the loser's sale to limit the sense of regret for just a certain period. They have the habit to integrate sales of winner's over time so as to extend favorable experience, investors lastly prefer having stocks that pay higher dividends as they have no objections using dividend income, and aren't persuaded to sell some share to get into capital and thus affecting the dividend policy of the firm. Regret theory is related to this study as regret aversion is another likely cause of preferences of dividend, since selling of a stock and getting a capital gain needs given rate of responsibility and investors may feel guilty of their decision later, if they witness a later rise in the value of stock (Shefrin & Statman, 1984).

According to CBK (2014), the Kenyan Banking industry is made up of a regulatory body which is represented by the Kenyan central bank, also known as CBK. On the other hand, the other half of the party consists of, commercial banks, Forex Bureaus & Non-bank financial institutions. In year 2013, banking industry consisted of 43 commercial banks and a mortgage finance firm thus totaling to 44 organizations; and foreign exchange bureaus that total to 120. As for licensing and regulating of the first two, commercial banks and mortgage finance firms, they fall under Banking Act Cap 488 and prudential regulations given under that. Whereas central bank(CBK) Act Cap 491 and the guidelines under the foreign exchange bureau, help regulate and license the foreign exchange bureaus.

1.1.1 Chief Executive Officer Overconfidence

Razek (2011) described over-confidence as an over approximation of the probabilities for a group of occurrence. Agrawal (2012) concluded that over-confidence makes individuals over-estimate their ability to control events, undervalue risks and overestimate their knowledge. Heaton (2002) noted the psychological study done by (Weinstein 1980, March and Shapira 1987) which backed the opinion that individuals are generally over-confident. De Bondt and Thaler (1995) state that the main conclusion in the psychology of decision is that individuals are over-confident. People regularly assume that they have high control & ability over proceedings than it is necessary (Taylor & Brown, 1988; Langer & Roth, 1975). These inflated logic of control & ability leads them to predict that the future is more certain & brighter than it is in normal.

Agrawal (2012) noted that overconfidence affects the behavior of both investors of the primary and secondary market. Hsu & Shiu (2010) studied the investor's returns on investment of in discriminatory auctions in the Taiwan stock market and noted that infrequent bidders over-performed frequent bidders. Sewell (2005) warned that overconfidence is mainly seductive once investors have distinct experience or information - regardless of its insignificance - that encourages them to consider that they have an investment advantage. Kahnemann and Lovallo (1993) contended that managers might at times make either courageous predictions or timid choices about a potential project due to overconfidence or risk aversion respectively. Thus in tournament model by Goel and Thakor (2000) to promote managers to executive positions, managers grew to be over-confident so as to extend their odds of success. It is thus helpful for the wealth of shareholders, as it balances portion of manager's avoidance of risk. Gervais et al.

(2002) in examination of whether over-confidence of managers can counterbalance/offset sub optimal risks taking decision in capital structure because of manager's avoidance of risk, found that overconfidence exacerbate the problem.

The over-confidence of executives of the firm was estimated through utilizing two distinct measures, that is the option holdings of over-confidence measure (Malmendier, 2005, 2008; Campbell et al, 2011; Hirshleifer et al, 2012) and net stock purchase base of over-confidence measure (Malmendier & Tate, 2005; Jarboui et al, 2014; Hribar & Yang, 2015). It can also be measured through the news based of overconfidence measure (Per Hirshleifer et al, 2012), in which it characterizes CEOs as being over-confident in view of reports from the media in regard to those CEOs.

1.1.2 Dividend policy

It refers to either implicit or explicit decisions taken by Board of Directors (BOD) concerning residual income amount, both present and or past, which should be dispersed to company stakeholders (Gibson, 2009). According to Lease et al. (2000), the phrase 'dividend policy' denotes the management exercise followed in creating dividend payout decisions or is the cash distribution to shareholders over a period in terms of pattern and size. Alii et al. (1993) defined it as an essential policy to corporations about which other financial policies orbit. Apportionment decision of dividend or revenue is among the 4 decision zones in finance. Nissim and Ziv (2001) defined dividend policy as guidelines & regulations, which firms use in making dividend payment decisions to stakeholders. The main component of firms is the dividend policy decisions.

Decisions on dividends are significant as they decide on funds that are either to go to investors and those that the firm is to retain for investments (Ross et al. 2002). Moreover, it also gives shareholders on information regarding the firms' performance. According to Foong et al. (2007), both potential dividends and earnings of the future and manipulation of cost of capital depends on the company's investment. Thus, continued existence of corporations is reliant on investment infacilities that are continuous, usage of internal financing, by using retained earnings from essential segments of financial source to base the investment requirements (Bajaj & Vjih 1990; Osaze & Anao, 1990). For shareholders the important aspect to them is dividend that was in

return of the investment they carry and risks they may face, therefore these are determined by various aspects in a firm. Mainly, the factors include; investment choices & chances, firms' size, financing limitations, regulatory regimes and pressure from shareholders. However, the dividend payout of firm's gives information relating to firms' future & current performance as it is also the source of cash flow to the shareholders.

Dividends are generally measured in a company by either of 2 measures. The initial one was the dividend yield, that link the paid dividend to stock's price. Dividend yield was said to be important for it offers a ration of the total return from the dividend itself while the balance comes from the rise of the prices. A number of investors also used the dividend yield as an investment screen and a measure of risk, meaning, they devote in stocks that have great dividend yields. Previous Studies showed stocks that are of great dividend earnings, make surplus yields after adjusting for risk & market performance. Another measure was the dividend payout ratio, which relates dividends paid to an organization's income. This payout ratio was useful in various measures. It's used in assessment as a process for approximating the future period dividends, since the majority of analysts approximate the progress in income rather than dividends. Furthermore, the retention ratio - quantity of the income invested again in a business- is constructive in assessing upcoming earnings expansion; companies with lower retention ratios (higher payout ratios) for the most part have lower rates of growth in income than companies with high retention ratios (low payout ratios). Lastly, the payout ratio follows the lifecycle of a company, when the company is in high growth starting at zero and step-by-step rising as the company matures and its growth prospects falls.

1.1.3 CEO Overconfidence and Dividend Policy

Zacharakis and Shepherd (2001) argued that overconfidence provided improper research proposals thus tending to make wrong judgments on which venture to fund thus resulting into venture capitalist. Overconfidence leads CEO's to undervalue the probability of bankruptcy, and to overrate the likelihood of good state. It resulted in the extremely usage of welfare dropping debt levels (Because of the rise in anticipated financial distress). It has negative and positive impact on firm value, that is, it persuades advanced executive effort, nonetheless (Due to an upsurge in the anticipated financial distress) may as well as result in excessive value-reducing debt levels.

