

**THE IMPACT OF CORPORATE GOVERNANCE ON DIVIDEND PAYOUT OF
MANUFACTURING FIRMS LISTED AT THE NAIROBI SECURITIES
EXCHANGE**

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**A Research Project Submitted to the Graduate School in Partial Fulfillment for the
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DECLARATION AND APPROVAL

Declaration

This is my original work and has not been submitted to any other university or institution of higher learning for the award of a degree or a diploma.

Caroline Ikunda. Signature..... Date.....

CM11/00702/12

Approval

This Research Project has been submitted with my approval as the university supervisor.

M/s Monica Muiru. Signature..... Date.....

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DEDICATION

I dedicate this project to my parents, Mr. and Mrs. Ikunda, for their encouragement and their unconditional financial and emotional support throughout.

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I would like to express my sincere gratitude to my supervisor M/s Monica Muiru for her highly valued guidance, ideas and advice and her patience during the whole proposal writing. I am also grateful to Simon Kamau for the immense support and guidance provided.

ABSTRACT

This study sought to examine the impact of corporate governance on dividend payout of manufacturing firms listed at the NSE. The objectives of the study were; to determine the impact of board size, board composition, CEO tenure and managerial equity holding on dividend payout of manufacturing firms listed at NSE and finally, to establish the impact of corporate governance on dividend payout of manufacturing firms listed at NSE. This study employed a correlational research design. The population of the study comprised all manufacturing firms which were consistently listed at the Nairobi Securities Exchange from 2008-2014. Data for this study was obtained from the annual published financial statements. Correlation and regression analysis were used to test the impact of the independent variables relating to corporate governance practices on the dependent variable (Dividend Payout). Independent one-way ANOVA test and independent t-test (one tailed) were used to determine the level of significance.

The study results indicated that board size, board composition, CEO tenure and management equity holding had a weak negative relationship with dividend payout. Furthermore, board size had a statistical significant impact on dividend payout, while board composition, CEO tenure and managerial equity holding were found to have no statistical significant impact on the dividend payout of manufacturing firms listed at the NSE for the period 2008 to 2014. The empirical results from the multiple regression analysis indicated a correlation coefficient(R) value of 0.692. This means that there is a strong and a positive relationship between corporate governance and dividend payout($r > 0.5$). However, corporate governance only explained 47.8% of the differences in dividend payout as shown by the coefficient of determination value (R^2) of 0.478. Moreover, the significance value on the relationship between corporate governance and dividend payout ratio was 0.263. This implied that corporate governance cannot be used to adequately predict changes in dividend payout ($P > 0.05$).

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LIST OF ABBREVIATIONS

BOC	Board Composition
BOS	Board Size
CBK	Central Bank of Kenya
CCG	Centre for Corporate Governance
CEO	Chief Executive Officer
CEOT	CEO Tenure
CMA	Capital Markets Authority
FP	Firm Profitability
FS	Firm Size
KSA	Kenya Shareholders association
MGTEQHOL	Management Equity Holding
NSE	Nairobi Securities Exchange
PSCGT	Private sector Corporate Governance Trust

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Corporate Governance is defined as the process and structure used to direct and manage business affairs of the Company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholder long-term value while taking into account the interest of other stakeholders. Corporate Governance is acknowledged to play an important role in the management of organizations in both developed and developing countries (Achchuthan and Kajanathan, 2013). It aims at protecting the interests of shareholders and improving performance of organizations. According to Ahmadpour et al (2012), firms having weaker governance structures face more agency problems and this increases the risk to shareholders. This is due to lack of proper structures, mechanisms and processes that ensure that a firm is managed and directed in a way that ensures increase in shareholder value. As a result, corporate governance becomes an important aspect of enhancing the performance of organization by increasing management accountability.

Hifzalnam and Mukhtar (2014), note that, corporate governance combines a set of market instruments that motivate managers to maximize the value of a firm on behalf of its shareholders. This is by providing processes and structures that are used to direct and manage the affairs of a business thereby enhancing performance and corporate accounting as well as increasing long-term shareholders value. Valenti et al (2011) affirms that corporate governance is essential in improving the performance of organizations. This is because it ensures that the interests of the shareholders are safeguarded, by making sure that the assets of an organization are utilized in a way that maximizes profitability. Therefore, corporate governance augments the performance of a company by motivating managers to take actions that maximize the wealth of shareholders

Corporate governance can decrease information asymmetries between shareholders and managers by improving a firm's operational and financial transparency (Thomsen, 2004). The ability of managers to distort information and to increase their incentives can be mitigated by corporate governance provisions. This may in turn improve the financial transparency of an organization and reduce the agency problems as well as increase shareholders' value (Chung at

el, 2010). Al-Najjar (2010) emphasizes that increased performance and information disclosures lead to better valuation of firms and this can lead to a long-term increase in shareholders wealth. According to Murekefu and Ouma (2010), shareholders wealth can also be enhanced by a firms dividend policy. This is because the amount that a company is required to distribute to its shareholders is determined by its dividend policy. Ross at el (2002) notes that dividend policy decision is one of the most important decision areas in finance. Dividend decisions are important because they determine the amount of funds that flow to investors and the amount of funds that are retained in a firm for investment purposes. Gul at el (2012), stress that dividend policy decision is important in organizations because it enables them to achieve efficient performance and to attain their goals.

The ultimate goal of a firm is to maximize the wealth of shareholders (Griffin, 2010). Accordingly, managers are compelled to provide shareholders with good returns on their investment. Vojtech (2013) notes that efficient corporate governance can provide checks and balances between managers and shareholders and this can make firms to adopt dividend policies that maximize shareholders wealth. Sheikh and Wang (2010), state that corporate governance is aimed at protecting the interests of shareholders by reducing the agency problems and therefore, dividend policy becomes an important aspect of corporate governance.

1.2 Corporate Governance in Kenya

Corporate Governance has gained prominence in Kenya and this may have been caused partly by corporate failure or poor performance of public and private companies. As such, the Capital Markets Authority has set up guidelines for good corporate governance practices by public listed companies in Kenya in response to the importance of governance issues both in emerging and developing economies and for promoting domestic and regional capital markets growth (Kenya Gazette, 2002). The CMA also works in support with the Centre for Corporate Governance (CCG, formerly Private sector Corporate Governance Trust, PSCGT), whose establishment, was to carry out activities and programmes that aim at improving the quality of life of the people by fostering the adoption and implementation of the highest standards of corporate governance. This in turn leads to improved strategic leadership of companies and enhance profitability, effectiveness and competitiveness in the global market.

