EFFECT OF CORPORATE GOVERNANCE ON THE DIVIDEND PAYOUT RATIO OF COMMERCIAL AND SERVICE FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE

ANDREW MUYANI KORIATA

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DECLARATION

I, the undersigned, declare that this is my original work and has not been presented to any institution or university other than the University of Nairobi for examination.

Signed: _____Date: _____

ANDREW MUYANI KORIATA

D63/9581/2018

This research project has been submitted for examination with my approval as the University Supervisor.

Signed: _____Date: _____

JAMES KARANJA

Lecturer, Department of Finance and Accounting

School of Business, University of Nairobi

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DEDICATION

I dedicated this work to Joseph Saitoti koriata and Nataana enole koriata, they taught me that the best knowledge to have is that which is learned for its own cause. I also dedicate it to my wife Christine Naishorua, who edify me that even the biggest challenge can be achieved gradually

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LIST OF ABBREVIATIONS

ANOVA   Analysis of Variance

CBK   Central Bank of Kenya

CEO   Chief Executive Officer

CMA   Capital Markets Authority

GDP   Gross Domestic Product

NSE   Nairobi Security Exchange

OECD   Organization for Economic Co-operation and Development

ROA   Return on Assets

ROE   Return on Equity

VIF   Variance Inflation Factors

ABSTRACT

Various theories have indicated that the goals and ideas that business leaders emulate have a propensity to differ; they are contrary to their individual interests and this has given rise to corporate governance which is said to minimize the spill over. Research studies undertaken on organizations with renowned exemplary corporate governance norms support that there is a positive impact to the way such companies are performing and in essence the dividend payment. A research was set to determine the how governance in the corporate sector affected dividend payout ratio of various organizations that are NSE listed. All 12 commercial and service organizations listed formed population of this work. Independent variants in this research were corporate governance operationalized as how many members the board has, team independence and how frequent they meet. Standard variants were profitability represented by return on equity per year, cash balances represented by the rate of money in flow to total asset and debt financing, evaluated by ratio of complete debt to entire expenses on a yearly rate. Changing variant was the rate of dividend due to be paid represented by share on dividend to gains per share. A five-year period, January 2014 and December 2018, was studied through gathering of secondary data. Different research design methods were employed while multiple linear regressions model was applied in analysis of the association between the variable. The data was analyzed by use of SPSS version 22 and 0.624% value of R-Square was produced from the study results which meant that a large percentage, 62.4%, of the disparity among the payable rates of dividends of commercial and service organizations listed at the stock exchange can be explained by the six constant variants as 37.6 of disparity of dividend payout rate was related to variables that were not part of this study. Findings of ANOVA highlight how F was important at the 5% level, showing p=0.000. Henceforth, this case showed how appropriate in explaining the correlations between the differing variants. In addition, it was revealed that board size and profitability created a good case for this research while board independence, cash balances and debt financing produced good but insignificant findings for this research work. Finally, board meeting produced a negative but not statistically influence on the rate of money paid among commercial and service organizations that are NSE listed. This research suggests that strategies should be set to so raise the numbers of members who seat in the board and profitability, because these measures have a big effect on how dividends get paid among NSE listed organizations.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

On reason as to why corporations pay dividends remains to be a puzzle to many financial economists. Even after six decades of influential toil on dividend policy of firms (Lintner, 1956). There are some theories like agency, signaling, etc. as well as empirical studies have attempted to expound on the way dividends behave in an organization. However, the attempts made in expound this behavior is still futile since till to date it is inconclusive (Sharma, 2011). The most significant cognitive factor on dividend behavior is the agency issues that organizations are trying to curb through the board and the feature of corporate governance (Mitton, 2004).

A lot of theories have emerged expounding on how corporates are governed. Agency theory was generated in 1932 and describes distinctive nature and relationship between the between principals and agents being distrustful, contesting concerns. Conversely, this train of thought substitute's distrust by asserting that managing directors' aim of success and accomplishment can be achieved when firm's attained is extra ordinary. The stakeholder's theory by Clarkson (1994) acknowledges other shareholders from other firms, employees, suppliers and the community. The resource dependence theory by Pfeffer (1972) comes up with a way the organization accesses the resources plus the way ownership is disintegrated. Information resource and planned relationships with other firms by the board is a key consideration for an organization's extra ordinary performance.

Several guidelines have been developed by the Capital Markets Authority to encourage good practices in corporate governance by the listed public companies in Kenya so as to adequately respond to the increasing relevance of the governance

matters in both the growing and emerging economies and for the promotion of regional and domestic growth of the capital market. It also recognizes the contribution of good governance in maximization of the value of shareholders, capital formation, protection of the rights of investors and corporate performance. However, the dividend payout ratios of the commercial and service companies quoted at the NSE varies from one firm to the other the study wish to investigate the level which corporate governance influence a firm.

1.1.1 Corporate Governance

Humera (2011) describes the concept above as, the relationships among different stakeholders within a company; including management, shareholders and others. Additionally, corporate governance gives the structure where company's objectives and how to attain those objectives. According to Adams and Mehran (2003), corporate governance also refers to a technique in where all shareholders comprehensively carry out monitoring the administration and insiders in order to protect their personal interests. Morin and Jarrel (2001) describe it as a framework that monitors and protects the market players. The said actors include shareholders, managers, suppliers' staff, the board of administration and clients depending on the type of organization in question.

Principled norms of corporate governance entail the environment that businesses conducted are unbiased transparency in operations, and corporations held accountable for their deeds. Poor corporate governance norms conversely, results to wastage, malware and increased cases of fraudulent conducts in such firms. As stated by one author, one purpose of governing corporates norms, is that it enhances equitable power sharing among different stockholders, administration and managing directors

so that there can be enhancement stockholder value and protecting their interests. Nabil and Ziad (2014), asserted confidence of investors is motivated and enhanced by efficient composition of the corporate governance that ensures the corporate entity is held responsible, dependable and ensures that there is quality of public financial information that has been enhanced as well as the effectiveness of the capital markets integrity.

Mamatzakis and Bermpei (2015) likewise observed that the current body of knowledge is pointed at different parts of governing corporates is that it incorporates composition of managerial staff (directors), remuneration of bank executives, perks and stipends of the senior managers, powers of the CEO, how complicated the operations are. According to Olick (2015), outlooks on these are how the board is structured as well as the committee that comprises: board of managing directors, steps that guide the board and its independency, auditing aspects, process of disseminating corporate information and disclosure. According to Wasike (2012), corporate governance encompasses; the present composition of managing directors', the ownership composition of the corporation, financial transparency and information disclosure.

1.1.2 Dividend Payout Ratio

It is a rate of profits of payments made to the people who own shares in the organization, payable in form of dividends. It's the calculated by the division of shared per dividend in the organization (Brockington, 2013). The returns to shareholders have two components that is capital and dividend gain. When the price of a share is high there is a low payout policy since it increases the rate of growth of the earnings. A lower amount of retained earnings with more payouts are the result of

a high payout policy. This lowers the price rate in the market, which slows the growth. Firms adopt a dividend policy on the basis of their stage in the life cycle. Kapoor (2009) notes that firms that experience higher growth have a few projects and massive cash reserves allowing them to distribute their earnings.

Ross et al., (2002) note that decisions made in regard to dividends are crucial since they determine the kind of investments that investors choose and those that firms maintain for the purposes of investing. They allow stakeholders to have essential information on company performance. Foong et al., (2007) argue that the investment by a firm influences its expected dividends, earnings and the firm's cost of capital. The primary policy for many firms is a crucial concept in finance from the employees, clients, regulatiors, aand, government perspectives. It is a policy that is pivotal to the company and on which other policies rely on (Sujata, 2009).