Malmendier and Tate (2005) found that the priority on self-financing was used with optimistic manager, afterward debt and eventually to the shares issue. They depicted a relationship that was positive between the managerial optimism and internal financing. Baker et al. (2007) proved it as higher leverages are chosen by optimistic CEOs thus over invest. Idealist CEO tends to accomplish yet with the help of financing externally and overvalue firm growth opportunities. Dividend payment was a little involved under investment choice. Ben-David et al. (2007) analyzed overconfidence and optimism measures. It was discovered that firms with optimistic leaders tend to invest more. Increasing the sense of leader participation motivates buoyancy on the savings. Thus reject to pay dividends and instead use the cash flows to finance investment projects.

1.1.4 Commercial Banks in Kenya

The commercial connections in East Africa that was in existence at the end of the 19th century marked the beginning of commercial banking in Kenya. Earlier in 1896 there was National Bank of India in Kenya after the institution of the British in the region. In the year 1990 it was succeeded by standard bank of South Africa. The National Bank of South Africa merged with Anglo-Egyptian Bank Ltd to structure Barclays Bank in 1916. In Kenya, 75% of all banking business is handled by 12 % of the Kenyan banks (Ontunga, 2006).

The Kenyan banking industry is administrated by Central Bank of Kenya Act, Companies Act, Banking Act, and the different sensible rules given out by CBK. In 1995 liberalization and exchange controls rose in the banking sector. The CBK which is under the Ministry of Finance, is accountable for solvency & proper functioning of the financial system, formulation & implementation of monetary policy and nurturing the liquidity. The CBK publishes information on non-banking financial institutions and Kenya's commercial banks, guidelines, interest rates & other publications. Kenyan Banks shed under the umbrella of Kenya Bankers Association (KBA), that serve as a lobby for the welfares of banks and tackle matters impacting its associates.

The Kenyan banking sector consist of 42 commercial banks, 13 microfinance banks, 1 mortgage finance company, 79 forex, three credit reference bureaus, 17 money remittance providers, 8

representative offices of foreign banks (Central Bank of Kenya, 2016). CBK regulates all the banks in Kenya and the CMA has further control on the listed banks licensing, regulation and supervision of all capital markets participants. Banks are needed to comply with certain prudential rules and regulations such as cash reserve ratios with the Central Bank and minimum liquidity ratios. The financial sector in Kenya's is mainly based on banks as capital market is regarded narrow & shallow (Ngugi et al, 2006). Therefore, financial intermediation depends heavily on commercial banks as it dominates the financial sector in Kenya (Kamau, 2009). The Kenyan banking sector was described as the bond that holds the country's economy together (Oloo, 2009).

1.2 Research Problem

In the corporate finance literature, it has been a continuing negotiation concerning the major part of managerial optimism in the decision making of finance in a firm. Ho, Huang, Lin, and Yen (2016) approximated that from the year 1994 to 2009 the sample study that they used of (36 banks) showed a 47 percent overconfidence during the pre-crisis period, which resulted to an increase in their lending behavior by 4.6 percent more points per year than other banks. Ma (2014) reported that during the crisis period from the year 2002-2005 had an average of 20 points more real estate loan growth, which suffered 15-point lower stock returns Daniel and Hirshleifer (2015), showed that banks that are more overconfident overreacts to good news and underreact to bad ones. Therefore, we expect banks with higher rate of CEO's overconfidence to be characterized with greater increase in their lending behavior, there leverages and total assets during the life cycle pick-up and lesser retrenchments in the decline. Zhao and Ziebart (2017) carried a study on consequences of CEO's overconfidence and found that market markdowns over confidences in CEO by raising the borrowing cost and financial market as well integrates previous CEO overconfidence into bond pricing. Han, Lai and Ho (2015) established that overconfidence in CEO had a positive impact on firms' performance, entailing that CEOs overconfidence reaches shareholders expectations through higher returns, less risk and higher profitability. Banerjee et al.'s (2015) found that self-governing board alleviates the CEO overconfidence costs in terms of risk exposure and investment.

Sanjay Deshmukh, Anand M. Goel b & Keith M. Howe (2013) established a dynamic relationship between overconfident CEO's and dividend policy. Therefore they brought into

being that in overconfidence business the percentage of dividend is one sixth on the firms that a low managed by leaders. It showed the decrease in dividends concerning the over confidence in CEOs was higher in business opportunities lower in growth and cash flows. It explained the reaction of a positive market concerned on the increased dividends is higher on firms with higher uncertainty because of the confidence in CEO. According to Schrand and Zechman (2011), managers that are overconfident, tend to underestimate risks, and thus setting up high dividend policy at the cost of investments and reserves. Azouzi and Jarboui (2012) reinforced this argument in their research in Tunisia of 100 companies, which showed that CEO's overconfidence positively effects on their dividend policy. On the other hand, the authors Malmendier and Tate (2015) argued that management overconfidence correlates with the decision to pay lower dividends. Another study - by Mohammadasab and Rezaei (2016) - found that overconfidence bias had no any significant impact when it came to the decisions about dividend policy of a company. Thus, the findings are mixed and it appears that there are other factors affecting this relationship.

The above studies looked at different effects of CEO's overconfidence but there are few which looked at the effects of CEO overconfidence on dividend and therefore this study focused in filling this void by exploring not only the well-established firms but also the uprising firms to establish conclusive results. This study responded to the research question: What is the effect of CEO's overconfidence on dividend policy of commercial banks in Kenya?

1.3 Objective of the Study

To determine the effect of Chief executive officer Overconfidence on dividend policy of Kenya's commercial banks.

1.4 Value of the Study

The study intended at adding up to the body of knowledge with reference to the influence of CEOs overconfidence on dividend policy of Kenyan commercial banks. The study undertaken acted as a foundation of reference for future study in the field of behavioral bias as well as provide suggestions for further research in that field of study.

The findings will help in clarification of crucial role played by cognitive biases of overconfidence on dividend payout policy of Kenyan commercial banks. Secondly, it will enable CEO's to develop their cognitive skill of overconfidence and assess their selves accordingly to understand inherent feature of their banks' dividend payout. Shareholders being interested party of the dividend payout policy will be able to understand effect of CEO's cognitive biases (overconfidence) and monitor them properly.

The study's findings are anticipated to aid investors in knowing the effort of emotional and psychological factors towards their investments. It would help managers who are investing to create the required strategies in order to enable them minimize the negative influences. The study findings will assist investors in making informed decisions when investing in firms.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter includes both empirical literature and theoretical framework on effect of chief executive officer on dividend policy. The chapter also covers the summary of the literature.