Different other bodies have are also engaged in the promotion of the principles of good corporate governance practices. The Central Bank of Kenya(CBK) demands good corporate governance for financial stability and sustainability from all licensed banks and financial institutions, the NSE for all listed companies, the Kenya Shareholders association(KSA) that mobilizes shareholders to demand good corporate governance from their organizations, and other professional bodies such as the Law Society of Kenya(LSK) (Pierce and Waring, 2004). These Corporate Governance principles mainly deal with the issues such as corporate compliance, corporate communication, accountability, board composition, role of audit committee, separation of the role of CEO and the Chair and the rights of the shareholders (Maniagi, 2003).

However, The United Nations Publication, (2004) identified several reasons why the application of these principles has not exactly been a success. Firstly, poor political governance and subsequent concentration of political and economic power in the hands of small, privileged and entrenched elite continues to bedevil these efforts. Conflict also renders it impossible for economic actors to plan and undertake the necessary activities for wealth creation. Poverty, decayed physical infrastructure (both transport and communication), weak legal and regulatory systems and underdeveloped capital and financial markets were also identified.

1.3 Statement of the Problem

The aim of corporate governance is to encourage investment by protecting and maintaining the interests and the rights of the shareholders (Ongore and K'Obonyo, 2011). Indeed, it is recognized to play an important role in mitigating the problems associated with the agency problem as well as increasing shareholders wealth. According to Gul at el (2012), one way of reducing the agency problems and increasing shareholders wealth is through dividend payout. This is because dividend payout facilitates monitoring of the firms activities and performance by the primary market (Griffin, 2010). This makes dividend payout decisions to be an important component of corporate governance. The existing studies provide conflicting results on the relationship between corporate governance and dividend payout. For instance, studies by Hassan (2010), Oscar et al (2007), Farinha (2010), and Adjaoud and Amar (2011), show that corporate governance has a positive and a statistically significant effect on dividend payout, while Hamdouni (2012) finds a negative and insignificant relationship between corporate governance and dividend payout. On the other hand, studies by Halim and Bino (2007), and Ajanthan (2013)

indicate that there is no statistical significant relationship between dividend payout and corporate governance.

More so, researchers have focused more on other listed firms such as banks, Insurance firms and telecommunication companies. For instance, Wanyonyi and Olweny (2013) and Shisia et al, (2014) conducted studies on the effects of corporate governance on financial performance of insurance firms and telecommunication companies listed at the NSE respectively. In addition, Maniagi et al (2013) and Ada (2012) studied corporate governance, dividend policy and performance with a special reference to listed banks in Kenya while Okibo and Alinyo (2013) conducted a study on the effects of dividend policy on financial growth of advertising firms in Kenya. Internationally, Ajanthan (2013) did a study on corporate governance and dividend policy for hotels and restaurant companies in Sri-lanka. Kurawa and Ishaku (2014) investigated the effect of corporate governance on dividend policy of commercial banks listed on the Nigerian Stock Exchange. Therefore, owing to these conflicting results, and scarce local literature, this study is aimed at filling this gap identified, by investigating the actual impact of corporate governance on the dividend payout of manufacturing firms listed at the Nairobi Securities exchange (NSE).

1.4 Main objective

To establish the impact of corporate governance on dividend payout of manufacturing firms listed at the NSE.

1.4.1 Specific objectives

- i. To determine the impact of board size on dividend payout of manufacturing firms listed at NSE
- ii. To determine the impact of board composition on dividend payout of manufacturing firms listed at the NSE
- iii. To determine the impact of CEO tenure on dividend payout of manufacturing firms listed at the NSE
- iv. To determine the impact of managerial equity holding on dividend payou of manufacturing firms listed at the NSE

1.5 Research Hypothesis

Ho₁: Board size has no statistical significant impact on dividend payout of manufacturing firms listed at NSE

Ho₂: Board composition has no statistical significant impact on dividend payout of manufacturing firms listed at NSE

Ho₃: CEO tenure has no statistical significant impact on dividend payout of manufacturing firms listed at NSE

Ho₄: Management Equity holding has no statistical significant impact on dividend payout of manufacturing firms listed at NSE

Ho₅: Corporate governance has no statistical significant impact on dividend payout of manufacturing firms listed at NSE

1.6 Justification and significance of the Study

Corporate governance aims at protecting the interests of shareholders by enhancing their wealth. This may be through ensuring improvements in performance of their organizations by making decisions that increase their firms' earnings capability from the capital invested by shareholders (Kamau and Basweti, 2013). Dividend payout of a firm can also affect the wealth of shareholders as well as the value of a firm and therefore, dividend payout decisions become an important role of corporate governance (Masum, 2014). This study is therefore, aimed at investigating the impact of corporate governance practices of listed manufacturing firms on dividend payout. This study will be beneficial to policy makers because it will assist them in coming up with means of improving the value of shareholders and assist shareholders to recognize the important role played by corporate governance towards the improvement of the wealth. Moreover, this study will be beneficial to the management of various organizations because it would assist in determining the appropriateness of various governance practices, and how they help in improving the wealth of shareholders through dividend payout. Lastly, the results of this study will add knowledge to the existing literature on the impact of corporate governance on dividend payout and it will act as a motivation of further studies in issues related to corporate governance and dividend payout.

1.7 Scope of the Study

The study will use all the manufacturing firms which have been consistently listed at the NSE from 2008-2014. Data on corporate governance and dividend payout will be obtained from the firm's annual financial statements covering the seven-year period. The period was reached at based on previous studies, for instance, Kurawa and Ishaku (2014), Abdel-Halim & Bino (2009), Ajanthan (2003), Maniagi et al (2013) and Shisia et al (2014) carried out their study covering 9, 4, 4, 5 and 10yrs respectively .