Such a policy aide the finance manager in gauging the amount to be paid out to shareholders based on share capital holding within firm. The major categories include; Constant ratio where an organization agrees a constant payment portion of earnings as dividends. An amount is maintained even if the organization may yield more returns or less. Residual payout; where dividends are issued after undertaking all planned investments. If all the returns are channeled into investments, no dividends will be distributed in the period. Stable payout; with a constant payout is made to all firm shareholders. Once in a while firms utilize the stable plus payout is applied where a constant share of earnings is reserved to be disturbed to shareholders but an addition can be payment is made in case the firm earns more profit from a certain period (Pandey, 2010).

1.1.3 Corporate Governance and Dividend Payout Ratio

According to Fluck (1998), Majluf and Myers (1984), these payout frameworks have the ability to address agency problems which may exist between business shareholders and insiders. Grossman and Hart (1980) indicates that dividend payment can solve the related agency conflicts by reducing quantity of money held by a business manager, who tend to act sometimes in ways that seem not best for the stakeholders.

Different researchers found how governance of corporations and policies on dividens were related (Michaely & Roberts, 2006; Farinha, 2003; Smith et al., 2008; Aggarwal & Williamson, 2006). The association is best explained through the agency theory (agency problem and agency cost) that explores the correlation between principal (shareholders) and agent (managers). The manager's role is to increase shareholders wealth and run the business smoothly. However, agency issues arise when managers have extra cash-flow at their disposal and for this reason, invest on negative net present value projects, leading to additional monitoring costs from the shareholders end, referred to as agency cost. Thus, payment of dividends to stockholders to reduce such embezzlement activities.

According to Rozeff (1982), agency problems such as the level of insider stock holdings, pose a huge impact on how dividends will be paid out, illustrated by Casey and Theis (1997) who used petroleum industry example to support the idea of agency problems and systemic risk, although the study was critiqued for not using real sales and signaling outcome. Unlike Casey and Theis (1997), Dickens et al., (2003) showed that investment opportunity signaling created huge effects on how dividends were

paid out and so did ownership, and systemic risk. Similar findings were supported by Fama and French (2001).

1.1.4 Commercial and Service Firms Listed at the Nairobi Securities Exchange

The Nairobi Securities Exchange which was established in 1954, was registered under the Companies Act in 1991, is an organized financial market where various securities of listed firms are issued, bought and sold by individual and institutions both local and foreign through the services of stockbrokers or dealers. It focuses in the exchange of securities issued by the Government and listed firms. It's mandated to provide means of listed securities trading and while overseeing the arrangement. The NSE provides the main hub for trading in the secondary market. It provides a trading floor which though available is not commonly in use after being replaced by the automated trading system. Through a wide area network, members trade at the comfort of their offices. The system is efficient, transparent and can handle large volumes of transactions at the same time (NSE, 2019).

Commercial and service sector refers to a category of enterprises that provide services to commercial and retail customers. There are currently 11 firms listed under this category namely: Express limited, Kenya Airways; TPS Eastern Africa, Scan Group, and various supermarket chains like Uchumi Supermarket, Deacons, Sameer Africa, Longhorn Publishers and Nairobi business ventures (NSE, 2019). Commercial and service industry affects development of the Kenyan economy by creating jobs for the youth, raising the level of GDP and stimulating income from the foreign market after independence (UNCTAD, 2008). Contribution of these two sectors to the country's economy has been even larger, with a rise of 10 percent from 55 percent in 1980 to 65 per cent by 2006 in its share of total wage employment (CBK, 2014). The key

contribution of the services segment to the Kenyan economy is very important to the trade balance. According to UNCTAD (2008), the annual export of services account for around 50% for period since 1980.

Different organizations listed at the NSE have been performing differently. While firms like Standard group, Nation media group and TPS Eastern African have posted good results and able to increase their dividend payout to shareholders, others like Kenya Airways, Uchumi and Sameer Africa have performed dismally and reduced or failed to pay divided at all. While the reason why some organizations become unable to pay their dividends may be due to how the environment they are working in is and that is not under the control of the management or board, studies have shown a significance link between how organizations are governed and how they perform.

1.2 Research Problem

Various theories have indicated that goals that different shareholders take may differ and are contrary to their individual interests and this has given rise to the study of how corporates are governed (Rozeff, 1988). Research studies undertaken on organizations with renowned exemplary corporate governance norms support that there is a positive impact to the way such companies are performing and in essence the dividend payout ratio. Good corporate governance practices help organizations to avoiding fraud and enhancement of the mirror and should be eminent as a company that deserves stock and debt holder capital. Additionally, it becomes vital for corporations to better their performance, enhance investment atmosphere as well as to encourage economic development (Aggarwal & Williamson, 2006).

Commercial and service firms listed firms and other listed firms have faced a myriad of issues in the recent past that has brought about the debate on corporate governance

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practices among these firms. For example, the recently published many losses and court cases of the national air carrier of Kenya and Kenol Kobil have brought these practices into the open. (Mboka, 2017). Scandals involving poor corporate governance of the directors and managers have been reported in firms like Uchumi supermarkets, Kenol Kobil, Unga group, and secret accounts by some CMC Motors directors (Madiavale, 2016). Kenyan companies need to focus on corporate governance which would mitigate against some of the risks of doing business and in essence improve shareholder wealth by increasing dividend payout or an appreciation in the share price.

A lot of focus aimed at assessing how governance of corporations affects the payout of dividends has been carried out; however, the findings have been inconsistent. Some researchers have shown a negative correlation while others have shown the positive link between the two. (Byme & O'Connior, 2012; Jiraporn et al.,2011). However, Others studies only showed one area of how corporations were whereas others observed for others measures of score. (Adjaoud & Ben-Mar, 2010). A gap in the studies might be as a result of development in the capital markets irrespective of the economies.

Locally, research has aimed to assess how the governance of corporates has affected performance of firms without addressing the influence of laws on dividend payout ratio. Iraya et al., (2015) focused on how governance mechanisms affected how corporates were run. Were (2018) also studied how this affected the earnings in management of firms in the stock exchange. Although Aboka (2018) addressed this relationship on her study of this research problem, study focused on banks, which are a different context from the main study. The source lacked empirical studies to assess

the relationships among corporate governance variable and dividend policies, among various firms at NSE. Therefore, the work sought to solve this question: How does governing corporations affect how dividend payout ratio is determined in various organizations listed at the NSE?

1.3 Objective of the Study

Study objective was to determining effect of corporate governance on dividend payout ratio in commercial and service organizations listed at the stock market. Other objectives are:

   i. To assess how board size affects dividend payout ratio among commercial and service organizations listed at the stock market

  ii. To find out how board meetings affect dividend payout ratio among organizations listed at the stock market

 iii. To assess how board independence, affect dividend payout ratio among organizations listed at the stock market

  iv. To determine effect of board committees on dividend payout ratio among organizations listed at the stock market

1.4 Value of Study

Findings would illuminate more issues concerning corporate governance theories and practices. It will add onto present knowledge on association between these two variants and also fill the gap on the relationship that the variables have to be useful to other researchers. Future researchers will also find it beneficial as it will allow them to review what has been done and to identify gaps in the research.