2.2 Theoretical Review

This section examined theoretical foundation where the following theories on which the study is anchored on have been discussed: Prospect theory (Kahneman & Traversky, 1979), Mental Accounting Theory (Thaler, 1980) and Regret theory (Loomes & Sugden, 1982).

2.2.1 Regret Theory

It is a form of an option during uncertainty. It was established by Loomes and Sugden (1982). The theory broadens the used approach of nominal regret in the decision theory to reduce potential losses and increase possible gain. Regret theory is a model, as the minimizing function of regret vector, is viewed as the difference among the yielded result of a certain alternative and the best result that can be attained in state of nature. Thus according to Bell (1982), regret is the emotion that is triggered by an outcome or state of activities different from forgone choice. For example, while selecting between unknown and known brand, client would review the regret of discovering the poor performance of the unknown brand compared to the well-known brand, hence be reluctant to choose the unknown.

This theory was related to this study as regret aversion is another likely cause for dividends preference, because realizing a capital gain and selling a stock needs a responsibility level as individuals might regret their past decisions, whenever a later on rise on stock value (Shefrin and Statman 1984). In conformance with Regret Theory, according to Shefrin and Statman (1985) several take into consideration the likelihood of regretting the investment decisions they make. This regret is personified in Kahneman (1979) concept of a twist at the point of reference in the function of the value. The above theory might actually assist in explaining the aspect of investors accelerating and postponing the selling of stocks that have increased or decreased in value respectively.

2.2.2 Prospect Theory

It was established as a psychologically realistic substitute to expected utility theory by Daniel Kahneman (1979) and Amos Tversky (1979). It permits the explanation on how individuals decide on options in times where choices involve risks, Kahneman (2003). This theory used cognitive psychological methods to clarify discrepancies on economic decision making from neo-classical theory. It explained how individuals, including uncertainty, view and weigh their decisions, thus perceive their selections in terms of loss/gain, in respect to a reference point that is regularly the price of purchase.

Prospect theory was related to this study as the theory implied that risk avoidance in the area of risks and gains looking up for areas of losses while the negative utility cost of losses is by large more articulated than the positive utility outcomes of gains of similar size. Because of loss aversion, individuals keep away from stocks that have declining prices, even if remunerated with high dividends of similar amounts and vice versa, therefore affecting the dividend policy of a firm. Similar to utility theory, Faulkner (2002) indicated that this theory assumes a consequentialist approach to choose, meaning that, individuals' judgements are disturbed by the results of their actions. They specifically weigh up the various course of action depending on possibility and desirability, of every probable outcome of an action. The major aspect in making decisions as per this theory, that is the differentiation of results in terms of loss and gain, signifies major characteristics of decision maker: that results are seen regarding losses and gains in respect to a point of reference (that may be the status quo), problem structuring; or hopes/history of decision maker. Kahneman (1979) indicated that a vital inference of this theory is how economic personnel frame subjectively a transaction or a result in their minds affects the receive or expected utility.

2.2.3 Mental Accounting

It was established by Thaler (1980) in which it, the theory, assumed that people split their assets into portions that are separate and non-transferrable for future and current use. It claims that people allot for every asset group a different utility level, which influences the individuals' decisions on consumption and other behaviors. Thus, the hypothesis of behavioral lifecycle was

an application of mental accounting. This hypothesis stated that individuals frame assets as either part of current wealth or future income, thus affecting their actions since the accounts are mainly non-fungible marginal propensity to consume. Therefore, investors encompass the behavior to ride on losers, since they are hesitant to comprehend loss.

This theory's relevance to the study is that investors frequently assimilate that the feeling for regret to be limited for a certain time period, is usually brought by the sale of the losers. As well, they are hesitant to sale winners over time so as to extend favorable experiences, which ends with investors having illogical inclination for high dividend paying stocks since they have no problem in using the dividend income, and are not tending to offer few share for sale and dip into capital and thus affecting the dividend policy of the firm. Investments are being put by people or individuals based on their compartments. In mental accounting, decision-makers try to separate the various risks they would face into various accounts. They then use theoretical decision rules on separate accounts by overlooking likely interaction among accounts. As for mental, categorization cannot only be done by content but in time as well. Shefrin & Statman (1994) argued that investors consider having in their portfolio a "safe" portion that is secured from risky downside and a part that is risky which is designed for an opportunity to get rich.

2.3 Empirical Review

Shefrin and Statman (1984) investigated cash dividends preference by investors. Shefrin and Statman based their explanation on self-control theory and prospect theory. Since their study was only focused on the demand side of the market, our study offers the supply part of the payout policy. In this respect, Baker & Wurgler (2004) studied executive who adhered to the demands of the investors to start or overlook dividends determined through dividend premium (discount) in the prices of the stock. Our study is different from Baker & Wurgler, since we are not taking the perspective of rational management behavior nor limit it to the beginning or overlooking of dividends. Thus, an overconfident executive might adjust the dividends that was committed, once the dividend is initiated.

Lindblom & Platan (2002) in the year of 1998 to 2002 March, investigated the elements that influence the speculative bubble. The study had a population of 160 and 47 both private investors and institutional investors respectively. The study used questionnaires to collect data. It

concluded that various factors have greatly contributed to overconfidence as well as speculative bubble. Among the factors were cognitive dissonance, anchoring and loss aversion, as well as herd instincts.

In a widely review of vital theories of dividend policy for UK firms, Dhanani (2005) found, amid other things, that a higher percentage of British firms see dividends as a residual after investment decisions have been made, and in the outcome she linked to the observed higher payout levels of UK companies than their U.S. counterparts. Dhanani noted that regardless of similarity in the market structures, corporate dividend policy in the 2 countries may be influenced by the following factors i.e country's specific differences in culture and information disclosure patterns. An important & relevant factor to the payout decision is the confidence of a CEO.

As in a review conducted by Brav et al. (2005), almost each executive applicant volunteered that share repurchases and dividend payouts convey confidence of the management about the future. There is impairment to the process of value maximization when emotional influences and cognitive biases interfere with a firm's management confidence. Shefrin (2001) tagged these phenomena as behavioral costs. This paper proposes a likely behavioral description of the dividend puzzle. Behavioral costs are characterized as the dividend payout by over-confident CEOs more than that by rational CEOs. Therefore, we display that when behavioral costs are higher; the dividend dissipative costs turn out to be unimportant, and when the degree of overconfidence increases the overconfident CEO will allocate a higher level of dividends to shareholders.

