Board Composition and Dividend Decisions of Companies Listed at the Nairobi Securities Exchange Kenya

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ABSTRACT

Boards play a vital role in the field of corporate governance in corporate by acting as the overall governing body on all affairs of an organization. Dividend decisions determine the amount of retained earnings that serve as an internal source of finance for most listed companies. The main purpose of this study was to determine how board composition affected dividend decisions of companies listed at the Nairobi Securities Exchange. The study was guided by the following specific objectives: to determine the effect of Director Skills on dividend decisions of companies listed at the Nairobi Securities Exchange, to establish relationship between board independence and dividend decisions companies, listed at the Nairobi Securities Exchange, to examine the effect of board diversity on dividend decisions of companies listed at the Nairobi Securities Exchange and to investigate the effect of board tenure on dividend decisions companies listed at the Nairobi Securities Exchange. The study was anchored on the following theories: agency theory, stakeholder’s theory and stewardship theory. The study adopted a descriptive research design. The population of this study consisted of 700 top management staff drawn from all the 64 firms listed at Nairobi Securities Exchange. Stratified random sampling technique was used to select the sample. The sample size consisted of 254 top management staff of all the 64 listed firms at Nairobi Securities Exchange. The study used both secondary and primary data. Primary data was collected using questionnaires which were structured. Collected research data was analyzed using Statistical Package for Social Scientists software. The analysis was done using both descriptive and inferential statistics. This study provides an objective assessment of the available data and studies regarding the effect of board composition on dividend decisions of companies listed at the Nairobi Securities Exchange. The findings are appropriate and relevant for seeking a solution to combating poor board compositions among listed companies which improve their dividend decisions. This study has intellectual importance especially to other companies not listed on Nairobi Securities Exchange but facing similar problems with their board composition. It provides essential information for scholars seeking a wide variety of options towards approaching the issue of board composition and dividend decisions of companies. At 5% level of significance, directors’ skills, board independence and board tenure were found to be statistically significant while board diversity was not significant. The study used the F-statistic to test the overall significance of the regression model and the model was found statistically significant and suitable for this study. The model had an \( R^2 \) of 0.7769 implying that variations in the four independent variables accounted for 77.7% of variations in the dependent variable which was further proof that the model was statistically significant and suitable for the study since it explained nearly all the variability of the dependent variable. It is against this backdrop that this research study arrived at conclusions including that profitability had the greatest influence on dividend payout for firms listed at the NSE and recommended among others, that companies listed at the NSE observe and manage well their policies dealing with the four independent variables. Finally, the study made various recommendations among them, further similar research using multiple economic factors. This will enable a thorough research as it gives a wholesome approach to establishing determinants of dividend payout for firms listed at the NSE.

Key Words: Board Composition, directors’ skills, board independence, board diversity, board

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1. Introduction

Boards play a vital role in the field of corporate governance in corporate by acting as the overall governing body on all affairs of an organization (Omneya, Ahmed & Sabri, 2008). This, therefore, means that the diversity with which a board is constituted determines how well the resources of the organization are utilized in the generation of wealth for the shareholders. Board composition is a key subject in the error where corporate governance has become a key issue in organization management following the separation of business ownership and management. Corporate governance indicates putting in place a board of directors who are charged with a number of decisions for example investment, financing, working capital and dividend decisions that all affect the financial performance of the company. Board composition has been defined differently by a number of scholars. According to Lawal (2012), board composition is a judicious composition of the executive directors (including the chief executive officer) and non-executive directors of the board. Usually, the non-executive directors are referred to as outsiders while executive directors are referred to as insiders (Uadiale, 2010). Board composition refers to the manner to which members and directors of the board are constituted and these include the age, level of education and duality, technical and professional skills besides the number of directors of board members. According to Bashir (2013), the board of directors determines corporate decisions which include dividend decisions. However, shareholders authorize these decisions on a regular basis.

Dividend decisions are concerned with how the company distributes the net profit among shareholders while setting aside another portion for investment purpose. Dividend decisions determine the amount of retained earnings that serve as an internal source of finance for most listed companies (Ross, 2012). Maximization of the wealth of the shareholders is one of the objectives of a firm and this happens by striking a balance between the earnings distributed to shareholders in form of dividends and the dividends set aside for shareholders (Dickens, 2012). Different firms pay different types of dividends. The cash dividend is the most common type of dividend paid by companies. With cash dividend, the board of directors on the date of declaration resolves to pay a certain dividend amount in cash to those investors holding the company's stock on a specific date. Other companies use stock dividends also called dividend in kind. A firm pays a dividend in kind when instead of distributing cash, assets such as shares of other corporations are distributed to its shareholders in proportion to their holdings of shares (Faris, 2012). There are also rights and bonus issues. Rights issues are options where the existing stockholders can exercise pre-emption rights to purchase further securities in a company in proportion to their holdings. A bonus issue, on the other hand, refers to an offer of free additional shares to existing shareholders (Nor-Hasmadila, 2014).

Shareholders of the listed companies who are investors in these firms usually invest their money in shares of these companies in order to earn returns in future through dividends and capital gains. The buying and selling of shares are usually done in a properly established market. Markets that facilitate the transfer of shares among shareholders of listed firms are...
generally referred to as securities exchange market. Example of securities markets across the world includes the New York Stock Exchange NYSE, the National Association of Securities Dealers Automated Quotations NASDAQ and Nairobi Securities Exchange NSE in Kenya. One of the goals of a firm is to maximize the wealth of shareholders (Griffin, 2010), by shareholders with good returns on their investment. Efficient board of directors provide checks and balances between managers and shareholders and this can make firms to adopt dividend policies that maximize shareholders wealth (Vojtech, 2013). Sheikh and Wang (2010) noted that the board of directors protect the interests of shareholders by reducing agency problems through dividend decisions.