The study is beneficial to the commercial and service firms in understanding the linkage between these two variants, which essential to the need to have a sound

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decision-making team with a variety of perspectives and abilities necessary for building trust of stakeholders. Study will aid leaders and decision makers to formulate policies and procedures that would steer commercial and service firms in adopting corporate governance mechanisms that would improve their efficiency which in turn will contribute to the sector performance.

It also creates empowerment for corporation leaders and organizations in the private sector with knowledge on governance practices.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In this Chapter we look into theories that influence the topic under study. In addition, previous empirical works on the research area are contained here. Other sections discuss the framework showing association of variables and a summary review.

2.2 Theoretical Framework

Theories that explains relationships between these two variables are explained in this area. Theoretical reviews covered are agency theory, stakeholder theory, stewardship theory, dividend irrelevance theory and bird in hand theory.

2.2.1 Agency Theory

Jensen and Meckling develop the theory in 1976. Where It argues that a connection between the principals, the company's shareholders, and agents, the organization executives. Meckling's and Jensen's proposition on this train of thought commend that segregating ownership and management can result toagency problems being experienced in many modern organizations (Jensen & Meckling, 1976).

The principal, who gives the agent some decision-making authority, incurs agency costs arising from the divergence of shareholders' interests with those of company managers. Meckling and Jensen and defined these costs as summation of bonding, monitoring, and other losses. Despite monitoring and bonding costs inquired, residual loss will still occur as a result of managers and shareholders interest not being fully aligned. Alignment of interests occurs when there is harmony between objectives of agents acting within an organization and those of the organization as a whole (Jensen & Meckling, 1976).

Incentives such as stock options, bonuses, and profit related pay can be used as a method of aligning interest of the agent with those of the principal since these act as management results judged by the shareholder. Agency theory advocates for self-interest by the managers and employees that. This calls for the agents to conduct their duties while keeping the interests of the principals in mind. Hence in this theory a more individualistic view is applied (Nambiro, 2007). The agency theory supports; the attributes of corporate governance are significant in managing, monitoring activity of agents, which is a strong contributor in dividend payments.

2.2.2 Stakeholder Theory

Freeman (1984) gradually created stakeholder theory, who advocated inclusion corporate accountability to the different types of stakeholders. The theory views the firm as the input-output model by involving the various stakeholders of a firm. A stakeholder is an individual or group whose actions can affect the how an organization performs or behaves (Fernando, 2009).

Stakeholder theorists argue managers in a firm associate with others like employees, business associates and suppliers whose activities can affects both within and outside the organization. The relationships among this groups are of value than that of the shareholder and the manager as suggested by Freeman, 1999. Sundaram (2004) noted that the theory addressed the wider range of stakeholders and that the firm system is composed of many stakeholders and each organization's main aim is to generate wealth to its stakeholders.

Freeman (1984) argues that association between stakeholders in a firm affect how decisions are made within the organization. This train of thought advances nature of these relationships, regarding processes and outcomes. (Wanyama & Olweny, 2013).

In this study, the stakeholder theory asserts that the managers of corporations must be aware of the interests in an organization as well as its stakeholders, and invest the maximum activities in a bid to be compliant to the acceptable regulations as well as solutions, and article of association and finally the firm's internal laws.

2.2.3 Stewardship Theory

Davis and Donaldson (1997) put a steward as one whose aim is to shield and maximizes shareholder's wealth through the efficient running of the firm. By doing so, the steward's value is enhanced in an organization, stewards are the managers and executives working for shareholders. They create profit for major shareholders. This motivates and gratifies them to ensure that organization succeeds.

Stewardship theory reiterates that the management of an organization are stewards on behalf of the shareholders. It necessitates the importance of having right frameworks to ensure they have control over their work. It creates trust and a sense of responsibility for the top management which will maximize financial performance to increase wealth and profit of the shareholders. (Daily et al., 2003). In doing this, they aim at being seen as stewards who are effective of their organization thereby protecting their careers (Fama, 1980). In this study, the stewardship theory suggests that; agents possess the same interests as the owners of the company, and as such, they have their careers being joined to the realization of the company's aims, while their status are incorporated in its output as well as the benefits to the shareholders.

2.2.4 Dividend Irrelevance Theory

The theory was developed by Modigliani and Miller (1961). It holds that, how a firm is valued does not lie in its policies, showing that it is only dependable on the risk and earning capacity of the business. Before this assumption, Graham and Dodd (1934)

argued that an organization only existed to create wealth for its shareholders. Organizations which pay high dividend payments needed to sell shares at a high price. Further. Modigliani and Miller stated that this value could only be created by making the right decisions. In light of this thought logic, dividends were a baseless measure of the value of a firm and therefore shareholders could make their own strategies to define the payment of dividends. For instance, the two authors state that shareholders could get revenue by selling their shares during instances when the company did not pay dividends. They could also reuse some of the dividend payment received to buy other shares within the same firm, at an extra cost.

Bhattacharya (1979), John and Williams (1985) and Williams (1988) claimed that increasing dividends was always good for the company and shareholders. This, however, depended on some assumptions: that the capital market was perfect and operated efficiently, that investment decisions did not depend on the dividends paid, and that shareholders exhibited good behavior that was favorable for the firm. It also assumed that all information required was readily available.

2.2.5 Bird in Hand Theory

This was formulated by Gordon (1963) and Lintner (1956) asserting the significance of dividends to a firm's value. The elements that which show how equity cost as per the Gordon model are expected increase rate, contemporary share price and subsequent dividend. Therefore, growth and dividend yield gives a return to equity holders. It states that in measuring ROE, dividend yield is import than cost. According to Gordon's valuation model, the value of the firm is influenced by expected dividends, current share price, COE and expected growth.

Expected growth rate and dividend yield is influence with ROE though the model suggests that the yield is greater than expected dividend growth rate. Growth is not predetermine thereby no accuracy in estimating total market value and capital gains of a stock can be lost causing bankruptcy. The market value of many firms would be uncertain for the organizations which do not pay investors the required dividends. It assumes that companies do not access funding, which necessitates funding from retained earnings, constant returns and capital. (Lintner, 1956).

The theory predicts a company's value correlation to its policy on dividend payout. Its core is that equity holders do not prefer risk, but rather getting their dividend payments. Gordon (1963) claims investors prefer dividends rather than expected earnings in their work. These payments reduce unanticipated earnings which increases the share market value.

A present dividend is more worthwhile compared to an uncertain future payment or income. Therefore, having policies that explain dividend payment is important.

2.3 Determinants of Dividend Payout Ratio

Several factors determine how dividend is paid out by organizations. They usually cut across most of the economic sectors. They include corporate governance, debt financing, profitability, company's liquidity position, growth prospects, firm size, ownership structure, legal restrictions and macro-economic variables.

2.3.1 Corporate Governance

It is an important factor with regard to how dividends are paid out in a company. This is because it affects how a firm is structured, and this affects its performance. How a corporation is governed affects other decisions on structure which subsequently affect the firm's payout rate. (Friend & Lang, 1988). Bad practices in governing

corporations affect how a firm performs, which leads to poor performance and reduction in the payout rate. (Claessens et al., 2002).

The concept is hinged on achieving development and efficiency among the top management of the organization, which will lead to development of the organization. Firms also use policies on corporate governance to determine conduct and assess how the management styles within. (Gomper et al., 2003). When a company has preferred practices, it saves costs due to conflict and other inefficacies. This makes the company perform better and fulfill other community social responsibilities as noted by (OECD, 2004).

2.3.2 Debt Financing

A rising study number have established that having a policy on dividends affects how a firm performs. Studies conducted by these individuals concluded that greatly levered companies decide upholding their cash flow internal to accomplish responsibilities, rather than allotting cash accessible to shareholders as well as safeguard debtors.