1.8 Limitations and delimitations of the study

Corporate governance can be measured with a number of variables. However, the study will not employ all the variables in measuring corporate governance hence the results obtained may not adequately represent the impact of corporate governance on dividend policy. However, this is overcome by the fact that all corporate governance variables are aimed at protecting the interests of shareholders. The corporate governance variables were picked based on the previous studies and also, based on the availability of data.

1.9 Operational definition of terms

Agents: Managers and directors who are elected to undertake the affairs of a company on behalf of the shareholders. They act as representatives of the shareholders in a firm.

Board of Directors: This is a body of appointed or elected members who jointly oversee the operations of an organization or a company

CEO Duality: CEO duality occurs when the CEO of a firm also serves as the chairperson in the board of directors.

Corporate Governance: refers to the way a company is controlled and directed.

Dividend Payout Ratio: DPY ratio refers to the proportion of total profit paid out to ordinary shareholders as dividends

Dividend policy; the policy used by a company to decide how much it will pay out to shareholders in dividends.

Firm Value: The market or book value of a firm's asset.

Information asymmetry: Refers to the imbalance of information that exists between agents and principals. It arises when the managers have more information than the shareholders do.

Manufacturing: The process of converting raw materials, components, or parts into finished goods that meet a customer's expectations or specifications.

Non-executive director: A member of the board of directors who is not part of the executive management team of a company

Principals: The owners or shareholders of a company. They normally invest their funds by buying the shares of a firm with an aim of maximizing their returns and wealth.

CHAPTER TWO

LITERATURE REVIEW

2.1 Corporate Governance

Corporate governance is defined by Mayer (2007) as a way of bringing the interests of investors and managers in line and ensuring that firms are run for the benefit of investors. Metrick and Ishil (2002) see corporate governance from the investors' perspective as a promise to repay a fair return on capital invested and the commitment to operate a firm efficiently given investments. The existence of divergent and sometimes conflicting objectives among corporate managers and shareholders has given rise to the need for corporate governance, as it primarily aims at finding a solution to the principal-agent problem. Corporate governance practices can vary widely even among firms in the same country operating under the same legal regulations.

2.2 Elements of Corporate Governance

While the specific elements of corporate governance are many, they generally involve emphasis on creating and maintaining company direction and promoting goodwill with shareholders and other stakeholders. These elements are discussed below:

2.2.1 Size of the Board

Board size refers to the number of directors in the board. It is an important factor to determine the effectiveness of the board. According to Hamdouni (2012), a bigger size board of directors might improve the companies' board effectiveness and support the management in reducing agency cost that resulted from poor management and consequently leads to better financial results. Dalton and Dalton (2005) argue that larger boards are more likely to be associated with an increase in board diversity, in terms of experience, skills, gender and nationality, unlike smaller boards that lack the advantage of having the spread of expert advice and opinion.

However, Raheja (2005) showed that larger boards have higher coordination costs, in that, planning, work coordination, decision-making and holding regular meetings can be difficult with a large number of board members. More so, when boards consist of too many members, agency problems may increase, and often it moves into a more symbolic role, rather than fulfilling its intended function as part of the management. Raheja further argues that, smaller boards reduce

the possibility of free riding by individual directors and thus increase their decision-making processes.

2.2.2 Board Composition

An independent board is generally composed of members who have no ties to the firm in any way, therefore there is no or minimum chance of having a conflict of interest because independent directors have no material interests in a company. Dalton et al (2009) state that independent directors are important because inside or dependent directors may have no access to external information and resources that are enjoyed by the firm's outside or independent directors (e.g., CEOs of other firms, former governmental officials, investment bankers, Social worker or public figures, major suppliers). Moreover, for advice or counsel, inside or dependent directors are available to the CEO as a function of their employment with the firm; their appointment to the board is not necessary for fulfillment of this function. According to agency theory, a larger proportion of independent directors generally provide better firm performance and therefore the proportion of independent directors has an effect on firm's performance (Ramdani and Van, 2009).

2.2.3 CEO Tenure.

It is the decision of the board about hiring and firing a CEO and their proper remuneration have an important bearing on the value of a firm. According to Wanyonyi and Olweny (2013), CEOs are hired on short-term contracts and are more concerned about the performance of the firm during their own tenure causing them to lay emphasis on short and medium-term goals. Heinrich, (2002), proposes that the management can overcome this problem by linking some incentives (e.g. financial incentives) for the CEO with the long-term performance of the firm because this will motivate the CEO to perform well, because his own financial interest is attached to the performance of the firm. It is also important to note that, the turnover of CEO is negatively associated with firm performance because the shareholders lose confidence in these firms and stop making more investments and thus making the tenure of a CEO, an important determinant of the firm's performance.

2.2.4 Management Equity Holding

According to Iskandar et al (2011), the higher the proportion of the management equity ownership, the better in terms of the going concern of the bank as the management would do

anything legally possible to protect not only their economic interests but also the general economic interests of the entire shareholders. Larcker and Tayan (2011), argue that executives who hold equity in the companies they manage, have greater incentive to build the firm's economic value. Equity ownership discourages self-interested behavior because actions that impair firm value would inflict corresponding damage to the executive's personal wealth. As such, equity ownership by the management is expected to mitigate agency problems.

However, Larker and Tayan (2011) caution that large ownership positions (25%-50%) may lead to lower market valuation because large ownership positions might allow for management entrenchment or misuse of firm assets for personal benefit. A manager who controls a substantial fraction of the firm's equity may have a high voting power and may therefore indulge his preference for non-value-maximizing behavior. This may be done through insider trading and manipulation of accounts. To prevent executives from violating insider trading laws, companies designate a blackout window in which insiders are restricted from making trades.

2.2.5 CEO Duality.

According to Defond and Hung (2004), the Chief Executive Officer (CEO) of an organization can play an important role in creating the value for shareholders by following and incorporating governance provisions in a firm to improve its value. Yermack (2006) reported that firms are more valuable when the CEO and Chairperson's positions are held separately. It can be noted that when a CEO doubles as board chairperson, it leads to leadership facing conflict of interests making it difficult for the board to respond to failure in top management team, and increasing agency costs.

However, Malla (2013) argues that CEO duality can help organizations grow faster and better, in that, an external chairperson of the board of directors could scuttle the CEO growth plans and could apply brakes where not necessary. More so, managerial initiative that is the prerogative of the CEO, could be disturbed by the chairman's excessive interference in the name of strategic direction. As such, companies that do not have the CEOs officiating as chairpersons can tend to become too conservative in their outlook and might not take enough risks thereby losing opportunities that the markets may offer.