According to Liew (2013), shareholders wealth can also be enhanced by a firm’s dividend decision. This is because the amount that a company is required to distribute to its shareholders is determined by its dividend decision. Dividend decisions are important because they determine the number of funds that flow to investors and the number of funds that are retained in a firm for investment purposes. Dividend decisions are important in organizations because they enable firms to achieve efficient performance and to attain their goals. Dividend decisions are important because they determine what funds flow to investors and what funds the firm retains for investment (Ross et al., 2002). Dividends are part of the profits of a company that is distributed amongst its shareholders (Mohanraj & Deepa, 2012). Dividends are important to the shareholders and this is what they look for when they want to invest in a firm as they show the earnings potential of that firm (Murekefu & Ouma, 2012). Good dividend payouts do indicate that companies are generating real earnings.

Companies put in place a board of directors so as to reduce agency costs. This is because the boards monitor the behaviour of the CEO and the management of the company in general. Besides the board of directors, dividends are also used to reduce agency costs in companies (Chapple & Humphrey, 2014). Dividend payment lowered agency costs in a company because this reduced the free cash flows while at the same time it shall cause these companies to raise more finances from the equity markets. It, therefore, implies that payment of dividend besides having in place effective boards are two methods used by companies to lower transaction costs. If the board of directors is performing well, this is likely to lower agency costs and therefore less need of paying dividends to shareholders (Baños-Caballero, García-Teruel & Martínez-Solano, 2014). The wave of global corporate scandals, for example, the Enron and WorldCom lead to the question as to what board composition is best able to monitor the management of a company. This is because the management of these companies as all involved in questionable accounting practices which were undetected by their respective boards. According to Organization for Economic Co-operation and Development, OECD (2004), effective governance depends on an effective selection process for new directors, which in turn rests on a clear definition of what the duties of a director are.

In United Kingdom, O’Sullivan and Diacon (2003) sought to determine the impact of board composition on the performance of proprietary (stock) and mutual companies covering a period of 1984-1999 among 53 insurance firms and established that mutual insurers had greater non-executive representation on their boards and that there is a lack of consistent evidence on non-executive monitoring and impact on performance. In East Asia, there was an economic downfall in 1997 which is largely attributed to board composition mechanism which forms the larger corporate governance. Some of the cases in East Asia relating to board composition in East Asia involved failures of large companies, for example, Renong and Taiwan’s Procomp Informatics Ltd in 2004, Rebar Group, Hyundai and Samsung that were characterized by poor board composition (Heng, Azrbaijani & San, 2012). In Pakistan, the ownership structure of companies is highly concentrated most of the companies are owned by a single owner or one particular family that not only owns but manages a huge number of
affiliated firms. In Egypt, most of the listed companies have one tier boards that are made up of an odd number of board members consisting of a minimum of three members. However, the board of directors of a joint stock company should have at least a majority of non-executive members with an adequate mix of skills, technical or analytical experience (Bahaa-El-Din & Shawky, 2005). In Nigeria, Kurawa and Ishaku (2014) sought to establish the effect of board composition on dividend policy of five commercial banks out of the fifteen that were listed on the Nigerian Stock Exchange over the period of 2003-2012. It was established that management equity holding has a significant effect on dividend payout ratio; Board size and CEO duality had an insignificant effect, while board independence exhibited the negative but insignificant effect.

Dividend decisions are affected by numerous factors, for example, the legal requirement, liquidity level of an organization, stability of earning, accessibility to securities exchange markets, age of the company, nature of the industry, desire for control and agency costs. For companies listed on NSE, there is a clear separation of ownership and control and these results in agency problems. One way of reducing these agency problems is by paying dividends while at the same time putting up a board of directors. Therefore, most companies put in place a board of directors and dividend decisions so as to reduce agency costs. This is because the boards monitor the behaviour of the CEO and the management of the company in general. (Chapple & Humphrey, 2014). Kenya has witnessed corporate failure involving some listed firms at Nairobi securities exchange (NSE) such as Uchumi, CMC Motors, Mumias and most recent banks such as Imperial Bank, Dubai Bank and Chase Bank and these have ignited debates on board composition and dividend decisions (Travlos, Trigeorgis & Vafeas, 2015).

The board composition in Kenya is clearly outlined under Section 11(3) and 12 of the Capital Markets Authority Act, (CMA Act, 2000). The CMA guideline on corporate governance practices (2002) has proposed that a balanced board constitutes an effective board. It, therefore, requires that the board of directors of every listed company should reflect a balance between the independent non-executive directors and executive directors. The independent and non-executive directors should form at least one-third of the membership of the board to ensure that no individual or small group of individuals can dominate board decision making processes. In Kenya, some listed firms have undergone corporate failures resulting from corporate governance where board composition is one of the aspects. These listed companies that have experienced corporate failure include Mumias Sugar Company, Uchumi Supermarket and CMC Motors. In the banking sector, Imperial Bank, Dubai Bank and Chase Bank are some of the other financial institutions that have experienced corporate failure and this has brought in debates on board composition and dividend decisions (Travlos, Trigeorgis & Vafeas, 2015).