Despite this, Mollah et al. (2001) observed how pricing evolved and established an association that is direct amongst level of debt and how a firm performs which rises costs of transaction. Therefore, companies that have high leveraging ratios are associated to having transaction costs that are high, and are weak to manage higher dividends pay in avoiding the external financing cost. To evaluate the debt level in which it can have impact on dividend payouts, the research used the financial strength rates or liabilities rates to entire equity of shareholders. Al Kuwari (2009) established a bad association that is positive on both.

2.3.3 Profitability

A firm's profits is perceived as a key indicator of capacity of paying dividends. As per Lintner (1956) the firm's pattern of paying dividends is determined through the earnings of that particular year and the dividends of the previous years. Baker and Powell (2000) noted that dividend payments are determined by the expected level of future earnings.

Gitman and Pruitt (1991) stated that the profits of the current and previous years greatly show the ability of a firm to payout dividends. In their New York review of firms listed in exchange, Baker and Powell (2000) noted that industry definite and projected future earnings level is the major dividend determinant. This finding was in line with that of Lintner, which argues that organizations with cyclical earnings that are more smooth more (Abala, 2013). It implies that cyclical earnings have a huge impact on decisions made on dividends.

2.3.4 Liquidity

Dividend payments are regarded as cash outflow by the firm. Although a company could have enough earnings to declare dividends, the cash available at a particular instance might not settle dividends adequately. The organization cash position is therefore a critical factor to consider while making dividend payments; its ability to make payments increases and overall liquidity of the organization and cash position (Pandey, 2010).

Well established companies generally have higher liquidity which makes their dividends payment capability is higher. Such a company has little investments opportunity since most of its funds are not held in the working capital thus its cash position is secure. On the other hand, growing firms face the problem of liquidity. The

management has to consider the effect of paying out dividends on its liquidity position. If it impacts negatively on the liquidity position, the management may have to retain earnings than issuing following a conservative dividend policy (Pandey, 2010).

2.4 Empirical Review

Research has been conducted within the country and abroad to support the correlation of corporate governance- dividend payout, although contradicting results have been yield.

2.4.1 Global Studies

Arslan and Zaman (2015) sought to establish the correlation of corporate governance- payout policies. Research employed data from 100 KSE registered corporations in the years 2007- 2013. Statistical techniques that were used composed of logic regression analysis as well as means of the numerous groups. Corporate governance index entails: magnitude of the board, dualism role of the CEO, a fraction of the non-duty members the amount of shares that the institutional investors own, replacing of the auditor and audit report. The findings of this research proposed that dividends can be an output improved corporate governance. Corporations that neglect the rights of stockholders; self-seekers managing directors enroll free flowing funds as an investment in projects that embrace their prestige, splendor and reputation. Biphasic findings indicated the existence of credible correlation between profits of operations, liquidity, and composition of the asset, company size and funds leverage and their policy. There existed a poor correlation between composition of the asset dividend payout policy while an insignificant correlation existed between growth opportunities and the latter.

Aydin and Cavdar (2015) analyzed correlation of corporate governance- dividend policy. It sampled 19 corporations from Borsa Istanbul Corporate Governance Index that comprised of registered corporations with a level of Corporate Governance Principles in the years 2007-2014. The research a regression analysis known as Ordinary Least Squares (OLS). An analysis was carried out on the probable correlation of ownership composition and policies on dividends through employing the constant variants of concentrated, managerial and total foreign ownership. Moreover, the independent variants, as well was inclusive of Return on Equity (ROE), and organization size so that there can be rise in illustrative power of the model. Contrary, a strong positive correlation between total foreign ownership and dividend policy and also strong correlation among dividend payments was observed.

Tahir et al. (2016) made an experiential observation on effect of how corporates were governed on policy of dividends payout through employing data of 17 textile firms registered by Karachi Stock Exchange. Data was obtained as from   2009 to 2013. The data collected was a sample of the corporations from the financial statements. In addition, a lot of regression models were employed going through how the governance of corporations affected how dividends were paid out. Unfortunately, there was no index of company's policy on dividends, neither did the largest stockholder have an effect on the policy. There was a positive and fundamental correlation between the two variants. Moreover, the correlation between the two was significant

Kulathunga (2017) investigated the two using dividend policy of registered manufacturing organizations in Sri Lanka Stock Exchange. The study undertook sampled 20 registered corporations between 2010-2016. The constant variants were

magnitude of managing board, the independent board and the CEO dualism. During data analysis, the research employed fixed impacts on fixed impacts model using existing data. Results indicated a substantial correlation among variables of the two factors in the registered organizations. The research found a positive correlation between the board, CEO dualism, and returns on assets and had a good policy while the magnitude of the board had a negative effect on policy of dividends.

2.4.2 Local Studies

Olick (2015) studied how a firm was governed and its administration policies on how firms performed financially. Research was undertaken in context of Kenya. Census study was based on cross-sectional descriptive research design and data obtained from second hand sourced of nine finance banks' annual reports as of 2010-2014. Other models used in analysis of data to test significance. The study indicated that board size had a significant effect on ratio ROA, proportion of NEDs has positive insignificant effect; gender diversity showed how this affected performance.

Iraya et al. (2015) developed relationship between earning and how the organization was run for companies quoted in NSE. Key population of 49 companies which actively traded at the stock exchange between January 2010 and December 2012 was analyzed using descriptive research model. The findings showed that increasing concentration in ownership decreased the earning rates and vice versa. Having an independent board of management decreased the earning rates, while active boards enjoyed higher incomes compared to the rest.

Nyoka (2018) assessed how board diversity affected the rate of earning among Kenya listed manufacturing companies using descriptive research design model. Population target consisted nine listed manufacturing firms as of December 2017. Obtained

results established that Gender diversity had negative effect on earnings management in manufacturing companies. Age diversity did not affect earning rates much but board independence had a non-statistically as well and Nationality and firm size were statistically significant effect on rate of earning.
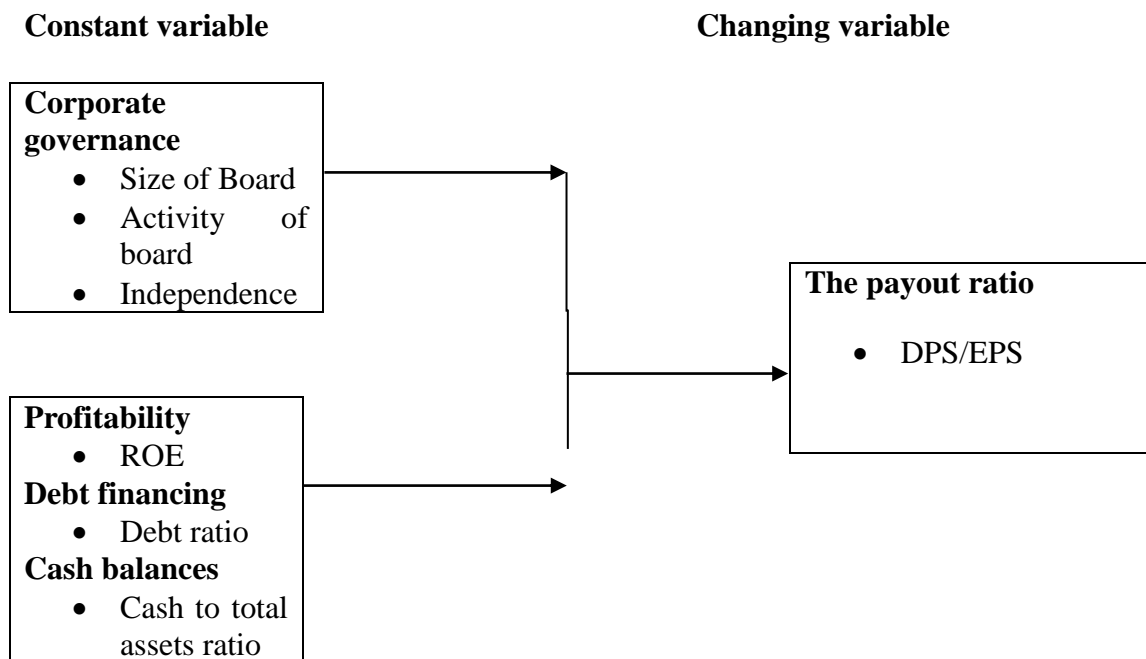
Were (2018) sought how corporate governance affected how firms would earn at the stock exchange. Population used were 64 organizations listed as of 31st December 2017. The association among various study variants was established using multiple linear regression models. The results revealed that board independence and board activity produced significant values for the research while firm size had positive values for the research. Board size and ownership characteristics were non-statistically significant determinants of rate of earning among firms listed.