2.2.6 Board Independence

A high degree of board independence enables outside directors to monitor the actions of the management more closely and take appropriate governance actions. Sheikh and Wang (2011), view outside directors on the board, as enviable because of their knowledge, broad vision, and independence from management. Studies by John and Senbet (2007) and Rosenstein & Wyatt, (2000) show that the number of outside directors measures the independence of a corporate board and outside directors are believed to be better able to protect the interests of the shareholders. More so, outside Directors have a reputational risk and they will therefore react differently from inside Directors.

However, there are also reasons why outside directors could have a negative impact on the performance of the board. Studies by Bhagat and Black (2002) and Klein (2008) show that outside directors will have less firm-specific expertise and knowledge about the company. In addition, they can spend less time than inside directors and, consequently, they will not be able to make decisions as good as inside directors.

2.3 Theories of Corporate Governance

Numerous theories have been proposed on corporate governance best practice. The following are some of the theories that have been put forward by the various scholars:

2.3.1 The Agency Theory

Agency theory identifies the agency relationship where one party (the principal), delegates work to another party (the agent). As such, shareholders are the principals, in whose interest the corporation should be run, even though they rely on others for the actual running of the corporation (agents) (Rani and Mishra, 2008). The central problem in corporate governance is to construct rules and incentives to effectively align the behavior of managers (agents) with the desires of principals (owners) since the owners are the residual risk bearers. Yocam and Choi (2010), state that, conflict arises when self-interested directors and managers appropriate value to themselves and therefore the agency theory is about resolving this conflict. The rules and incentives in this theory refer to those established by the firm rather than to the legal/political/regulatory system and culture of the host economy or the nature of the owners.

2.3.2 The Stakeholder Theory

Rani and Mishra (2008) view 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, suppliers and customers. Corporate governance should refer to the design of institutions to make managers internalize all stakeholders' welfare. Other parties, who have interests in the firm's long-term success, should be taken into account when a firm's objective function is defined (Vives, 2000). Further, Yusoff and Alhaji (2012) stipulate that a corporate entity should seek to provide a balance between the interests of its diverse stakeholders in order to ensure that each interest constituency receives some degree of satisfaction

2.3.3 The Stewardship Theory

Unlike the agency theory where managers and directors are viewed as self-serving, in the stewardship theory, as agents of the stakeholders, the managers'/ directors' motivation is to do a good job managing corporate assets because he or she is a good steward (Yocam and Choi, 2010). Plessis et al (2011), argue that the motivation of managers is drawn from the higher order needs (growth, achievement and self-actualization) rather than the economic needs. As such, the model holds that because people can be trusted to act in the public good in general and in the interest of their shareholders in particular, it makes sense to create management and authority structures that enable companies to act and react quickly and decisively to market opportunities (Calder, 2008).

2.4 Dividend Payout

DPY ratio refers to the proportion of total profit paid out to ordinary shareholders as dividends. DPY is defined by Hellstrom and Inagambaev (2012) as the percentage of the company's earnings that is distributed to shareholders, and it only takes into consideration internal factors, and the measurement is therefore independent to external factors. Dividend payout is the amount of dividend that is paid to shareholders of a firm. Large dividend payout in a period would reduce funds available for investment in subsequent periods and that would lead to the tendency of raising equity or debt in the next period to finance investment. On the other hand, large investment outlay would lead to a reduction in available funds to finance dividend payout and

increase the need for external debt financing during the next period to finance dividend payment (Fumey and Doku, 2013).

According to Khan and Ashraf (2014), dividend payout ratio decision is due consideration for its legal and financial factors. Managers should consider determinants in deciding amount and size of cash distribution for shareholders. The determinants that may affect dividend payout ratio include corporate profitability, cash flow, tax, debt to equity ratio and sales growth. Dividend ratio also has the impact of investor's behavior on it. Profit seekers like to have high dividend payout ratio and wealth seekers go with low dividend payout. Dividend, as a part of earnings represents the firm's current financial condition, past trend and future anticipations. Dividend reflects how efficiently management is utilizing its financial resources and ability to earn profits. The company's earning capacity ability, can be seen in one snap shot through dividend payout ratio. Past behavior of dividend payout ratio can stand as symbol of investor's interest and trust on corporation's earnings.

The practice that management follows in making dividend payout decisions is known as dividend policy (Lease et al, 2000). Dividend or profit allocation decision is one of the four decision areas in finance. Dividend decisions are important because they determine what funds flow to investors and what funds the firm retains for investment (Ross et al., 2002). More so, they provide information to stakeholders concerning the company's performance. Foong et al. (2007), note that a firm's investments determine future earnings and future potential dividends, and influence the cost of capital. Several dividend payout policies have been put forward by different scholars:

Constant payout ratio policy involves the payment of a constant percentage of earnings on dividends. Since earnings fluctuate, this policy implies that variation exist in the annual dividend per share (Shim et al, 2012). The advantage of this policy is that it simplifies the determination of periodic dividends. However, Brigham (2007), cautions on the limitation of the policy in that it cannot be changed without seriously affecting the confidence of the shareholders in management, and credit worthiness of the company, and suggests that the dividend rate is fixed at a lower level, so that it can be maintained even in the years of reduced profits.

Constant amount per share also known as the stable predictive dividend policy, involves the payment of a specific amount of dividends per share and or periodically increasing the dividend at a constant rate. According to Shim and Siegel (2008), dividend stability implies a low risk company and even in a year when the company shows a loss, it should maintain its dividend to avoid repercussions among current and prospective investors who are more likely to view the loss as temporary. This stability is characterized by a rather strong reluctance to reduce the dividends from period to period. A decrease in dividend is not made until the management is convinced that the new low level of earnings is permanent, thus dividend changes lag behind changes in earnings. The advantage with this policy is that shareholders are assured of streams of earnings every time the company makes profits. The disadvantage of this policy is that it is not in sync with dividend signaling effect that is fluctuating, dividend would lead to a greater uncertainty.