2. Statement of the Research Problem

Several studies have been established to assess the effect of board composition on dividend policy. Graham et al. (2011) to examine the association between board characteristics and corporate investment during the depression era (1930-1938), it established that the outside directors had a significant positive association with investment decision. McGuinness, Lam and Vieito (2015) investigated gender and other major board characteristics in China. Tonui (2009) examined the effect of board size on the share performance of quoted companies at the Nairobi stock exchange. Most of these studies were however carried out in developed countries. None of the studies examined how a link between board compositions and dividend decisions. The current study sought to determine how board composition affect dividend decisions of companies listed at the Nairobi Securities Exchange. The dividend
payment is concerned with the distribution of the net profit among shareholders while setting aside also a portion for investment purpose (Ross, 2012). Companies pay dividends for several reasons. First, dividends are used to enhance the value of the firm and through this; the wealth of shareholders is maximized. Secondly, companies use dividends to convey desired signals to shareholders and other members of the public. Companies paying a dividend are seen to be financially sound as compared to those without dividend payment. Payment of dividends plays a significant role during the valuation of companies especially using dividend discount models (Yabs, 2014). To shareholders, dividends offer tax advantage since they are taxed at capital gain tax rates which are relatively lower as compared to ordinary income tax rates. Most importantly however is that payment of dividends reduces agency costs of an organization.

Dividend decisions are affected by numerous factors, for example, the legal requirement, liquidity level of an organization, stability of earning, accessibility to securities exchange markets, age of the company, nature of the industry, desire for control and agency costs. For companies listed on NSE, there is a clear separation of ownership and control and this culminates in agency problems. One way of reducing these agency problems is by paying dividends while at the same time putting up a board of directors. Therefore, most companies put in place a board of directors and dividend decisions so as to reduce agency costs. This is because the boards monitor the behaviour of the CEO and the management of the company in general. (Chapple & Humphrey, 2014). Kenya has witnessed corporate failure involving some listed firms at Nairobi securities exchange (NSE) such as Uchumi, CMC Motors, Mumias and most recent banks such as Imperial Bank, Dubai Bank and Chase Bank and these have ignited debates on board composition and dividend decisions (Travlos, Trigeorgis & Vafeas, 2015).

3. **Objectives of the Study**

The main objective of this study is to establish the effect of board composition on dividend decisions of companies listed at the Nairobi Securities Exchange.

The specific objectives were:

i) To establish the effect of directors’ skills on dividend decisions of companies listed at the Nairobi Securities Exchange.

ii) To establish the effect of board independence and dividend decisions companies listed at the Nairobi Securities Exchange.

iii) To examine the effect of board diversity on dividend decisions companies listed at the Nairobi Securities Exchange.

iv) To investigate the effect of board tenure on dividend decisions among companies listed at the Nairobi Securities Exchange.

4. **Theoretical Literature**

4.1 **Agency Theory**

This theory was advanced by Jensen and Meckling (1976). According to the theory, corporate governance has focused upon the separation of ownership and controls which results in principal-agent problems arising from the dispersed ownership in the modern corporation. They viewed corporate governance as a mechanism where a board of directors is an essential monitoring device to minimize the problems brought about by the principal-agent relationship (Heenetigala, 2011). Jensen and Meckling (1976) defined an agency relationship as a contract under which the principle party engages another party to perform some service.
on their behalf. They also argued that managers bear the cost of failing to pursue their own goals but capture a fraction of benefits leading to inefficiency. The authors that in firms where equity is widely held, managerial actions tend to depart from the requirements of shareholders which are to maximize their wealth, this creates the agency problem. The theory provides a basis for firm governance through the use of internal and external mechanisms (Weir et al., 2002; Roberts et al., 2005). The governance mechanisms are designed to protect shareholder interests, minimize agency costs and ensure agent–principal interest alignment (Davis et al., 2007). This theory, therefore, assesses the conflicts of interest that arise in between the agent and the principal especially where motives by agents are questionable. In this regard, principals readily seek to obtain crucial information by way of evaluation and inspection by designing systems that ensure agent indeed acts in line with the interests of the principal (Jensen & Meckling, 1986). This theory is relevant to this study because the management of listed companies as agents of the company while shareholders are the principals. The boards of directors help to monitor the behaviour of the management and therefore safeguarding the interests of the shareholders.

4.2 Stewardship Theory

This theory was developed by Donaldson and Davis (1991 & 1993). The theory explains corporate structures in which the stewards (management) are inclined and motivated to operate in the best interest of their shareholders (Davis et al., 1997). It states that when the position of the CEO and Chairman is held by a single person, the fate of the organization and the power to determine strategy is the responsibility of a single person. Thus, the focus of the stewardship theory is on structures that facilitate and empower rather than monitor and control (Schoorman, Donaldson, & Davis, 1997). Therefore, stewardship theory takes a more relaxed view of the separation of the role of chairman and CEO and supports the appointment of a single person for the position of chairman and CEO and a majority of specialist executive directors rather than non-executive directors (Clarke, 2004). According to this theory, managers are motivated by the desire to achieve and gain intrinsic satisfaction by performing challenging tasks. Proponents of this theory argue that managers need authority and desire recognition from peers and bosses. Thus, their motivation transcends merely monetary considerations. The role of the BOD in matters of strategy is seen as contributing to this managerial perspective. According to Muth and Donaldson (1998), the theory of stewardship is in support of having a board of directors that is dominated by insiders from the company. The reason being they have an in-depth understanding of the operations of the firm hence making the board more effective. When the chairperson of the board is also the chief executive officer that ensures decision and investment made are consistent with the expectation of both management and board and that result in greater effectiveness. (Donaldson & Davis, 1991). Critics of the stewardship theory have argued that boards can become redundant when there is a dominant active shareholder, especially when the major shareholder is a family or government. One could speculate that some boards are established from cultural habit, blind faith in their efficacy, or to make government or family firms look ‘more businesslike’. However, Pfeffer, (2002) showed that the value of external directors is not so much how they influence managers but how they influence constituencies of the firm. He found that the more regulated an industry then the more outsiders were present on the board to reassure the regulators, bankers, and other interest groups. The relevance of this theory to the study is that it guides the manner in which the management acting as stewards of the company is either motivated to act in the best way to safeguard the interests of the shareholders.
4.3 Stakeholder Theory