Werah (2006) studied influence of behavioral biases on the activities of Nairobi security exchange (NSE). The population of the study consisted of investors of which were individual and institutions at NSE. The data was collected using questionnaires to find the influence of regret aversion, loss aversion, mental accounting, overconfidence, herd behavior, anchoring, over and under reaction, confirmation bias on the activities of investors at NSE. The outcome showed the behavior was irrational, to a certain level, for investors at the NSE, when considering the perspective, the rationality of investors ignorance of basic estimations as a result of regret aversion, overconfidence, herd behavior and anchoring.

Mbaluka (2008) reviewed behavioral effects on peoples' investment decision making process. According to outcome, psychological aspects tend to affect the investors rationality. The study found out that regardless of unattractive macroeconomic outlook, individuals didn't invest as anticipated as they portrayed reluctance for changing their portfolio. In the experiment the endowment effect was identified where the proportions of 23% and 77% indicated that investors changed the portfolio mix and the rest did not change respectively, despite the need to change form the economic outlook.

Aduda et al. (2012) examined the financial performance & behavior of individual investors in trading shares of listed firms in NSE, with Kenya being their key objective, to discover how investment decisions are made by people. The findings were that, popular opinion about the market (3.58); friend's influence, since many investors depended on their friends and colleagues' advices, was represented by 3.65 (based on 1-5 likert scale) before making decision to go for stock, whereas current share price trend was represented by 3.53. These were strong signs of the existence of herd behavior.

Mwaka (2013) showed that demographic characteristics of investors determine the investors' behavior in making decisions. Decisions made by investors differ as per their demographic characteristics. The majority of the investors' decisions are affected by their behavioral biases, whereas there is a portion of the investors who make rational decisions. Among the biases investigated are overconfidence, herding, loss aversion and anchoring. The previously named biases impacted in the trading of shares by investors, however some were noticeable than the rest.

Yang, Paul, Jaewoo and Ryan (2013) investigated the ordered logistic regression. They found that there was a negative relationship between credit rating and overconfidence. This was after controlling the company's characteristics that are related with cost of debt. These characteristics include risk, size and profitability. Furthermore, they estimated the effect of, based on turnover of the top executives, CEOs overconfidence on the credit ratings. They found that there was a negative relationship between overconfident CEOs and the credit ratings changes. Usually rating firms don't change credit ratings instantly after firing the manager. Thus we based our study around a turnover event to get shareholders response, apart from the type of the new hire.

Obamuyi (2013) showed that five issues influence the investment decision of investors in the capital market of Nigeria. These factors are, company stocks past performance, predicted capital rise, projected corporate earnings, increase in wealth and dividend policies. The outcome showed that those factors are always classified as a standard for maximizing wealth. The result was similar Nagy and Obenberger (1994) study. Whereas, factors like religion, loyalty to firm's products or services, rumors, projected losses in other investments and family members' opinion, are considered among the least influential.

Han, Lai and Ho (2015) studied the impact of CEOs over-confidence on risk taking behaviors of insurers and the performance of companies in US. Publicly traded property liability insurance firms from 1996 to 2013. The research found there is an inverse relationship between CEOs over-confidence in one hand, and insurers and insurer's risk taking on the hand. While overconfident executives have the habit of rising the use of reinsurance form risk minimization. The study too found that the changes in regulations and the economic environment, forces the overconfident executive modify their behavior in risk taking to cope with the changes. On the other hand, the over-confidence of the executive had positive impact on company's performance. This is because the stakeholders would benefit from the low risk, higher stock returns and greater profitability. The outcome showed that over confident CEO's do a good work by underwriting risk, thus causing underwritten returns & eventually a good performance by a company.

Zhang and Ziebart (2017) studied effect of the overconfidence of CEOs and effect of SOX on cost of debt and on overconfidence via CEOs selection respectively. they measured overconfidence of CEOs based on degree of how management is optimistic on their earning's forecasts, whereas the measure of the cost of debt was the spread of bond yield. The study supported that the CEOs over-confidence is discounted by the market through increasing the cost of borrowing. The study found out that previous CEO over-confidence is also incorporated by the financial market in pricing the bond. Thus, the firm's board favors the appointment of CEO who is rational over an over-confident one.

2.4 Summary of Literature Review

Effect of managerial overconfidence upon policies of corporates had been established by various studies. According to Baker et al. (2004), corporate financing is greatly impacted by

overconfidence, among the affected is policies concerning financing and investment. Surveys by Ben-David et al. (2007), Sautner and Weber (2009) showed that top management's overconfidence impacted various corporate decisions, as well as the firm's policy on dividend.

According to Heaton (2002), Over-confident top executives always have the idea that in the capital market they are undervalued, thus become reluctant to finance their projects by offering securities that are risky. Perceived undervaluation encourages the CEO to keep away from taking external financing, like equity or and debt. Which indicates an increase movement towards resources that are generated internally, meaning a reduction in the level of paid dividends? According to Malmendier et al. (2007) firms that are managed by over confident top executives, have low payment of dividends.

Schrand and Zechman (2010) stressed on that overconfidence was positively related with the overestimation of success probability and biased presence of financial decisions. Overconfident CEOs who overrate their individual abilities lean towards choosing financial decisions that are not consistent with the corporations' characteristics. They tend to underrate the threat of bankruptcy of the firm and trust the control. Such opinions eventually lead to a rise in the level of debt of the firm. According to Ho and Chang et al. (2009), a positive relationship exists among the firm's financial suffering & the level of CEO overconfidence. Findings of the study showed different outcomes and thus leaving a gap for this study to carry on the effect of CEO over confidence on Kenya's commercial banks.

2.5 Conceptual Framework

The figure below depicts both independent and dependent variables, where CEO overconfidence was measured using questionnaire, size of the firm was measured as the natural logarithm of the total assets, capital adequacy ratio was measured as ratio of the total tier 1 capital to risk adjusted assets, liquidity ratio was measured as the ratio of loans to deposits and the dividend policy will be measured payout ratio.