The residual payment policy is whereby the dividends to be paid are set to equal the actual earnings in a given year less the amount of retained earnings required to finance the optimal capital budget (Besley and Brigham, 2011). In effect, dividends are paid out as residuals, free of uncommitted cash flows. Since earnings and investments fluctuate, the residual policy implies that variations were present in annual dividends. This may cause uncertainty to investors and hence increasing the cost of capital. The only justification of this policy is that as long as the firm has investments that generate returns, which are higher than the cost of equity therefore causing the value of the firm to rise (Shisia et al, 2014)

Low plus extra or bonus is a compromise policy that involves payment of regular dividend plus year-end extras during good years. In this case, the management fixes the minimum rate of dividend per share to reduce the possibility of not paying a dividend, and in the years of prosperity the company pays extra dividend (Brigham,2007) .This gives a firm flexibility yet the investor can count on receiving at least minimal dividends. The extra dividend has some information effect and it is used to inform shareholders of the firm's commitment to paying regular dividends.

2.5 Factors affecting Dividend Payout

The firm size is a key determinant of the dividend payout of a firm. Frankfurter et al (2003), notes that, there are substantial differences in dividend payout between small and large firms.

Unlike small firms that prefer to retain earnings to finance faster growth, larger firms choose to increase dividend payments. In addition, normally, small firms are closely held by only one or a few owners and the dividend payout of these firms frequently reflects the income preferences of these individuals. Moreover, Hamdoun (2012) argues that dividend payments have an impact on the agency relationship, in that; larger firms are more likely to increase their dividend payouts to decrease agency costs.

According to Moyer et al, (2005), a firm's growth level is also a key determinant of its dividend payout. Firms that are in their rapid growth phase of their business development tend to pay lower dividends because at this stage, the firm is often short of funds needed to finance planned investments and increases in working capital. Moreover, these firms typically have restricted access to capital markets (because stock offerings are expensive both in terms of transaction costs and minority interests discounts) relative to the more mature and stable firms. As firms mature, their need for funds to support rapid growth declines and their capital market access improves.

A firm's profitability is an important basis of the dividend payout and usually, companies make a tradeoff of the profits between shareholders and the reinvested funds. Profitability is the maximum level of dividend payments and profitability of the current and future periods is the main consideration when firms are making dividend decisions (Kong, 2014). More so, Bhat (2008) argues that the payment of dividends conveys the information from managers to the shareholders about the prospects and profitability of the company, in that, when a company changes its dividend payout, the investor will assume that it is in response to the expected changes in the firm's profitability that will be long lasting.

Dividends entail cash payment and hence the liquidity position of the firm has a bearing on its dividend payout decision. According to Chandra (2014), a firm may be unable to distribute more than a small fraction of its earnings despite its desire to do so, because of insufficient liquidity. As compared to a matured company, a growing firm may have more difficulty of liquidity because it needs more funds for its working capital (Singla, 2007). Thus, the better the cash position of a company, the better the ability to pay dividends.

2. 6 Empirical Review

Oskar et al (2007) examined the effect of corporate governance on dividend policy in the non-financial companies listed on Warsaw Stock Exchange. They applied the ratio of cash dividend to cash flows, the ratio of cash dividend to earnings and the ratio of cash dividend to sales to measure dividend policy and with the use of 110 non-financial listed companies, their results showed that large and more profitable companies have a higher dividend payout ratio. Conversely, concentrated share ownership as well as the deviation from the one-share one-vote principle leads to a reduction of the payout dividend ratio. In addition, their results demonstrate that an increase in the TDI (Transparency Disclosure Index) or its sub indices (board, shareholders & disclosure) that represent corporate governance practices brings about a statistically significant increase in the dividend payout ratio. More so, the estimates prove to be significant after the inclusion of performance and control variables.

The seminal work of Dameh and Mohammed (2013) examined the effect of corporate governance on bank's dividend policy. Using all the banks listed in Amman Stock Exchange, their empirical results show strong evidence on the importance of one simple corporate governance measure, i.e. institutional ownership concentration or top shareholders, on bank's dividend payout ratio. Similarly, the result shows evidences on the effect of tax charges, total assets growth rate, market valuation (MVBV) and profitability (ROE) on dividends policy.

In addition, Abdel-Halim & Bino (2009) investigated corporate governance and dividend policy based on a sample of 110 Jordanian non- financial corporations over the period 2004-2008. Dividend policy was measured using dividend payout ratio while corporate governance was measure using ownership structure and CEO duality. The results show a significant negative relationship between firm's dividend payout ratio and its capitals owned by block holders. This may indicate that large shareholders may be expropriating the rights of minority shareholders and benefiting from the firm through other means other than the payment of dividends. In addition, the results show that there is a negative relationship between dividend payout ratio and sales growth.

In a study of corporate governance and dividend policy by Mehar (2003), The Long-term return behavior of dividend-changing firms was investigated and it was estimated that 23% only

incremental profits are transformed into dividend. The remaining profits are utilized for the additional investment. The study used regression analysis, with Total amount of dividend declared for the year as the dependent variable and Net current assets (or Working Capital), Net profit after tax, Number of shares held by the management (Board of Directors) and the Amount of corporate tax shown in the Profit and Loss Appropriation Accounts as the independent variables. He concluded that concentration of ownership is also an important factor of the dividend payments. According to the study, at the earlier stages, companies concentrate on retained earnings. The Ordinary Least Square (OLS) technique was applied in the study and the model has been estimated through the pooled data of annual audited accounts of 180 listed companies of the Karachi Stock Exchange.

Kurawa and Ishaku (2014) investigated the effect of corporate governance 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. The results revealed that management equity holding has significant effect on dividend payout ratio; Board size and CEO duality had insignificant effect, while board independence exhibit negative but insignificant effect. They recommended that since the fundamental purpose of any company is the creation and delivery of long-term sustainable value in a manner consistent with their obligations as a responsible corporate citizen, then the Bank should therefore view corporate governance not as an end in itself but a vital facilitator to the creation of long- term value for all stakeholders. Further, they suggested that to enhance the level of influence of Corporate Governance on Dividend Payout Ratio to higher level in the Nigerian Banking Industry, Management equity holding should be increased as this will make the management to protect not only their interest but also the interest of all stakeholders.