The stakeholder theory was formulated by (Freeman, 1984). According to the author, stakeholder theory states that the firm is a network of stakeholders functioning within the larger circle. The theory views a firm as a system of stakeholders that provide the necessary legal and market infrastructure for the firm’s activities and therefore the sole purpose of the firm is to create wealth for these stakeholders. These stakeholders include employees, the government, Rani and Mishra or counsel, inside directors are available to the CEO as a function of their employment with the firm; their appointment to the board is not necessary for the fulfilment of this function (Rani & Mishra, 2008). According to the stakeholder theory, corporate governance is primarily concerned with how effective different governance systems are in promoting long term investment and commitment amongst the various stakeholders (Williamson, 1985). Kester (1992), for example, states that “the central problem of governance is to devise specialized systems of incentives, safeguards, and dispute resolution processes that promoted the continuity of business relationships that are efficient in the presence of self-interested opportunism”. Blair (1995) also argued that corporate governance should be regarded as the set of institutional arrangements for governing the relationships among all of the stakeholders that contribute firm-specific assets. Companies stakeholders argue that companies owe a duty to all those affected by their behaviour. This calls for even directors to be accountable and responsible to a wide range of stakeholders far beyond companies’ current company law responsibility to shareholders. This theory is relevant to this study as shareholders form part of the larger stakeholders of the company and therefore the management should act in the best way to safeguard the interests of these shareholders.

4.4 Bird-in-Hand Theory

The bird in hand theory was formulated by Gordon and Lintner (1963). This theory states that investor’s certainty of dividend over capital appreciation in future. The Bird-in –hand theory states that high dividend paying firms are sought by shareholders/ investors and such firms command a higher price at the stock market. This theory seems to suggest that some shareholders in a company usually prefer to be paid dividends at the present dividend as compared to past dividends. This is because future dividends are risky as they are not sure about the capital gains. Shareholders always prefer present to future dividends due to risks associated with future dividends. However, future dividends are desirable to other investors as this may have some capital gains. The essence of the bird-in-the-hand theory of dividend policy (Lintner in 1962 and Gordon in 1963) argues that outside shareholders prefer a higher dividend policy. Investors think dividends are less risky than potential future capital gains, hence they like dividends. If so, investors would value high payout firms more highly. Risk-averse investors choose to get a dividend in the present period to forthcoming capital gain due to uncertainties associated with the capital gain and theory is based on the logic that what is available at present is preferred to what was available in the future (Lim, 2008). Gordon and Lintner (1962) argue that the future is uncertain and the more the distant the future is, the more uncertain is likely to be, hence investors was agreeable to paying a superior price for stocks on which dividends are paid in the present period. Due to investors’ willingness to pay the superior price for stocks on which dividend are paid, the financial performance of the firm is viewed positively since the firm is viewed to have the capital to deploy in profitable investments that will yield high returns for the organization hence dividend policy is relevant. This theory is apt to this study since it indicates the need for the board of directors to pay dividends to shareholders as a reward for investing in the company. The theory explains the relationship between the board and dividend payments.
5. Empirical Review

This section evaluates other similar studies related to the current study as carried out by other scholars. The section reviews the literature on director skills, board independence, board diversity, tenure and dividend decisions. Director skills are the levels of knowledge and proficiency possessed over a given period of time. Directors require a combination of technical, conceptual and human/interpersonal managerial skills. Technical skill is the ability and knowledge of directors to leverage on different techniques to attain the set objectives of an organization. Technical skills are however much demanded by operational staffs as compared to directors in an organization. Conceptual skill is the ability or knowledge for more abstract thinking (Litchfield, Javernick-Will & Maul, 2016). Conceptual skills give directors the ability to predict the future of the company as a whole. Interpersonal or human skills enable directors to effectively work with other people within the board. One of the functions of directors is to work with people and therefore this skill plays a crucial role in the success of directors (Daft & Marcic, 2016).

Balogh (2016) studies professional expertise on boards, corporate lifecycle, and firm performance. The study was done in Australia on the Australian Stock Exchange (ASX) among the listed firms. The study collected secondary data for analysis. The study adopted hypothesis testing methodology and the analysis was done using regression analysis. From the findings, accounting and finance were the most dominant types of expertise on ASX boards in 2014. The study further indicated that shareholders benefit when early-stage firms have finance and engineering expertise among their directors. The study recommends that in order to fulfil their key roles of providing counsel and offering external connections, boards need to have the appropriate mix of expertise. Barno (2017) examined how managers’ characteristics affected capital structure among firms listed in Nairobi securities exchange in Kenya. The study was informed by the Pecking order and the Statistic Trade-off theories. The study employed a time series analytical model in examining the relationship between the variables. The period of the study was from the year 2008 to the year 2013. Data for the study was collected from 39 companies. Hypothesis testing was done using multiple regression analysis. From the findings, age (β1 = -0.228< p< 0.05) and gender (β2 = -0.152, p < 0.05) had a negative and significant effect on capital structure.