INDEPENDENT VARIABLE

DEPENDENT VARIABLE

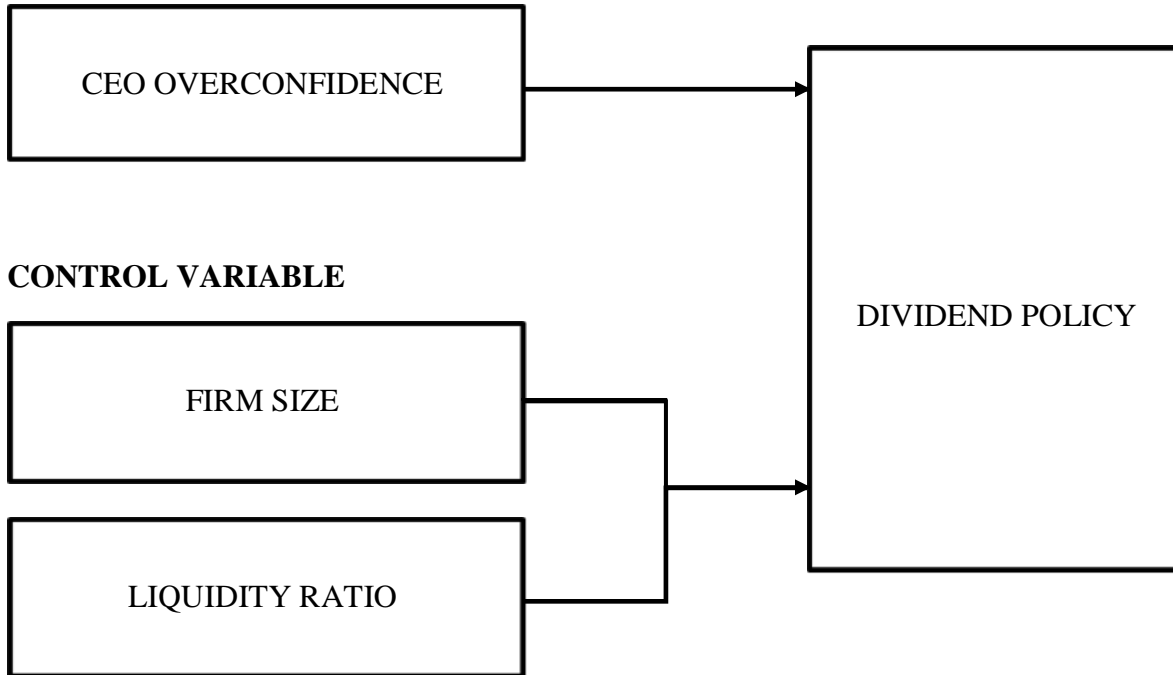


Figure 1 1: Conceptual Framework

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter focuses on the research design, population of study, sampling techniques, data collection techniques, data analysis techniques, the analytical model and the diagnostic tests that were used.

3.2 Research Design

Descriptive research design was used. It's a design used once a researcher desires to show precise behavior as it happens in the environment (Greener, 2008). Cooper and Schinder (2001) explained the numerous definitions that the research designs have and there is no one definition that shows the full meaning that it constitute the whole package. Descriptive research design will be used, which was defined as a method of gathering data so as to enable the answering of questions regarding the characters' position in the study (Mugenda & Mugenda, 1999). Cooper and Schindler (2003) explained that descriptive study is mainly drawn from the fact of discovering out the how, what & where of a phenomenon. It used cross sectional survey to study the effect on CEO's over-confidence on the dividend policy for the year 2017.

3.3 Target Population

The studies population comprised of all Kenyan commercial banks. These included 43 commercial banks in Kenya for the year 2017 (see Appendix III). The population targeted has observable characteristics in which the researcher will aim to conclude on the study (Mugenda & Mugenda, 2003). The period is appropriate in order to capture most recent data (Ngugi, 2008) and financial behavior may have changed over years. A census study was carried out.

3.4 Sampling Techniques

This study adopted stratified sampling. The sample was obtained using co-efficient of variation. The standard error and coefficient of variation used was 0.05 and 0.30 respectively. These components of study were selected to see that there is low variability and minimized error.

Therefore, using Kombo and Tromp, (2009)

$$n = \frac{NC^2}{C^2 + (N - 1)e^2} \quad \text{Model (0.1)}$$

Where:

n – size of the sample,

N - size of the population

e- Standard Error

n - Sample Size

c - Covariance

The study assumed 95% confidence level & variability to be 0.03. From the normal distribution table, the significance level was 3% making the e value to be 0.03.

$$\text{sample size was given by } n = \frac{43 (0.30)^2}{(0.30)^2 + (43-1)0.03^2}$$
$$n = 30$$

3.5 Data Collection

Both Primary & Secondary data were used. Primary data was gathered through administration of questionnaires that were filled by the respondents representing the 43 commercial banks whereas the secondary data used in the study will be gathered using financial statements that were audited of the listed Kenyan commercial banks. The financial statement was acquired from each bank's websites and NSE website. The specific data collected for each bank was payout ratio, natural logarithm of the total assets and liquidity ratio.

3.6 Diagnostic Test

According to Yihua (2010), this test helps in checking the information and helps in determining the model applicable, so as to be guaranteed that the outcome of the regression is unbiased, efficient and consistent. The test was composed of linearity and multicollinearity test. These test were undertaken as will be indicated below.

3.6.1 Linearity Test

According to Rouse (2010), linearity is defined as the circuit's behavior whereby the signal strength of output differs in direct proportion to the signal strength of input. Based on the proposal put forward by Cohen, West and Aiken (2003), correlation coefficient was used to measure the variables' linearity.

3.6.2 Multicollinearity Checks

This is the study of relationship between the independent variables in the research. Multicollinearity is defined as the nonexistence of robust relationship among two or more independent variables. Variance Inflation Factor, denoted as VIF, was adopted when testing for the multicollinearity. The degree of multicollinearity will then be examined by finding the size of Variance Inflation Factor. Sosa Escudero (2009) established that, when VIF is equal to 1 then there is no correlation, while there is moderate correlation when VIF is less than 10 but less than 5 and is highly correlated when VIF is more than 10.

3.7 Data Analysis

The multiple regression analysis was carried to evaluate the effect of CEO overconfidence on dividend policy. The relationship of the equation is a multiple linear where the CEO overconfidence is the independent variable and dividend policy is the dependent variable. Total assets, size & banks liquidity ratio was used as the control variables. The equation is as shown below.

3.7.1 Analytical Model

The regression equation will be expressed as shown:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where;

Y= Dividend policy

β_0 = constant term;

$\beta_1 - \beta_4$ = Beta coefficients (Intercepts for independent variables);

X_1 = CEO overconfidence

X_2 = Natural logarithm of total assets

X_3 = Liquidity ratio

ε = Error term.

Dividend policy was measured using the distribution rate (Agrawal and Jayaraman, 1994). Its major benefit is the information that was in earnings that are retained and thus if the flow in the retention rate is equal to 100 in the payout ratio

$$\text{Payout ratio} = \text{Dividend per share} / \text{earnings per share}$$

CEO overconfidence was measured using questionnaire. Size of firm was measured as natural logarithm of the total assets of the company, natural logarithms was used in the study since the data of certain data were large whereas others were small that may had caused outliers to remove that outliers natural logarithm was used to normalize the data. Liquidity ratio was measured using the ratio of loans to deposits.