Ajanthan (2013) examined corporate governance and dividend policy using a sample of 17 companies listed on the Colombo Stock Exchange during 2008-2012. Three key corporate governance variables were considered; Board size, Board independence and CEO duality. The findings were that only CEO duality is negatively related to dividend Payout ratio. However, other corporate governance and control variables (return on assets and debt-to-total assets) did not have significant effect on the dividend payout of firms.

Mitton (2004) studied corporate governance and dividend policy in emerging markets. Using a sample of 365 firms from 19 countries, the results of the study were that firms with stronger corporate governance have higher dividend payouts, consistent with agency models of dividends. More so, the negative relationship between dividend payouts and growth opportunities is stronger among firms with better governance. In addition, firms with stronger governance are more profitable, but that greater profitability explains only part of the higher dividend payouts. The positive relationship between corporate governance and dividend payouts is limited primarily to countries with strong investor protection, suggesting that firm-level corporate governance and country-level investor protection are complements rather than substitutes.

Sajid et al (2012) examined the determinants of corporate dividend policy. The study revealed that 61% of the banks pay dividends whereas 39% do not. The findings were that the independent variables growth, profitability and firm size have positive coefficient of correlation with the dependent variable is dividend yield and Dividend Payout Ratio. However there is strong linear association between profitability and firm size with dividend policy but the variable growth rate has weak positive correlation with dividend policy. In contrast, the variables leverage and firm risk has inverse linear relationship with dividend policy. Banks that pay dividends were found to be more profitable, stable and less risky as compared to banks that do not pay dividends.

In addition, Hamill and Al-Shattarat (2012) conducted a study on the determinants of Dividend Payout Ratio in Jordan. They found that the level of insider ownership, the number of shareholders and the level of institutional ownership significantly affect the Dividend Payout Ratio. They found that the firm size was significantly supporting the transaction-cost hypothesis, while there is no evidence for the signaling hypothesis

Hashim et al (2013) conducted a study on the determinants of dividend policy using the banking sector in Pakistan as a case study. The results show positive impact of Profitability, the last year dividend and ownership structure on the dividend payout, liquidity shows a negative impact while Size, leverage, agency cost, growth and risk showed insignificant relationship and had no impact on the dividend payout. Similarly, Ahmed and Ahmed (2013) evaluated the determinants of dividend policy and their results showed that profitability, tax, size and investment

opportunities are the most influential determinants of dividend policy. Moreover, Ebenezer (2013) examines the determinants of Dividend Payout Policy of listed financial Institutions using fixed and random effects. The results shows statistically significant and positive relationship between Age and liquidity but saw statistically insignificant relationship between profitability, collateral and dividend payment. Therefore, the major determinants of dividend policy of financial institutions in Ghana are age of the firm, collateral and liquidity.

Similarly, Zaman (2013) conducted a study on determinants of dividend policy of a private commercial bank in Bangladesh. The study revealed that while profitability appears to be a better determinant of bank dividend policy, than a bank's growth and size, yet it may not be concluded that profitability alone is a strong indicator of bank dividend policy over time in the capital market of Bangladesh. However, the findings of the studies directly related to this research appear to have a similar conclusion only that some of the findings prove to be significant after the inclusion of performance and control variables.

Jiraporn and Ning (2006) investigate the relationship between shareholder rights and dividend payments to determine the role of agency costs in dividend policy. The authors find an inverse relationship between shareholder rights and dividend payout, which is consistent with the substitution hypothesis (but which differs from prior research findings). The results are robust after controlling for size, profitability, growth, leverage, and share repurchases. The authors do find evidence, however, that regulation influences their results. They conclude that shareholder rights influence dividend policy for their sample for U.S. companies.

Locally, Maniagi et al (2013) examines corporate governance, dividend policy and performance of banks listed on Nairobi security exchange for a 5-year period from 2007-2011. Their findings reveal that dividend yield for banks listed on NSE is significant and positively correlated to business risk and growth opportunities and thus tend to follow the signaling hypothesis. The results also reveal that dividend yield is positively correlated to CEO duality but negative and significant to board independence as corporate governance proxies. Return on assets (ROA) is positively correlated to board size (number of directors) and is significant.

In addition, Maniagi et al (2013) conducted another study on the determinants of dividend payout policy among non-financial firms on Nairobi securities exchange, Kenya. A sample of 30

companies listed on Nairobi Securities Exchange NSE were picked for the period of five years from 2007-2011. They used dividend payout ratio as the dependent variable, profitability, Growth, current earnings, and liquidity as the independent variables and, the size and business risk as moderating variables. Using descriptive statistics and multiple regressions analysis, return on equity, current earnings and firms' growth activities were found to be positively correlated to dividend payout. Business risk and size, (moderating variables) were found to increase the precision of significant variables from 95% to 99% hence among major determinants of dividend payout.

Murekefu and Ochuodho (2013) conducted a study using the firms listed at the NSE to determine the relationship between dividend payout and firm performance. Regression analysis was carried out to establish the relationship between dividend payout and firm performance. The dependent variable for the regression equation was net profit after tax while the independent variables were dividends paid, total assets and revenue. The findings indicated that dividend payout was a major factor affecting firm performance. Their relationship was also strong and positive. Based on the findings, they concluded that dividend policy is relevant and that managers should devote adequate time in designing a dividend policy that will enhance firm performance and therefore shareholder value.

Mwangi (2013) conducted a study on the effect of corporate governance on financial performance of companies listed at Nairobi Security Exchange using a population of all those companies, which were quoted on the Nairobi Securities Exchange as at December 2012. The study examined board size, board composition, CEO duality and leverage, and how they affect the financial performance of listed Companies at NSE. Firm performance was measured using Return on Assets (ROA) and Return on Equity (ROE). The study found that a strong relationship exist between the Corporate Governance practices under study and the firms' financial performance. There was a positive relationship between board composition and firm financial performance. However, the most critical aspect of board composition was the experience, skills and expertise of the board members as opposed to whether they were executive or non-executive directors. Similarly, leverage was found to positively affect financial performance of insurance firms listed at the NSE. On CEO duality, the study found that separation of the role of CEO and the chairperson positively influenced the financial performance of listed firms.