Aboka (2018) sought to assess Kenya banks effect they hold on corporate governance in dividend payout ratio. The research was based on a population of 42 banks operating in the country. The constant variable for the work was corporate governance as characterized by magnitude of the board, board diversity and board independence while the control variables the amount of profits that have been measured using return on assets, bank size through logarithm of the sum of assets and debt level the way as shown by debt ratio to assets. A payout ratio was the dependent variable evaluated by division of dividend by share and earnings. Results further revealed that only profitability and size of the bank yielded good values relevant for research. It revealed that board diversity, magnitude, independence and debt levels were statistically insignificant factors that determined the payout ratio among banks.

2.5 The Conceptual Framework

The model below portrays expected association among study variables. Independent variants for the study will be corporate governance with three measures. The board's size will be measured using numbers. Activity of the board will be the number of meetings held annually and independence of the board evaluated by quotient of the non-executive directors to the number of board of directors'. The control variables will be debt financing, profitability and cash balances. Dividend payout will be the changing variant that this study will explain.

Figure 2.1: The Conceptual Model

Constant variable   **Changing variable**

Corporate governance
• Size of Board
• Activity of board
• Independence

The payout ratio
• DPS/EPS

Profitability
• ROE
Debt financing
• Debt ratio
Cash balances
• Cash to total assets ratio

Control Variables

Source: Researcher (2019)

2.6 Summary

A number of theories have explained theoretically expected relationships between corporate governance and the payout ratios. Theories covered in review are; agency, stakeholder and stewardship theory. Key influencers of dividend payout ratio have

also been explored here. Empirical studies, conducted locally and abroad, on the subject matter. Results have been explored in this chapter. it was evident from empirical review that a few studies have evaluated the extent corporate governance and dividend payout ratio are related. Therefore, the research sought to answer: How does dividend payout ratio is influenced by corporate governance of organizations that are listed?

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

Determining corporate governance effects on dividend payout entailed methods showing how research will be carried out. The section Sections contained include; the design of the research, collection of data, data tests and analysis.

3.2 Research Design

A descriptive cross-sectional research design was utilized to investigate the relationship between these two variants. This design was selected since the researcher seeks to determine the current state of affairs of the phenomena (Khan, 2008). It is appropriate when the researcher is familiar with the phenomena being investigated but seeks more knowledge on the nature of associations between the study variables. Additionally, this type of research seeks to represent the variables validly and accurately which will aid in providing responses to the paper (Cooper & Schindler, 2008).

3.3 Population

The study population was entire 12 listed organizations as at 31st December 2018 (see appendix I).

3.4 Data Collection

The data was second hand obtained solely from yearly financial reports of the organizations listed at NSE between January 2014 and December 2018. The data was collected from Capital Markets Authority (CMA) and individual firm's yearly reports. Findings from this detailing the constant variants and changing variants for the 12 firms listed at NSE.

3.5 Data Analysis

Data was analyzed by the use of SPSS software version 23 and findings were quantitatively presented the findings using graphs and diagrams. Descriptive statistics was employed in the summary and explanation of the study as observed in the firms. The results were presented using frequencies, percentages displayed in tables. Inferential statistics included ANOVA, multiple regressions, coefficient of determination and Pearson correlation.

3.5.1 Diagnostic Tests

The study undertook several diagnostics test to assess the applicability of the research structure. The study first assessed for normality which through the Kolmogorov-Smirnov and Shapiro-Wilk tests both residuals where in both tests, a non-important result (a p factor of greater than 5%) was deemed an indication for normality. The study also assessed for multicollinearity using the tolerance and the variance inflation factors of more than 0.2, a VIF of more than 10 was an indication of the presence of multicollinearity. Additionally, the study assessed for heteroskedasticity using the Levene test and the plotting of residual graphs and assess for serial correlation (autocorrelation) using the Durbin Watson test where a value of between 1.5 and 2.5 will indicate that there exists no auto-correlation.

3.5.2 Analytical Model

The applied model is shown below:

$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \varepsilon.$

In which: Y = Dividend payout ratio given by the ratio of dividend per share to earnings per share on an annual basis

α = y intercept of the regression equation.

β_1, β_2, β_3, β_4, β_5, β_6 =are the slope of the regression

X_1 = Size of board as measured by natural logarithm of total number of board members.

X_2 = Board independence as measured by percentage of the non-executive directors in proportion to the total number of directors

X_3 = Board meetings as assessed by natural logarithm on meetings held annually.

X_4 = Profitability as measured by return on equity on an annual basis.

X_5 = Debt financing as assessed on ratio of all debts to all assets annual.

X_6 = Cash balances as assessed on ratio of cash balances of all the assets on an annual basis.

ε =The error term

3.5.3 Tests of Significance

Parametric were tests to find out how significant the statistical models were. F-test was used to assess how significant of the model and it was discovered by the Analysis of Variance (ANOVA) while a t-test established the significance of individual variables.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND FINDINGS

4.1 Introduction

The part aims to present analysis on collected data from organizations' yearly reports to establish how corporate governance impacted how organizations performed. Using regression analyses, correlation and descriptive statistics, findings were illustrated on tables as illustrated in the subsequent sections.

4.2 Response Rate

The 12 listed firms at the Stock market of Nairobi were the target population for the current research. Data obtained from the 12 firms meant that the response rate was at 100%. The researcher successfully acquired secondary data on corporate governance, cash balances, profitability, debt financing and dividend payouts of the firms.

4.3 Descriptive Analysis

Measures of dispersion statistics and central tendency were used. Central tendency was used to measure level to which the data on each variable were concentrated at a central point while dispersion measured the degree to which the data were spread out from the convergent point. The central tendency was measured by the mean while dispersion was measured by the standard deviation. The analysis was extracted from SPSS software for 5 years (2014 - 2018) for all the 12 firms in study. The figure below shows std deviation Minimum, mean and Maximum

Table 4.1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Payout of dividend	58	-1.2500	1.4493	.250831	.4404343
Size of board	58	4.000	18.000	9.10345	3.512832
Independence of board	58	.6250	1.0000	.815397	.0856563
Board meetings	58	3.0000	8.0000	4.413793	1.0093333

Profitability	58	-3.9711	2.5868	-.057459	1.4062969
Debt financing	58	.0000	.8980	.225429	.2228928
Cash balances	58	-.3529	.3258	.006588	.1433203
Valid N (listwise)	58				

Source: Research Findings (2019)

4.4 Diagnostic Tests

Linear regression assumes insignificant Multicollinearity between pairs of variables. The data on corporate governance, cash balances, profitability and debt financing were tested for significant Multicollinearity. Figure 4.2 shows the VIF test results that were obtained as a result of diagnosis of Variance inflation factors (VIFs).