3.7.2 Operationalization of Variables

Dividend policy was measured using payout ratio, CEO overconfidence was measured using the questionnaires, and size of the company was measured as the natural logarithm of the total assets of a firm. Liquidity ratio was measured using the ratio of loans to deposits.

VARIABLE	MEASURE	EMPIRICAL STUDY
Dividend Policy	Payout ratio	(Rozeff 1982), Agrawal and Jayaraman (1994).
Size	Natural Logarithm of bank's Total Asset	Smirlock (1985) & Chi (2004)
Liquidity ratio	Ratio of loans to deposits	Chandra (2001), Apuoyo (2010) & Molu (2012)
CEO Overconfidence	Ordinal	Lichtenstein and Fischhoff (1977)

Source: Author (2018)

3.7.3 Significance Test

A regression analysis was carried to set up the association between CEO'S Overconfidence & dividend policy. The Pearson's test was used to determine the correlation co-efficient. The statistical significance of each independent variable explaining dividend policy was tested using t-test at 5% level of significance. F-test was used to evaluate the total importance of the regression model. The coefficient of determination, R^2 was applied to explain the variability of the overall regression model.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

The focus in this chapter was on collected data & discussion of analysis & findings respectively. Data was gathered from primary data using the questionnaires and secondary source using the commercial banks' financial statements that were acquired from both the central bank and banks' websites. The study involved all commercial banks for the year 2017. Total number of 30 commercial banks were included in the study.

4.2 Response Rate

In the targeted 43 respondents, 13 questionnaires were not returned. The total number of questionnaires analyzed was 30 hence the rate of return of the questionnaires was 69.8%

Table 4.1 Response Rate

Instrument	Frequency	Percent
Response rate	30	69.8
Non-response rate	13	30.2
Total	43	100

4.3 Descriptive Statistics

The following Table reports the descriptive statistics of Overconfidence Bias of the banks:

Table 4.2: Summary of Descriptive Statistics

Descriptive Statistics			
	Mean	Std. Deviation	N
Dividend Payout	.1629	.31957	30
Overconfidence Bias	4.6074	.40193	30
Liquidity Ratio	.3829	.17300	30
Size	17.7303	1.44183	30

Source: Author (2018)

For the study, panel data was collected from the banks for the year 2017, thus an overall of 30 observations were used as indicated in the above table. The bias measured had an average and

standard deviation of 4.6074 and 0.40193 respectively. Liquidity ratio, size and dividend policy had a mean of 0.3828, 17.7303 and 0.1629 respectively. Whereas they had, Liquidity ratio, size and dividend policy, a standard deviation of 0.17300, 1.44183 & 0.31957 correspondingly.

4.4 Diagnostic Tests

The regression diagnostic tests in this study include; testing for linearity and test for multicollinearity.

4.4.1 Correlation

The table below shows the association analysis results on all independent variables used in the study. This analysis was conducted to test how the independent variables were related to each other in order to ascertain the presence of multicollinearity.

Table 4.3: Correlation matrix

		Correlations			
		Overconfidence Bias	Liquidity Ratio	Size	Dividend Payout
Overconfidence Bias	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	30			
Liquidity Ratio	Pearson Correlation	.129	1		
	Sig. (2-tailed)	.497			
	N	30	30		
Size	Pearson Correlation	.238	.129	1	
	Sig. (2-tailed)	.205	.497		
	N	30	30	30	
Dividend Payout	Pearson Correlation	-.093	.003	.569**	1
	Sig. (2-tailed)	.625	.987	.001	
	N	30	30	30	30

Source: Author (2018)

The findings showed a weak positive correlation between overconfidence bias and dividend payout with p value of 0.497 ($p > 0.05$) and correlation value of 0.129.

Secondly, a weak positive relationship exists between dividend payout & liquidity ratio with p-value of 0.205 ($p > 0.05$) and correlation value of 0.238.

Lastly, observed an insignificantly negative correlation between size and dividend payout with p value of 0.625 ($p > 0.05$) and a negative correlation value of -0.093.

4.4.2 Multicollinearity Test

In table 4.4 the VIF values are below 10 while the tolerance values are greater than 0.1 therefore there is absence of multicollinearity between the independent variables.

Table 4.4: Collinearity Statistics

Collinearity Statistics	
Tolerance	VIF
.933	1.071
.973	1.028
.933	1.071

4.5 Effect of CEO Overconfidence bias on dividend policy

To evaluate the overconfidence bias effect on dividend policy of commercial banks, Overconfidence bias was regressed against dividend policy. Two control variables, namely; bank size, liquidity ratio were included.

Table 4.5: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		

1	(Constant)	-1.416	.747		-1.896	.069
	Overconfidence Bias	-.189	.127	-.237	-1.487	.149
	Liquidity Ratio	-.088	.289	-.048	-.304	.763
	Size	.140	.035	.632	3.955	.001

Source: Author (2018)

Table 4.5 above indicates the regression coefficients for the regression of dividend policy on overconfidence bias, liquidity ratio, and size. The regression model had a constant of -1.416 while overconfidence bias, liquidity ratio, and size had coefficients of -0.189, -0.088, and 0.140 respectively. Hence, from the research analysis, the following regression equations were obtained:

$$Y = -1.416 - 0.189X_1 - 0.088X_2 + 0.140X_3$$

Overconfidence bias had a regression coefficient of -0.189. This indicates that, overconfidence bias had a negative effect on dividend policy, the more overconfidence bias that a commercial bank sought; the resulting dividend policy would be lower. The coefficient of overconfidence bias had a significance probability of 0.149; since the p-value is more than 0.05 then the effect of CEO over-confidence bias on dividend policy was not statistically significant.

Liquidity had a coefficient of -0.088. This indicates negative effect on dividend policy. Maintaining high liquidity ratios would result in declining the dividend policy. Liquidity ratio had a significance probability of 0.763 and thus showing that its effect on dividend policy was not statistically significant as the p-value is greater than 0.05. Size had coefficient of 0.140 with a significance probability of 0.001. This outcome showed that size had a positive effect on dividend policy and its effect was statistically significant as p-value was less than 0.05.

Table 4. 6: Model Summary

As reported in table 4.6 the regression equation was found to have an adjusted coefficient of determination R^2 of 0.310. This means that CEO overconfidence bias, size, and liquidity ratio jointly explained just 31% of variation in dividend policy. The model therefore explains only 31% of the variation in the dividend policy while the other variation is caused by other factors.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.617 ^a	.381	.310	.26549

Source: Author (2018)

Table 4. 7: Analysis of Variance

It indicates the variance analysis results. The F ratio for the regression was found to be 5.339 with a significance probability of 0.005. Since the p-value is less than 0.05 then the effect of CEO overconfidence bias, size, and liquidity ratio on dividend policy was statistically significant.