Shisia et al (2014) carried out a study to find out the effect of dividend policy on financial performance of companies quoted at the Nairobi Securities Exchange (NSE) for the period 2001-2011. Using a sample of 30 listed companies, a regression relationship was generated to show the extent to which each independent variable influenced the dependent variable. A correlation analysis was also performed to find how the variables are related to each other in the model. The study concluded that there is a significant relationship between dividend payout ratio and dividend per share. There was further indication that the relationship is not only significant but also direct such that a unit change in dividend per share is followed by a unit positive change in retained earnings. The study also found out that the performance of returns on equity is higher than the performance of all the other variables as given in the trends. The trends illustrated that returns on equity recorded a constant performance while that of dividend pay-out ratio recorded a decreasing trend though that of dividend per share showed more upwards and downwards trends in most cases.

Okibo and Alinyo (2013) conducted a study on the effects of dividend policy on financial growth of advertising firms in Kenya. A sample size of 215 respondents consisting of senior managers, middle level managers and ordinary shareholders was picked. Descriptive research design was adopted, to describe the nature, behavior and factors contributing to the study. The study revealed that investment policy on dividend payout affects financial growth of the firm through division of earnings between the stockholders and reinvestment into long-term projects. The study concluded that dividend policy is an integral decision in financial management because it maximizes shareholder's wealth and has relevance on stock prices and firm's value. The study therefore recommended that the firm should adopt an optimal dividend policy and effective and efficient capital structure which creates a balance between division of earnings and investment in long term projects.

Kamau and Basweti (2013) investigated the relationship between corporate governance and working capital management efficiency of firms listed at the Nairobi Securities Exchange. They used a population of all the forty two (42) firms which had been consistently listed at the Nairobi Securities Exchange from 2006-2012. The data for the study was collected from secondary sources. Independent one-way ANOVA test and independent t-tests were conducted in order to determine the level of significance of the relationship between the two variables. The study

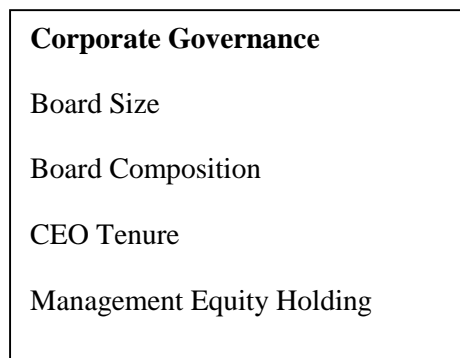
results indicated that there was no statistical significant relationship between corporate governance and working capital management efficiency. Independent one-way ANOVA test and independent t-tests were used to determine the level of significance.

Other studies that have been conducted are such of Vojta (2002) who documents a strong correlation between firm performance and good governance and argues that poor governance is associated with poor operating performance. In a study looking at governance and investor protection in emerging markets, Klapper and Love (2004) confirm that better operating performance and valuation, are related to better governance in these countries as well. Claessens and Fan (2003), provide a comprehensive picture of corporate governance in Asia, confirming that the lack of protection of minority rights is a major issue, and was worsened by low transparency, rent-seeking and relationship-based transactions, extensive group structures and risky financial structures. Yermack (2006) reported that firms are more valuable when the CEO and Chairperson's positions are held separately. Firms where the position of CEO and chairperson are clearly separated are likely to employ the optimal amount of debt in their capital structure (Fosberg, 2004). Sing and Ling (2008), document that independent directors in Malaysian firms generally play a passive role as their appointment is merely to fulfill listing requirement rather than as a measure at improving corporate governance or to boost the capability of the firm. More so, board size has been a particular area of focus for Corporate Governance researchers. One of the key duties of the board of directors is to hire fire and compensate the Chief Operating Officer (CEO).

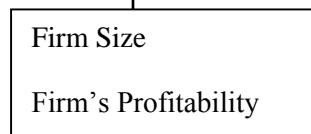
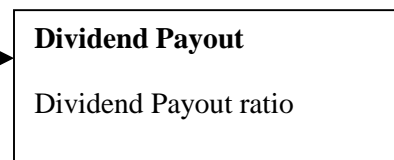
2.7 Conceptual Framework

The below conceptual framework shows an abstract representations that will direct the collection and analysis of data. It outlines the various elements of corporate governance that will be used as measures of corporate governance, and DPY that will be used as a measure of dividend policy. Firm size and firm's growth level are used as moderating variables since they may change the otherwise established impact of the corporate governance on the dividend policy.

Independent Variable



Dependent Variable



Moderating Variable

Figure 1: Conceptual Framework

Source; Author (2015)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

This study used a correlational research design. A correlational research design was fit for this study because it involves collecting data in order to determine whether and to what degree a relationship exists between two or more quantifiable variables and the impact of this relationship. Manufacturing firms that were consistently listed at the NSE from 2008 to 2014 were selected to constitute the population.

3.2 Target Population

According to Mugenda and Mugenda (2003), a target population is a computed set of individuals, cases or objects with some common observable characteristics of a particular nature distinct from other population. The population was made up of all the manufacturing companies, that were consistently listed at the NSE from 2008-2014 (see appendix 1).

3.3. Data Collection

Secondary data for a period of seven (7) years, (2008-2014), was collected from Nairobi Securities Exchange website and companies' website where audited annual reports for manufacturing firms listed on NSE are published. Data collection sheet was used to collect the secondary data, (see Appendix 2).

3.4 Data Analysis

The data collected was coded and analyzed using SPSS (statistical package for social sciences). Correlational analysis was used to test the relationship between each corporate governance variable and dividend payout. Regression analysis was used to test the strength of the relationship between the independent variables relating to corporate governance and dependent variable (dividend payout). Correlation of coefficient value greater than 0.5 irrespective of the sign indicated a strong relationship, whereas value below 0.5 showed weak relationship between the variables. One tailed t-test and ANOVA (Analysis of Variance) test was used to test the degree of relationship between the variables. Values greater than 0.05 indicated statistically insignificant impact, while values less than 0.05 indicated statistically significant impact. The

regression model that was used was adopted and modified from Wanyonyi and Olweny, (2013) as below;

$$Y_{it} = \beta_0 + \beta_1BOS + \beta_2BOC + \beta_3CEOT + \beta_4MGTEQHOL + \beta_5FS + \beta_6FP + e_t$$

Where;