According to Sapsford (2007) multicollinearity is characteristic in data that cannot be eliminated completely but only ought to be as low as possible. According to Cooper and Schindler (2006) VIF values above 10.0 demonstrate significant multicollinearity between pairs of variables. fig 4.2 shows that the variance inflation factors were 1.356, 1.382, 1.434, 1.982, 1.422 and 1.398 size of, independence and meetings of the board respectively. This shows that there was no significant multicollinearity in the variants since none of them was above 10.0.

Figure 4.2: Multicollinearity Test for Tolerance and VIF

	Collinearity Statistics	
Variable	Tolerance	VIF
Board size	0.352	1.356
Board independence	0.360	1.382
Board meetings	0.646	1.434
Profitability	0.398	1.982
Cash balances	0.388	1.422
Debt financing	0.376	1.398

Source: Research Findings (2019)

Linear regression assumes that data was normally distributed. Two tests were used. The secondary data was not normal was the null hypothesis for the test. The researcher would reject p-value greater than 0.05. Shown in figure 4.3 are results of the test.

Fig 4.3: Normality Test

Dividend payout ratio	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	Df	Sig.
Size of the Board	.178	58	.300	.881	58	.723
Independence of the Board	.173	58	.300	.918	58	.822
Meetings of the Board	.173	58	.300	.918	58	.822
Profitability	.175	58	.300	.874	58	.812
Cash balances	.174	58	.300	.913	58	.789
Debt financing	.176	58	.300	.892	58	.784
a. Lilliefors Significance Correction						

Source: Research Findings (2019)

Both Shapiro-Wilk and Kolmogorov-Smirnova tests revealed that the research data was normally distributed by recording o-values more than 0.05 and hence rejecting the alternative hypothesis. The data was consequently considered fit to be used in conducting parametric tests like ANOVA, Pearson's correlation and regression analysis.

Serial correlation exists where variable measures are influenced by its historical values which makes modeling complex. Autocorrelation is equally referred to as first order serial correlation. In this work, Durbin Watson tested autocorrelation and 1.713 was obtained which are within acceptable range between 1.5 and 2.5 implied that there was no seriality relationship of residual variable.

Diagram 4.4: Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.790ᵃ	.624	.580	.2853748	1.713

a. Predictors: (Constant), Cash balances, Board meetings, Board Independence, Board size, Debt financing, Profitability
b. Dependent Variable: Dividend payout

Source: Research Findings (2019)

4.5 Correlation Analysis

This measures the existing relations between the variants. It undertakes a Pearson correlation that measures the linear relationship of variants. A perfect positive correlation is showed by 1 while 0 or value close to zero shows no relationship or weak relationship respectively. -1 value, shows a negative perfect relationship and values close to it have strong negative relationship. The table 4.5 showed value of Pearson correlations for the variants.

As per the table, our interest is on how changing variants relates to the constant variants. The correlation of board size against dividend payout ratio is 0.569 implying that board size exhibits a positive relation with dividend payout ratio. The association is also substantial. The payout ratio had positive correlation with the board independence. Board meetings exhibited negative and not significant association with dividend payout ratio as shown by -0.177 and a p value which is higher than 0.05.

Balances in cash and profit showed a positive and significant association with dividend payout ratio among firms listed at NSE as evidenced by positive correlation coefficients and p values less than 0.05. Loan financing exhibited a negative relation with dividend payment ratio as shown by -0.342. The correlation results further reveal that the association is weak enough to show Multi collinearity.

Table 4.5: Correlation Analysis

		Dividend payout	Board size	Board Independence	Board meetings	Profitability	Debt financing	Cash balances
Dividend payout	Pearson Correlation	1						
	Sig. (2-tailed)							
Board size	Pearson Correlation	.569**	1					
	Sig. (2-tailed)	.000						
Board Independence	Pearson Correlation	.164	.144	1				
	Sig. (2-tailed)	.219	.280					
Board meetings	Pearson Correlation	-.177	.062	-.111	1			
	Sig. (2-tailed)	.183	.644	.408				
Profitability	Pearson Correlation	.483**	-.047	.062	-.140	1		
	Sig. (2-tailed)	.000	.727	.642	.294			
Debt financing	Pearson Correlation	-.342**	-.097	-.115	.242	-.530**	1	
	Sig. (2-tailed)	.009	.469	.388	.068	.000		
Cash balances	Pearson Correlation	.496**	.232	.125	-.058	.481**	-.330*	1
	Sig. (2-tailed)	.000	.079	.351	.664	.000	.011	

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).
c. Listwise N=58

Source: Research Findings (2019)

4.6 Regression Analysis

The below model was employed.

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

A regression analysis was undertaken that had findings as stipulated below.

Table 4.6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.790[a]	.624	.580	.2853748	1.713
a. Predictors: (Constant), Cash balances, Board meetings, Board Independence, Board size, Debt financing, Profitability					
b. Dependent Variable: Dividend payout					

Source: Research Findings (2019)

In the model summary table, coefficient of determination denotes, R squared (0.624). It shows the strength in which the model is able to forecast the dependent variable. The value indicates that 62.4% of the variations can be described in model. The other 37.6% can only be described by other factors that are not present

Table 4.7: Analysis of Variance

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	6.904	6	1.151	14.128	.000[b]
1	Residual	4.153	51	.081		
	Total	11.057	57			
a. Dependent Variable: Dividend payout						
b. Predictors: (Constant), Cash balances, Board meetings, Board Independence, Board size, Debt financing, Profitability						

Source: Research Findings (2019)

This model is established by matching the p value with the alpha value. The model is said to be insignificant when the value of P is higher than that of the alpha while the vice versa is true. The regression analysis is undertaken at 95 degrees of freedom which means the alpha value is 0.05. According to the table, p is

shown as 0.000 and is less than alpha value and therefore the connection between the constant variants and payout of firms listed is important.

To determine whether or not to reject the alternative hypothesis we compare the F statistic and the calculated value of F as shown in the table 4.7. The calculated value is higher than existing, it will be rejected. According to the topic under study, a null hypothesis states that, no effect on the selected independent variables on pay-out ratio of firms that are listed. Calculated F value is 14.128 while the F statistic at an alpha of 0.05 and 6, and 58 degrees of freedom is 3.28. The value is greater which means, the null hypothesis is rejected. We therefore conclude that there is a substantial effect of selected variables on the pay-out ratio of commercial and service firms.

Table 4.8: Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.213	.423		-.503	.617
	Board size	.070	.011	.561	6.133	.000
	Board Independence	.122	.452	.024	.269	.789
	Board meetings	-.064	.039	-.148	-1.655	.104
	Profitability	.134	.035	.427	3.800	.000
	Debt financing	.059	.207	.030	.285	.777
	Cash balances	.490	.316	.159	1.553	.127
a. Dependent Variable: Dividend payout						

Source: Research Findings (2019)

The coefficients $\beta0$, $\beta1$ and $\beta2$ are given by; -0.213, 0.070 and 0.134 respectively. The model therefore becomes

$$Y = -0.213 + 0.070X_19 + 0.134X_2$$

Where,

Y = Dividend payout ratio

X_1 = Board size

X_2= Profitability

This model may therefore show effect of any independent variants on payout rates, when a variable increased by 1 unit and all other variables are kept constant.