Gantenbein and Volonté (2011) examined how director characteristics affected firm performance. The study was done in Switzerland. The sample consisted of 1,574 directorships from 224 listed firms. Ordinary least square was used to analyze the findings. From the findings, industrial know-how is significantly negatively related to Tobin’s Q interacting with the number of divisions: industrial know-how is not valuable if the number of business segments is high. Nyamweya (2015) examined how the board of directors’ characteristics affected the capital structures of companies listed in the Nairobi securities exchange. The study adopted a census approach on 48 listed firms at NSE by the year 2012. Secondary data was the main source of information for the study. The collected data were analyzed using chi-square tests and correlation analysis. From the findings, the skills processed by directors significantly affected the capital structure of listed firms. Kim and Starks (2015) looked at how gender diversity and skill contribution to corporate boards. The study was done in the United States of America USA. The study reviewed empirical studies related to the topic under investigation. From the findings, greater board heterogeneity of expertise is associated with higher firm value; a gender-diverse board has the potential to increase firm value. Duc and Thuy (2013) used empirical evidence from Vietnam to establish how corporate governance affected the firm’s performance. Corporate governance was measured through the size of the board; the presence of female board members; the duality of the CEO; the education level of board members; the working experience of the
board; the presence of independent (outside) directors; the compensation of the board; the ownership of the board; and block holders. From the findings, elements of corporate governance such as the presence of female board members, the duality of the CEO, the working experience of board members, and the compensation of board members have positive effects on the performance of firms, as measured by the return on asset (ROA).

Francis, Hasan and Wu (2015) assessed how professors in the boardroom affected corporate governance and firm performance. The study covered a period of 1998–2011 over 1,500 firms. The study established that companies with directors from academia are associated with higher performance and this relation is driven by professors without administrative jobs. The study established that academic directors play an important governance role through their advising and monitoring functions. The independence of the managers at the board is often denoted by the number of directors who are not executive vis-a-vis that of the executive (Lawal, 2012). According to Agrawal and Nasser (2011), an independent director is neither a current company employee nor is an affiliated director who is a former employee of the company or a majority-owned subsidiary. The presence of independent director is expected to influence the decision making regarding the policies with their independent opinion and professional judgments as well as information, extensive knowledge and experiences. In strengthening the composition of the board of directors, MCCG (2012) recommends that the board must comprise a majority of independent directors while the tenure of an independent director should not exceed a cumulative term of nine years.

In a study by Hutchinson and Monroe (2010) using data from Australian firms to correlate between firm’s investment decision and internal governance practice, it was established that independence was significantly positively related to the investment policy measured by capital expenditure. Moreover, independent boards could contribute to the success of investment projects by providing valuable input in the form of information and knowledge towards the best investment decision making among listed firms. Another similar study conducted by Heng, Azrbaijani and San (2012) documented that there was a significant positive relationship between independent directors and debt ratio because of effective supervision by independent directors to put pressure on the manager to select the optimum level of debt for benefit of shareholders. In another study by Graham et al. (2011) to examine the association between board characteristics and corporate investment during depression era (1930-1938), it established that the outside directors had a significant positive associated with an investment decision. Moreover, the presence of independent directors can reduce and is able to offset the dominance of insider directors in determining the policies. Hence it meets their role to protect the interest of all shareholders with their independent opinion, professional judgments, information, extensive knowledge and experiences in determining appropriate corporate policies. Uittenbogaard (2016) examined whether independent boards pay higher dividends. The study was carried out among 619 US industrial firms from the period 1996–2014. The study established that with more independent directors on the board, the firms paid higher dividends. Al-Najjar and Hussainey (2009) assessed the association between dividend payout and outside directorships. The study used bit and logit regression models to examine the extent to which firms with a majority of outside directors on their boards experience significantly lower or higher dividend payout after controlling for insider ownership, profitability, liquidity, asset structure, business risk, firm size, firms’ growth rate and borrowing ratio. Based on a sample of 400 non-financial firms listed at London Stock Exchange for the period from 1991 to 2002, it was found that dividend payout is negatively associated with the number of outside directors on the board of directors.
Board diversity refers to age distribution, gender, physically impaired, type of educational qualification and other forms of diversity on corporate boards. It refers to gender, sex, age and educational qualifications of the directors who are members of the board. According to Ahern and Dittmar (2012), mandatory gender quotas constrain the value maximizing process of constructing a board of directors which can have a negative impact on shareholder wealth. It is the proportion of women, ethnic, racial minorities on boards. Darmadi (2010) examined the association of the diversity between the board members and the financial performance of firms listed in the Indonesian Stock Exchange (IDX). Board diversity was measured using gender, nationality and age of board members. From the findings, market performance measured using (Tobin’s Q) had a significant negative association with gender diversity while nationality diversity was found to have no influence on firm performance. Letting, Nicholas, Aosa and Machuki (2012) assessed how board diversity and performance of companies listed in Nairobi Stock Exchange. Board diversity was measured by age, gender, educational qualifications, study specialization and board specialization. Data were collected using structured questionnaires. Data were analyzed using ordinary least square method. From the findings, a statistically not significant effect of board diversity on financial performance was established except for the independent effect of board study specialization on dividend yield.