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	1.129	3	.376	5.339	.005 ^b
Residual	1.833	26	.070		
Total	2.962	29			

Source: Author (2018)

4.6 Discussion of Findings

The study examined the CEO's overconfidence bias impact on dividend policy of Kenya's commercial banks. The independent variable was presented by CEO overconfidence bias. The findings indicated that there was a weak negative influence of CEO overconfidence on the dividend policy of Kenyan commercial banks, which implied an increase in one unit in CEO overconfidence bias leads to a 0.189-units decreased in dividend policy of commercial banks.

This showed that focusing on CEO overconfidence bias was a costly affair for the banks as it reduced the dividend policy of the commercial banks.

The study investigated the effect banks' size on dividend policy of the commercial banks in Kenya. The bank's size was used as a control variable. The findings showed that the bank's size had a strong positive effect on dividend policy of banks. It implied that an increase in one unit of bank's size will lead to an increase of 0.140 units in dividend policy. Therefore, size had a positive influence on dividend policy of commercial banks.

It also showed, the study, that liquidity had a weak negative impact on dividend policy of Kenya's commercial banks. Therefore, this implied that an increase in one unit of liquidity leads to 0.088 unit decreased in dividend policy of commercial banks. This suggested that dividend policy of commercial banks is negatively influenced by liquidity.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter covers summary of findings, conclusion, recommendation & areas suggested for further research.

5.2 Summary of the Findings

This section summarises findings of the study in line with the objectives.

5.2.1 Effects of CEO Overconfidence on Dividend Policy

The study examined the CEO's overconfidence bias impact on dividend policy of Kenya's commercial banks. The independent variable was presented by CEO overconfidence bias. The findings indicated that there was a weak negative influence of CEO overconfidence on the dividend policy of Kenyan commercial banks. Which implied that an increase in one unit of CEO overconfidence bias triggers a 0.189 unit decrease in dividend policy of the commercial banks. This showed that focusing on CEO overconfidence bias was a costly affair for the banks as it reduced the dividend policy of the commercial banks.

5.2.2 Effects of Size on Dividend Policy

The study observed the influence of size of the bank on dividend policy of the commercial banks in Kenya. The bank's size was used as a control variable. The findings showed that the bank's size had a strong positive influence on the dividend policy of banks. It implied that an increase in one unit of bank's size will lead to an increase of 0.140 units in dividend policy. Therefore, size has positively influenced on the dividend policy of commercial banks.

5.2.3 Effects of Liquidity Ratio on Dividend Policy

The study also examined liquidity ratio effect on dividend policy of Kenyan commercial banks. Liquidity was also used as a control variable in the model. The findings showed that liquidity had a weak negative effect on dividend policy of the commercial banks. Therefore, this implied a unit increase in liquidity triggered a 0.088 unit drop in the dividend policy of commercial banks. This suggested that dividend policy of commercial banks is negatively affected by liquidity.

The adjusted coefficient of determination R^2 was found to be 0.310. Accordingly, CEO overconfidence bias, size and liquidity ratio explained 31% of the variation in dividend policy of commercial bank while the other variation was explained by other factors. Analysis of variance showed that, the F ratio for the regression was found to be 5.339 and had a significance probability of 0.005. This model was therefore good enough to explain how CEO overconfidence bias influences the dividend policy of the commercial banks in Kenya.

5.3 Conclusion

This study required to establish the effect of CEO overconfidence bias on dividend policy of commercial banks in Kenya. The result of regression indicated that CEO overconfidence bias had a weak negative impact on dividend policy and thus an increase in CEO overconfidence bias triggers a decrease in the dividend policy of the bank. Thus, the study concludes that CEO overconfidence bias had a weak influence on dividend policy on Kenyan commercial banks.

The study assessed the influence of size on the dividend policy of the banks in Kenya. The findings showed that size had a strong positive effect on dividend policy and therefore an increase in size will increase the dividend policy of the bank. Therefore, the study concluded that size had a strong effect on the dividend policy on Kenyan commercial banks.

The study examined the effect of liquidity on the dividend policy on Kenyan commercial banks. The findings showed that liquidity had a weak negative effect on dividend policy and thus an increase in liquidity ratio triggers a drop in the dividend policy of the bank. The findings showed that liquidity has a weak negative effect on the dividend policy of Kenyan commercial banks.

The adjusted coefficient of determination, R^2 , indicated that, CEO overconfidence bias, size and liquidity ratio only explained 31% in the variation of dividend policy while the remaining was explained by other factors other than the named before. The results of F test indicated that, CEO overconfidence bias, size and liquidity ratio had a strong effect on dividend policy thus indicating the model was good enough in determining the effect of CEO overconfidence bias on dividend policy.

5.4 Recommendations

This study proposes that, banks should check on the rate of CEOs overconfidence because overconfidence bias appears to affect the dividend policy negatively. The study also recommends that the banks check on their liquidity ratios as the current ratios are negatively affecting dividend policy. As such, lower liquidity ratios would be preferred to offer better dividend policy for the commercial banks in Kenya. Increase in Size indicated that commercial banks to perform much better financially and thus the study recommends banks to maintain or increase on those variables so as to increase their dividend.

Further, the study recommends that Central Bank of Kenya should offer an atmosphere where the commercial banks process is not hampered with. For example, CBK should ensure steadiness of interest rates so as to encourage lending. Through enhanced lending, commercial banks are

able to gain commissions and fees. Fees and commissions form a significant portion of banks' non-interest income.

5.5 Limitations of the Study

The study was conducted for a duration of one year, that is, for the period of 2017 since the cost of obtaining the data and analyzing data for a longer period proved a challenge and for the fact that the possibility of the CEOs not been in service for that long period. In analysing the effect of CEO over confidence bias on dividend policy of commercial banks, a longer duration would guarantee robustness of the results. The study was also carried on a single country due to time and resource limitations, therefore using broader sample would enable in getting wider understanding of the subject matter.

The data results may also not be applicable to other financial firms as the focus in this study was on banks and this because of the differences that are found between commercial banks and other financial firms. While it can offer important insights to other financial institutions, such conclusions should be approached with care given the variations in the way banks operate and the way other financial institutions operate. To eradicate this limitation, it may be significant to carry this study on other financial firms.

5.6 Suggestions for Further Research

Based on the study, it also proposes that future studies should inspect the association between CEO overconfidence bias and dividend policy using a combined methodology where data was collected from both the secondary and primary sources. This format may help to address issues that the secondary data has not accurately captured and therefore being able to have a better perception of the issue. Further research may evaluate the impact of behavioral bias on dividend policy of commercial banks.