4.7 Discussion of Research Findings

A study undertook a linear regression model on data collected in examining how dividend payout of commercial and service organizations listed is influenced by corporate governance. Data diagnostic test was first conducted to check presence of collinearity or presence of residuals in autocorrelations. Collinearity test undertaken showed that all variables (VIF) are less than 10 in value and therefore there was no collinearity among the variables. The Durbin Watson value was 1.537, less than 2.5 and therefore there were no residuals or autocorrelations that would imply error in the model.

There was 100% response rate and was enough for obtaining conclusions from findings of data. Pearson correlation indicated that correlation of board size against dividend ratio is -0.569 implying that board size exhibited a strong positive association with payout ratio. Board independence has a positive correlation with dividend payout ratio. The association is however not significant. Board meetings exhibited negative and not statistically significant association with dividend payout ratio as evidenced by -0.177 with a p value of more than 0.05. Profitability and cash balances exhibited a positive and significant association with dividend payout ratio of commercial and service firms listed at the NSE as evidenced by positive correlation coefficients and p values less than 0.05. Debt financing exhibited a negative association with dividend payout ratio as shown by -0.342.

Regression analysis undertaken discovered that the model would predict 62.4% of variations in dividend payout ratio of the firms. The other 37.6% however would be as a result of factors not in this model. The analysis showed that alpha value was greater than the p value hence significant relationship exits. The calculated value of F was higher than F statistic making the null hypothesis to be rejected.

The findings support a study done by Tahir et al. (2016) who made an experiential observation on index of

governance on the payment policies through employing data in 17 textile firms registered by Karachi Stock Exchange. The data obtained as from 2009 to 2013. The data collected was a sample of the corporations from the financial statements. In addition, a lot of regression models were employed going through the study. Unfortunately, there was no effect, neither does the largest stockholder has any effects. a positive fundamental correlation exists between payout policy and stock value. Additionally, Gross profit margin and operating profit margin showed a fundamental impact on company's dividend policy.

The findings are in contrast with Aboka (2018) who tried to find out impact of corporate governance on dividend payout ratio of banks in Kenya. The population comprises 42 commercial banks that operate in Kenya was used in this research. The constant variants for this study was corporate governance as characterized by magnitude of the board, board diversity and board independence while the control variables the amount of profits that have been measured using assets, bank through the measurements done on logarithm of the sum of all assets and debt level the way it was evaluated. Payout was the dependent variable measured by division of dividend per share by earnings per share. The results further revealed that only profitability and size of the bank yielded good information relevant to the research. It revealed that magnitude of the board, board diversification, board independence and debt levels were statistically insignificant factors in banks.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section presents results from subsequent chapter, it conclusions, limitations encountered during study. It also recommends policies that can be used to improve firm's expectations in regards to achievement of superior dividend payout ratio. Additionally, this part gives recommendations for future study.

5.2 Summary

Regression analysis undertaken showed the significant impact of selected independent variables on dividend payout ratio of firms. Regression model that was used however was relatively weak as it only predicted a small percentage. Only board size exhibited a substantial influence on the payout ratio of commercial and service organizations listed. Board independence had a good ratio of firms while board meetings had a negative but insignificant effect on firms.

Other constant variants in the model were profitability, cash balances and debts financing that were the control variables. Profitability had a substantial effect on the ratio showing profitable commercial and service firms are able to pay more cash. Cash balances was also found to have a good ratio on commercial and service firms while debt financing had a positive significant but not statistically showed the rate of influence on dividend payout ratio of listed companies.

The study showed that the p value was below the alpha value of 0.05 at 0.000 implying a statistically significant. while, F statistic was also less than the calculated value of F at 14.128 as the critical F value was at 3.28 and results were applied to determine the relationship between the variables.

5.3 Conclusion

From the work summary, only the number of the board has a substantial positive impact on dividend payout ratio in organizations listed. Although there is a positive effect of board independence on dividend payout ratio of commercial and service firms, effect is not substantial and therefore cannot be used to influence

payout of organizations listed. Board meetings showed an insignificant influence on of commercial and service firms implying that although number of meetings had negative influence on dividend payout ratio, but it was not statistically significant.

Regression model had a coefficient of determination (R Squared) of 62.4%, which means that it can explain up to 62.4% of the variations of organizations listed. Other variations in dividend payout ratio represented by 37.6% are elaborated by outside factors. The model was substantial and we can therefore conclude that this model is fairly good in predicting dividend payout ratio of organizations listed.

Factors such as profitability had a good effect on dividend payment in which shows that profitable companies are cable to distribute earnings as dividends to owners. Debt financing also had a good correlation with the payment showing companies with a big percentage of debt financing should pay more dividends.

The study also shows that cash balances had a positive non-statistically significant on dividend payment in organizations listed. Commercial and service firms that intend to increase its dividend payout ratio could invest in improving its cash balances by coming with better working capital management practices since this would show a positive result as evidenced in this study.

This study is in contrast with Kulathunga (2017) who did a study to determine how dividend policy correlates with corporate governance of registered firms in the stock exchange market of Sri Lanka. It undertook a 20 samples of corporations registered in Colombo in the years 2010-2016. The independent variables of the research study constituted the management, independent boards and CEO d. During data analysis, the research employed fixed impacts on fixed impacts model employing the data. Results indicated significant correlation along the variables of corporate governance and the dividend payment of registered manufacturing corporates in Sri Lanka. The research indicated a positive and significant correlation between the independent board, CEO dualism and returns on assets and had a relationship on dividend policy while the magnitude of the board members has negative effect.

5.4 Recommendation

Study indicates that dividends payment is impacted by the board size. This implies that Commercial and service firms with more board members on average produce better results compare to board with less members. Therefore, study recommends below following policy change: Firms listed should work on adding more board member's because it will result to an improved company dividend payout ratio. Kenya should formulate and moreover implement policies that ensure all commercial and service firms have adequate members in their board as this will translate to improved overall pay rate of the country.

It indicates a positive relationship exists between pay rate along profitability. The study recommends that a comprehensive assessment of listed commercial and service firm's profitability need to be considered for a company to operate at recommended profitability levels that result's to a better pay rate.

It established a positive relationship that cash balances pose on pay rate of different firms. Thus, an increase in cash balances would on average result to an improvement on dividend payout of commercial and service firms. It advised that a thorough assessment of commercial and service firm's instant cash balances need to be checked on to enable a firm operate at reasonable levels of cash balances that will raise dividend payout ratio. An organization cash balances position is important since it influences how it operates.

5.5 Research Limitations

A span of five years, that is from 2014-2018 was selected. There is no proof that similar results will remain the same for more time. More time would prove more reliable since it will include cases of major economic changes like recessions and booms.

The most significant limitation for this study was the quality of the data. It cannot be concluded with accuracy from this study that the findings are a true representation of the situation at hand. An assumption has been made that the data used in research is accurate. Additionally, much of inconsistency in data analysis was experienced due to the prevailing conditions. The study utilized secondary data contrast to

primary information. It took into of commercial and service firms and not all factors because of the limit imposed by data availability.

To complete data analysis, multiple linear regression model was used. Because of limitations involved when using the model like erroneous and misleading results resulting from a change in variable value, it would be impossible for the researcher to generalize the findings with accuracy.