Webi (2017) sought to determine the effects of board diversity on the performance of non-governmental organizations in Nairobi county Kenya. The specific objectives of the study were to; establish the effect of age diversity of board members on NGOs performance; the effect of occupational diversity of board members on NGOs performance and to find out the effect of professional networks diversity of board members on NGOs performance. The target population comprised of 702 local and international NGOs in Nairobi County. Descriptive design was adopted to collect primary data using questionnaires. The sample sized of the study comprised of 84 respondents while the response rate was 75%. From the findings, age diversity, occupational diversity and professional network diversity had a positive relationship with organizational performance. The study recommends the need for the top management of the non-governmental organizations to ensure the presence of different professionals within their boards.

Ageda (2015) studied how board diversity affected the financial performance of trading and manufacturing companies listed in the Nairobi Securities Exchange. Board diversity was measured through board average age, gender, education level, nationality, board independence and size of the firms and the financial performance of companies Listed in the Nairobi Securities Exchange. The findings show a strong positive relationship between board nationality and financial performance. Also, board average age, gender, education, board independence and size of the firm had a weak positive relationship to the financial performance of the Trading and Manufacturing Companies Listed in the Nairobi Securities Exchange. Chen, Leung and George (2017) sought to determine the effect board gender compositions on dividend policies. The study established that companies with a large number of female directors to male directors have greater dividend payouts for the shareholders. Moreover, there is a positive relationship between board gender composition and the dividend policy.

McGuinness, Lam and Vieito (2015) investigated gender and other major board characteristics in China. Using more than 9,000 firm-year observations, the study established a little difference in the dividend distributions of female- and male-led Chinese firms. Other salient demographics, notably CEO age and tenure bear a strong positive association with cash distributions. Cash pay-out is also increasing in directors’ equity stakes and state ownership. In another study, Farag and Mallin (2016) sought to determine the influence of
CEO demographic characteristics on corporate risk-taking. The study was carried out in China. The study used fixed effects and system Generalized Method of Moments models. The study established that younger and shorter tenured CEOs and those with postgraduate qualifications are more likely to consider risky decisions. The study further established a highly significant and positive relationship between CEO previous board experience and corporate risk-taking. Moreover, female CEOs are not risk-averse compared with their male counterparts. Shareholders generally seek to hire the most talented CEOs with the relevant set of skills to achieve shareholders’ objectives and improve the Chinese competitiveness in the global market. On the other hand, Pletzer, Nikolova, Kedzior and Voelpel (2015) investigated whether gender matters by determining female representation on corporate boards and firm financial performance. According to the random-effects model, the overall mean weighted correlation between the percentage of females on corporate boards and firm performance was small and non-significant ($r = .01$, 95% confidence interval: -.04, .07). Similar small effect sizes were observed when comparing studies based on developing vs. developed countries and higher vs. lower income countries. The mean board size was not related to the effect sizes in studies. These results indicate that the mere representation of females on corporate boards is not related to firm financial performance if other factors are not considered.

Van Uytbergen and Schoubben (2015) assessed the effect of gender diversity on corporate cash policy. The study was done among European listed companies. From the findings, it was established that the impact of gender diversity differs depending on whether women are represented in the board or in the management. Firms with female managers have higher cash buffers because of the increased importance of the precautionary motive in cash policy. Lückerath-Rovers (2013) assessed women on boards and firm performance. The study was carried out among Dutch companies. From the findings, the study established that companies with women directors perform better than those without women on their boards. Tenure is the length that directors are appointed to serve on boards. Elms (2017) explored the effect of director tenure on director monitoring. The study relied on multiple sources of data collected from different studies. The study described the relationship between director tenure and director monitoring to be more complex than often assumed. Another study by Huang and Hilary (2017) was done on how board tenure affected firm performance. From the findings, for firms with short-tenured boards, the marginal effect of board learning dominates entrenchment effects, whereas, for firms that have long-tenured boards, the opposite is true.

Li and Wahid (2017) examine the effect of director tenure diversity on board monitoring effectiveness. From the findings, tenure-diverse boards exhibit significantly higher CEO performance-turnover sensitivity and that firms with tenure-diverse audit committees are less likely to experience accounting restatements. The study also documents that tenure-diverse compensation committees also award less excess compensation and are less likely to overcompensate. Liu and Sun (2010) examined how director tenure affected independent audit committee effectiveness. The study was done in the United States. The sample size was 7,700 firms. The study was done over a period of 1998 to 2005. From the findings, the proportion of long tenure directors on the independent audit committee is negatively associated with earnings management. Chen (2013) studied how CEO tenure, independent directors affected corporate innovation. The study was done in Taiwan among electric firms. From the findings, firms competing on innovation may consider giving considerable weight to the nomination of more independent directors to the board because independent directors may serve as effective guardians and resource providers to encourage CEOs to focus on innovation. Liew, Alfan and Devi (2015) investigated independent directors’ tenure, related party transactions, expropriation and firm value. The study was done in Malaysia. The study relied on data collected over a period from 2007 to 2012. From the findings, the significant
positive moderating effect of family controlling shareholders’ ownership on the moderating effect of independent directors’ tenure on the relationship between related party transactions and firm value in Malaysian family firms suggest that family firm reputational effects are able to reduce minority shareholder expropriation in these firms, particularly in the post Transmigrate period.