This study offers appropriate insight on effects of CEO over confidence bias on the dividend policy of commercial banks which are conventional banks; future research could be carried on the impacts of CEOs over confidence bias on the dividend policy on financial institutions.

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APPENDICES

APPENDIX I: Introduction Letter



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24th September, 2018

TO WHOM IT MAY CONCERN

RE: INTRODUCTION LETTER

This is to certify that **ARWA AIMED HASSAN (REG. NO. D61/84304/2016)** is a bona fide student of the University of Nairobi, pursuing a degree in Masters of Business Administration (MBA).

As part of the fulfillment of the requirement of the course, she is undertaking a study titled **"EFFECT OF CHIEF EXECUTIVE OFFICER OVERCONFIDENCE ON DIVIDEND POLICY OF COMMERCIAL BANK IN KENYA."**

You have been selected as one of the respondents in the study. The purpose of this letter therefore, is to kindly request you to assist and facilitate in carrying out the study in your organization by answering the questions in the attached questionnaire.

Data and information obtained through this exercise is purely for academic purpose and will be treated with utmost confidentiality. In case of any questions or clarifications, she can be reached on 0713104019 or arwaalbeity@gmail.com.

Your assistance and cooperation will be highly appreciated. Thank you very much in advance.

Yours Faithfully,

A handwritten signature in blue ink, appearing to read "Stephen Odock".

Dr. Stephen Odock,
Coordinator, School of Business, Mombasa Campus



APPENDIX II: Questionnaire

Questionnaire

I am a student at the University of Nairobi and am writing my MBA research project on overconfidence bias that affects dividend policy on commercial banks in Kenya. I kindly request you to take part of your time to complete this questionnaire and return it back. I assure you that all the information provided will be treated with strict confidentiality. In each question provide the response that best reflects your own experiences. Your cooperation will greatly contribute to the success of this study.

Section A: Background of the Respondent

1. Kindly indicate your gender.
 - Male
 - Female
2. Please tick your age range.
 - 25-35
 - 35-45
 - 45-55
 - 55-65
 - 65 and above
3. Marital Status:
 - Single
 - Married
 - Divorced
4. The highest level of education achieved
 - Secondary
 - Diploma
 - Bachelor's degree
 - Master's degree
 - Other(Please Specify)

Section B: Overconfidence Bias

5. Please evaluate the degree of your agreement with the following statements:

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
a) I can predict future share prices better than others.					
b) I am comfortable with my ability to understand investment products, alternatives and opportunities.					
c) I am competent in my ability to invest successfully.					
d) I am skillful in investment activities (e.g., stock picking, position, volume).					
e) Share prices of my stock/stocks will increase next month.					
f) I would go ahead and invest in a stock if my valuation of a stock is different from that made by a financial analyst.					
g) My stocks will perform better compares to NSE 20 index.					
h) I believe that my skills and knowledge of stock market can help me to outperform the market.					
i) Am normally able to anticipate the end of any outcome be it good or bad.					

Appendix III: List of Commercial Banks in Kenya

1. Barclays Bank Limited
2. CFC Stanbic Holdings
3. I &M Holdings Ltd
4. Diamond Trust Bank Kenya Ltd
5. Housing Finance Co Ltd
6. Kenya Commercial Bank Ltd
7. National Bank of Kenya Ltd
8. NIC Bank Ltd
9. Standard Chartered Bank Ltd
10. Equity Bank Ltd
11. The Co-operative Bank of Kenya Ltd
12. Middle East Bank (k) ltd
13. Development Bank of Kenya
14. Consolidated Bank of Kenya Ltd
15. Jamii Bora Bank Ltd
16. Bank of India
17. Bank of Baroda (k) Limited
18. African Banking Corporation Limited
19. Bank of Africa Kenya Limited
20. Bank of Africa Kenya Limited
21. Guaranty Trust Bank (k) Limited
22. First Community Bank Limited

23. Family Bank Limited
24. Credit Bank Limited
25. Gulf African Bank
26. Prime Bank Limited
27. M-Oriental Bank Limited
28. Sidian Bank Limited
29. DIB Bank (Kenya) Limited
30. Credit Bank Limited

Source: Kenya Bankers Association, 2017

Appendix IV: Research Data

BANK	YEAR	CEO BIAS	L.R	SIZE	P.R
BANK OF AFRICA	2017	4.67	0.36	17.81	0
CO-OPERATIVE BANK	2017	4.67	0.34	19.76	0
HOUSING AND FINANCE	2017	4.44	0.21	17.94	1.1
PARAMOUNT BANK	2017	4.78	0.41	16.07	0
BARCLAYS BANK OF KENYA	2017	4.44	0.33	19.42	0.81
BANK OF INDIA	2017	4.67	0.68	17.85	0
BANK OF BARODA	2017	4.78	0.66	18.38	0.25
ABC BANK	2017	5	0.34	17.03	0
DTB	2017	5	0.5	19.41	0.13
KCB	2017	4.33	0.29	20.14	0.47
DIB	2017	4	0.65	14.77	0
STANDARD CHARTERED	2017	4	0.59	19.47	0.92
EQUITY BANK	2017	5	0.35	19.82	0.61
CONSOLIDATED BANK	2017	3.11	0.22	16.41	0
I&M BANK LTD	2017	5	0.36	19.03	0.34
MIDDLE EAST BANK(K) LTD	2017	4.56	0.48	15.45	-0.2
JAMII BORA BANK LTD	2017	4.67	-0.1	16.37	0
STANBIC BANK(K) LTD	2017	5	0.52	19.29	0.45
NIC BANK LTD	2017	4.67	0.47	19.08	0
NATIONAL BANK OF KENYA LTD	2017	4.78	0.36	18.52	0
GUARANTY TRUST BANK(K) LTD	2017	4.89	0.55	17.13	0
M - ORIENTAL	2017	4.78	0.37	16.17	0
GUARDIAN BANK LTD	2017	4.78	0.41	16.58	0
FIRST COMMUNITY BANK LTD	2017	4.89	0.44	16.67	0
SIDIAN K - REP	2017	4.56	0.24	16.78	0
FAMILY BANK	2017	4.33	0.35	18.05	0
PRIME BANK LTD	2017	5	0.49	18.15	0
CREDIT BANK LTD	2017	4.11	0.3	16.49	0
DEVELOPMENT BANK OF KENYA	2017	4.67	-0.02	16.61	0
GULF AFRICAN BANK	2017	4.67	0.35	17.26	0

Source: Bank Annual Reports (2017)