5.6 Proposal for Future Investigation

Present study concentrated more on dividend payments among organizations listed. It was impacted by corporate governance by relying on secondary data. A similar study that is based on primary data collected with tools such as detailed interviews and questionnaires conducted on all 12 commercial and service firms offering would be more appropriate in complimenting this research.

This study did not exhaust all the constant variants affecting in commercial and service organizations and therefore gives a recommendation that future studies be based on other variables such as age of the firm, growth opportunities, industry practices, political stability or any other macro-economic variable. Policy makers should be able to implement an appropriate tool to control dividend payout ratio of these firms.

It utilized data from recent five years since it was readily available. Subsequent studies may use a longer range of years like 10 years or 20 years which can be useful in complementing or disapproving the results. Other limitations are that it focused only on commercial and service firms. It is suggested that future studies centered equally on other institutions listed at the NSE. Lastly, due to the limitations of the regression models, further studies should adopt a different model in explaining the relationship between the variables for example use Vector Error Correction Model.

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APPENDICES

Appendix I: Service and Commercial Firms that are Listed at the Nairobi Stock Exchange

1. TPS Eastern, Africa Limited
2. Atlas Development and Support Services
3. Nairobi Business Ventures
4. Deacons (East Africa) Limited
5. Longhorn Kenya Limited
6. Scan group Limited
7. Uchumi Supermarket Limited
8. Eveready Limited
9. Express Limited
10. Kenya Airways Limited
11. Nation Media Group
12. Standard Group Limited

Appendix II: Research Data

Company	Year	Div Pay-out	Board size	Board Independence	Board meetings	Profitability	Debt financing	Cash balances
Express	2018	0.0000	4.000	0.7500	4.0000	-0.4419	0.8165	-0.1499
	2017	0.0000	4.000	0.7500	4.0000	-0.5320	0.5144	-0.1324
	2016	0.0000	5.000	0.8000	4.0000	-0.6320	0.5295	-0.1263
	2015	0.0000	5.000	0.8000	4.0000	-0.4273	0.4197	-0.1064
	2014	0.0000	5.000	0.8000	4.0000	-0.4589	0.2391	-0.1040
TPS	2018	0.5072	11.000	0.9091	3.0000	1.3364	0.2689	-0.0103
	2017	0.9722	12.000	0.8333	4.0000	1.4313	0.2560	0.0350
	2016	0.6481	11.000	0.8182	6.0000	1.7857	0.2181	0.0840
	2015	-0.1534	11.000	0.8182	6.0000	-1.1581	0.1629	0.0179
	2014	1.0000	13.000	0.8462	4.0000	1.2082	0.1247	-0.0056
Scan Group	2018	0.7299	9.000	0.8889	4.0000	2.2212	0.0348	0.3035
	2017	0.6250	8.000	0.8750	4.0000	1.8382	0.0000	0.2469
	2016	0.4464	8.000	0.8750	4.0000	1.9161	0.0000	0.2899
	2015	0.4464	8.000	0.8750	4.0000	2.3102	0.0141	0.3258
	2014	0.3333	7.000	0.7143	4.0000	2.4079	0.0221	0.2857
Longhorn Publishers Limited	2018	0.6269	11.000	0.7273	4.0000	1.0026	0.2429	0.1739
	2017	0.6122	9.000	0.8889	4.0000	0.6576	0.1798	0.0063
	2016	0.5303	9.000	0.8889	4.0000	0.5112	0.2554	0.1093
	2015	0.2143	8.000	0.8750	4.0000	0.6627	0.0605	0.0012
	2014	1.2346	8.000	0.8750	4.0000	2.5167	0.0000	0.1729
	2013	0.0000	7.000	0.8571	4.0000	2.5868	0.0000	0.0000

Company	Year	Div Pay-out	Board size	Board Independence	Board meetings	Profitability	Debt financing	Cash balances
KQ	2018	0.0000	13.000	0.8462	8.0000	-1.3029	0.6042	0.0471
	2017	0.0000	11.000	0.8182	4.0000	-1.3635	0.6121	0.0622
	2016	0.0000	13.000	0.8462	4.0000	-3.4882	0.8980	0.0310
	2015	0.0000	13.000	0.8462	5.0000	-3.9711	0.8117	0.0179
	2014	0.0000	13.000	0.8462	5.0000	-0.6497	0.5988	0.0755
Nation Media	2018	0.8475	18.000	0.8333	4.0000	0.0035	0.0000	0.0774
	2017	1.4493	18.000	0.8333	4.0000	0.0041	0.0000	0.1495
	2016	1.1236	18.000	0.8333	4.0000	0.0052	0.0000	0.0387
	2015	0.8475	17.000	0.8824	4.0000	0.0060	0.0030	-0.0044
	2014	0.7634	17.000	0.8824	4.0000	0.0077	0.0057	0.0053
Standard Group	2018	0.2490	9.000	0.8889	6.0000	0.9720	0.2672	-0.0324
	2017	0.0000	9.000	0.8889	8.0000	-0.6905	0.2726	-0.0829
	2016	0.0000	8.000	0.6250	7.0000	0.6594	0.2747	-0.0681
	2015	0.0000	8.000	0.6250	7.0000	-0.9685	0.3414	-0.1034
	2014	0.1946	8.000	0.6250	4.0000	0.7979	0.2206	-0.0681
Sameer	2018	0.0000	8.000	0.8750	4.0000	-0.4932	0.3769	-0.3529
	2017	0.0000	8.000	0.8750	4.0000	0.0752	0.1996	-0.1491
	2016	0.0000	8.000	0.8750	4.0000	0.4558	0.2519	-0.2107
	2015	0.0000	8.000	0.6250	4.0000	0.0057	0.1449	-0.0098
	2014	-1.2500	6.000	0.8333	4.0000	-0.0769	0.0000	-0.0647
Eveready	2018	0.0000	9.000	0.6667	4.0000	-0.7944	0.0225	0.1195
	2017	0.7874	9.000	0.6667	4.0000	1.1864	0.0058	0.3182
	2016	0.0000	9.000	0.6667	4.0000	-1.0427	0.4094	-0.0007

Company	Year	Div Pay-out	Board size	Board Independence	Board meetings	Profitability	Debt financing	Cash balances
			0					
	2015	0.0000	9.000	0.6667	4.0000	-0.7686	0.2166	-0.1889
	2014	0.0000	9.000	0.6667	4.0000	-1.1810	0.3170	-0.3073
Uchumi	2017	0.0000	9.000	0.8889	4.000	-1.1579	0.0000	-0.1198
	2016	0.0000	9.000	0.8889	4.000	-1.8852	0.0723	-0.0656
	2015	0.0000	9.000	0.8889	4.000	-2.2781	0.0415	-0.0475
	2014	0.2190	7.000	0.8571	4.000	0.3261	0.1184	0.0480
Deacons (East Africa) PLC	2018	0.0000	6.000	0.8333	4.000	-1.3462	0.0786	0.0479
	2017	0.0000	6.000	0.8333	4.000	-2.6650	0.3178	-0.0666
	2016	0.0000	6.000	0.8333	5.000	-1.2466	0.1621	-0.0054
	2015	0.5435	6.000	0.8333	5.000	0.1458	0.2634	0.0550
	2014	0.0000	6.000	0.8333	5.000	0.0436	0.2897	0.0436
Business Venture	2018	0.0000	5.000	1.0000	4.000	0.0000	0.2735	0.0568
	2017	0.0000	5.000	0.8000	4.000	-1.3919	0.1038	-0.1462
	2016	0.0000	5.000	0.8000	4.000	-0.0075	0.1398	-0.1344