6. Conceptual Framework

The conceptual framework clearly indicates the relationship between the variables of the study which are of great concern to the researcher. From Figure 1, the independent variables are including director Skills, board independence, board diversity and board tenure while the dependent variable is dividend decisions. The study was, therefore, examine how the independent variable (Director Skills, board independence, board diversity and board tenure) affect dividend decisions. Figure 1 indicates the relationship between the variables of the study. It sums up the independent and the dependent variables and how they relate to each other.

**Independent Variable**

<table>
<thead>
<tr>
<th>Director Skills</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Years of Experience</td>
</tr>
<tr>
<td>• Interpersonal Skills</td>
</tr>
<tr>
<td>• Conceptual Skill</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Board Independence</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Outside Directors</td>
</tr>
<tr>
<td>• Inside Directors</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Board Diversity</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Male Directors</td>
</tr>
<tr>
<td>• Female Directors</td>
</tr>
<tr>
<td>• Age of Directors</td>
</tr>
<tr>
<td>• Levels of education</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Board Tenure</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Number of Years on Board</td>
</tr>
</tbody>
</table>

**Dependent Variable**

<table>
<thead>
<tr>
<th>Dividend Decisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Dividend Pay Out Ratio</td>
</tr>
</tbody>
</table>

*Figure 1: Conceptual Framework*

7. Research Methodology

The researcher adopted a descriptive cross sectional research design. Descriptive research defines or explains a subject by creating a pool of events, people and problems through data collection (Orodho, 2003). Descriptive research design may help managers of listed firms at NSE to describe how board compositions of their firms affect dividend decisions. In addition, the descriptive research design may help in accommodating the analysis and relation CEO duality, board independence, board demographic characteristics and board sizes affect dividend decisions of their listed firms at NSE. The target population was the members of boards of management among the companies listed with the NSE. The respondents were 5
board of director’s drawn from each of 64 firms listed at NSE (See appendices II). The study used board of directors as constitute boards and therefore was in a position to answer research questions on how board composition affects dividend decisions. These directors are responsible for decision making including dividend decisions of their firms.

In the determination of the sample size of the study, the researcher adopted stratified random sampling. The study selected 20% of the respondents from each of the 10 segments of the NSE. According to Kothari (2004) argues that if well selected, a sample of between 10-30% is adequate for generalization of findings. The sample size of the study was, therefore, be 64 boards of directors. Primary data was collected using questionnaires, which were structured. The closed-ended questions were used to test the rating of various attributes and this helps in reducing the number of related responses in order to obtain more responses that are varied. Questionnaires were divided into six sections. The first section was general information of the respondents; the subsequent sections presented information on each of the specific variables of the study. Secondary data was also be used as it is readily available and imperative in providing collective information to address the problem of the study. Secondary data was collected from the NSE website, the firms’ specific audited accounts and annual reports. The secondary data collection perused journals and periodicals for the period between 2011 to 2015. This period is selected, as it is adequate to obtain current data, which shall be relevant for the study. The researcher used a data collection sheet to collect this secondary data. Multiple regressions were applied to test the level of relationship between the independent variable (CEO Duality, board independence, board demographic characteristics and board size) and the dependent variable (dividend decisions).

8. Data Analysis Results

In addition to descriptive analysis, the study also conducted a multiple regression analysis to assess the extent to which the independent variables (directors’ skills, board independence, board diversity and board tenure) determined the dependent variable (dividend decision) for firms listed at the Nairobi Securities Exchange over the study period. The findings were as discussed below.

Table 1: Model Summary

<table>
<thead>
<tr>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.8814a</td>
<td>0.7769</td>
<td>0.7208</td>
<td>0.47774</td>
</tr>
</tbody>
</table>

*a. Predictors: (Constant); directors’ skills, board independence, board diversity and board tenure*

Source: Author 2019

Table 1 above shows a model summary of regression analysis between independent variables (Directors’ skills, Board independence, Board diversity and Board tenure) and the dependent variable (Dividend Decisions). The value of R was found to be 0.8814, while that of R square was 0.7769. The value of the adjusted R square was 0.7208 and that of the standard error of the estimate was 0.4777. From the findings, it was established that 77.69% of variations in dividend decision for firms listed at the Nairobi Securities Exchange during the study period were attributed to variations in the four independent variables of the study. Positivity of the values of R shows that the model summary is significant and therefore gives a logical support to the study regression model.
Table 2: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>15.586</td>
<td>4</td>
<td>3.8965</td>
<td>17.07</td>
<td>0.0333b</td>
</tr>
<tr>
<td>Residual</td>
<td>34.007</td>
<td>149</td>
<td>0.228</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>49.593</td>
<td>153</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Dividend Decisions
b. Predictors: (Constant); directors’ skills, board independence, board diversity and board tenure

Source: Author 2019

The statistics obtained were analyzed using the SPSS software and the output presented in table 2 above. From the analysis of variance (ANOVA) statistics depicted above, at 5% significance level, the value of calculated F is 17.07 while the F critical at 5% level of significance was, F0.05,4,157 =2.43. Since F calculated was greater than the F critical (17.07>2.43), this showed that the overall regression model was significant and that the results can be used to make inferences of the study.

Table 3: Coefficients

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td></td>
<td></td>
<td>0.583</td>
<td>0.0351</td>
</tr>
<tr>
<td>Directors’ skills</td>
<td>0.012</td>
<td>0.114</td>
<td>1.396</td>
<td>0.0165</td>
</tr>
<tr>
<td>Board independence</td>
<td>-0.003</td>
<td>-0.019</td>
<td>-0.193</td>
<td>0.0287</td>
</tr>
<tr>
<td>Board diversity</td>
<td>0.196</td>
<td>0.058</td>
<td>0.629</td>
<td>0.0253</td>
</tr>
<tr>
<td>Board tenure</td>
<td>0.01</td>
<td>0.004</td>
<td>0.3704</td>
<td>0.6139</td>
</tr>
</tbody>
</table>

Source: Author 2019

From the regression findings in table 4.5 above, the following regression model was used as follows: Y = α0 + β1X1 + β2X2 + β3X3 + β4X4 + εi Where; α0 - intercept coefficient, εi - error term (extraneous variables), Y - Dividend Decisions, X1 – Director Skills, X2 – Board Independence, X3 – Board Diversity, X4 – Tenure, β1, β2, β3 and β4 - regression coefficients. Therefore; Y = 0.361 + 0.012X1 - 0.003X2 + 0.196X3 + 0.01X4. According to the coefficient table above, at 5% significance level, directors’ skills had a significance value of 0.0165, board independence had 0.0287, board diversity had 0.0253 while board tenure had 0.6139. It is thus evident that all the variables except board tenure were significant as their significance values were less than 0.05. However, only directors’ skills, board diversity and board tenure were positively correlated with dividend payout while board independence had a negative correlation with dividend payout. This is as Unstandardized Coefficients Standardized Coefficients t Sig. B Std. Error Beta (Constant) 0.361 0.62 0.583 0.0351 Directors’ skills 0.012 0.009 0.114 1.396 0.0165 Board independence -0.003 0.016 -0.019 -0.193 0.0287 Board diversity 0.196 0.312 0.058 0.629 0.0253 Board tenure 0.01 0.027 0.004 0.3704 0.6139 36 evidenced from table 4.5 above which indicates that directors’ skills, board diversity and board tenure had correlation coefficient values of 0.012, 0.196 and 0.01 respectively while board independence had a correlation coefficient value of -0.003.
Further, the table indicates that taking all independent variables (directors’ skills, board independence, board diversity and board tenure) constant at zero, dividend payout will be 0.361. The data findings analyzed also showed that holding all other independent variables constant, a unit increase in directors’ skills will lead to a 0.012 increase in dividend payout while a unit increase in board independence will lead to a 0.003 decrease in dividend payout. The table also indicates that a unit increase in board diversity will lead to a 0.196 increase in dividend payout while a unit increase in board tenure will lead to a 0.01 increase in dividend payout. This indicates that directors’ skills, board diversity and board tenure had a positive effect on dividend payout while board independence had a negative influence on dividend payout for companies listed at the Nairobi Securities Exchange during the study period.

9. Conclusions

This study was conducted with the primary aim of establishing the effect of board composition on dividend decisions of companies listed at the Nairobi Securities Exchange. The study also aimed; to establish the effect of directors’ skills on dividend decisions of companies listed at the Nairobi Securities Exchange, to establish the effect of board independence and dividend decisions companies listed at the Nairobi Securities Exchange, to examine the effect of board diversity on dividend decisions companies listed at the Nairobi Securities Exchange, and to investigate the effect of board tenure on dividend decisions among companies listed at the Nairobi Securities Exchange. The study focused on firms listed in the Nairobi Securities Exchange. To achieve the above objectives, a regression analysis was conducted whereby changes in firms’ ROE were regressed against the three explanatory variables; directors’ skills, board independence, board diversity, and board tenure. The study found that board composition influenced dividend decisions of companies listed of especially smaller firms that were owned by directors and their families. Other factors such as directors’ skills, board independence, board diversity, and board tenure also significantly influence the dividend decision of companies listed at the Nairobi Securities Exchange.

10. Recommendations

The findings from this study have policy implications on dividend decisions among companies listed at the Nairobi Securities Exchange. Based on the findings and conclusions on the findings of this study, the study found it necessary to make these recommendations as a step to the implementation of the study objectives. The board should take steps in ensuring stakeholders are involved in the managerial activities as executives, to work towards the protection of the firm. This can lead to better dividend decision making of the firm since board independence had an influence on the dividend decisions of the firm. Middle age managers and executives should be embraced in the firms due to their commitment to ensuring that different idea that would be contributed by the board members and executives. This recommended because of the influence of the age on the performance of NSE listed firms as revealed by the results. From the finding and conclusion of the study, board composition influenced dividend policies. It also concluded that other than ownership structure other factors were responsible for changes in dividend policy of NSE listed firms. The positive correction between ROE and board composition implies that ownership structure affects the dividend decisions. The study recommends diversity of ethnicity in the firm’s management in order to boost the firm’s financial performance. Since ethnicity was found to have an influence on the dividend decisions, a diverse composition would likely bring out better financial performance due to different ideas that would be contributed by the board members and executives. Dividends are paid from earnings and thus earnings are a prerequisite for the dividend payout. This study, therefore, recommends that firms listed at
the NSE manage their operational costs well at the same time optimizing their revenues so as to ensure a stable dividend payout as well as maximize their shareholders’ wealth.

REFERENCES


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