Y _{it}	Represents DPY for manufacturing firms at time t
B ₀	represents the Y-intercept
BOS	represents Board Size (Logarithm of the number of directors serving in the board)
BOC	represents Board Composition(ratio of outside directors to the total number of directors)
CEOT	represents CEO Tenure (logarithm of the number of years served by the CEO)
MGTEQHOL	represents Management Equity Holding,(measured by the proportion/ percentage of equity ownership of the company directors)
FS and FP	represent Firm size (logarithm of average assets of firm) and Firm profitability (Ratio of net income after tax to sales revenue), which are both used as control variables in the model
e _t	Represents the error term which account for other possible factors that could influence Y _{it} that are not captured in the model

3.5 Data Presentation

The analyzed data was organized and presented in form of tables. This assisted in understanding the interpretations and conclusion that were made in the study.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

The aim of the study was to determine the impact of corporate governance on dividend payout of manufacturing firms listed at the NSE. The specific objectives of the study were: to determine the impact of board size, board composition, CEO tenure and managerial equity holding on dividend payout of manufacturing firms listed at NSE and to establish the impact of corporate governance on dividend payout of manufacturing firms listed at NSE. The population of the study consisted 18 companies; however data for 1 company could not be obtained thereby making the response rate to be 94%. According to Mugenda and Mugenda (2003) a response rate of over 75% is considered to be adequate. The data was analyzed as follows: in Section 4.2 corporate governance practices of firms listed at the NSE were established; in section 4.3 the dividend payout of manufacturing firms listed at the NSE were determined; in section 4.4 the control variables which included profitability and firm sizes of manufacturing firms listed at the NSE were analyzed while in section 4.5, the impact of corporate governance on dividend payout of manufacturing firms listed at the NSE was evaluated.

4.2 Corporate Governance Practices of manufacturing firms listed at NSE.

The corporate governance practices variables considered for manufacturing firms listed at the NSE were board size, board composition, CEO tenure and management equity holding.

4.2.1 Board size

Board size is represented as the average of total number of directors serving over the period between 2008 and 2014.

Table 4.2.1: Board sizes of publicly listed manufacturing firms in Kenya between 2008 and 2014

Board size (no. of directors)		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3.00	2	11.8	11.8	11.8
	5.00	2	11.8	11.8	23.5
	6.00	1	5.9	5.9	29.4
	7.00	4	23.5	23.5	52.9
	8.00	1	5.9	5.9	58.8
	9.00	2	11.8	11.8	70.6
	11.00	3	17.6	17.6	88.2
	13.00	1	5.9	5.9	94.1
	14.00	1	5.9	5.9	100.0
	Total	17	100.0	100.0	

Source: Research Data (2015)

According to the results in table 4.2.1 above, the minimum board size among the companies that were studied had 3 directors while the maximum board size had 14 directors. The most frequent board size among the companies that were studied was 7. The board sizes consisting of 3, 5 and 9 members respectively were found in 2 companies each, and this constituted 11.8% of the population, for each. Similarly, 3 companies had a board size of 8 members, 13 members and 14 members each representing 5.9 % of the total population each, while 3 companies had a board size of 11 members equivalent to 17.6% of the total number of firms that were included in the study. In addition, four companies had a board size of 7 members which represented 23.5% of the total population of study.

4.2.2 Board Composition

Board composition was measured as the ratio of outside directors to outside directors. It was represented as the average of the ratio of outside directors to the total directors serving over the period between 2008 and 2014.

Table 4.2.2: board composition for publicly listed manufacturing firms in Kenya between 2008 and 2014

BOC (ratio of outside directors to total number of the directors)	Frequency	Percentage	Cumulative percentage
0.1 to 0.2	0	0%	0%
0.3 to 0.4	2	12%	12%
0.5 to 0.6	1	6%	18%
0.7 to 0.8	10	59%	76%
0.9 to 1.0	4	24%	100%
	17		

Source: Research Data (2015)

Table 4.2.2 above shows the board composition of the listed manufacturing firms for the period 2008-2014. According to the results above, the majority of the firms (10 firms) that were considered in the study had the ratio of outside directors to the total number of the directors ranging between 0.7 to 0.8, representing 59% of the total population while only 1 company had a board composition with a range of 0.5 to 0.6 representing 6% of the population. More so, two companies had a board composition of 0.3 to 0.4 representing 12% of the population while four companies had a board composition that ranged between 0.9 and 1.0, equivalent to 24% of the total number of manufacturing firms that were included in the study.

4.2.3 CEO Tenure

CEO tenure is represented as the total number of years served by the respective companies' CEOs over the period between 2008 and 2014.

Table 4.2.3: CEO tenure for publicly listed manufacturing firms in Kenya between 2008 and 2014

CEOT	Frequency	Percent	Valid Percent	Cumulative Percent
2.00	1	5.9	5.9	5.9
3.00	2	11.8	11.8	17.6
4.00	4	23.5	23.5	41.2
5.00	2	11.8	11.8	52.9
Valid 6.00	1	5.9	5.9	58.8
7.00	4	23.5	23.5	82.4
11.00	2	11.8	11.8	94.1
27.00	1	5.9	5.9	100.0
Total	17	100.0	100.0	

Source: Research Data (2015)

According to table 4.2.3, the maximum CEO tenure was twenty seven years while the minimum was one year. This indicates that the CEO who held office for the longest period of time was 27 years while the one who served for the shortest period of time was 1 year. Majority of the CEOs of manufacturing firms under study (23.5%) had held office for either four or seven years as indicated by table 4.2.3 above. 3 companies had their CEOs serving for 2, 6 and 27 years each, representing 5.9% of the population each.

4.2.4 Management Equity Holding

Management Equity holding is represented as the percentage of the directors' equity holding divided by the total number of shares for the respective companies over the period between 2008 and 2014.

Table 4.2.4: Management Equity Holding for publicly listed manufacturing firms in Kenya between 2008 and 2014

MEH(%)	Frequency	Percentage	Cumulative percentage
0 to 10	13	76%	76%
11 to 20	2	12%	88%
21 to 30	1	6%	94%
31 to 40	0	0%	94%
41 to 50	0	0%	94%
51 to 60	1	6%	100%
	17		

Source: Research Data (2015)

Table 4.2.4 above shows the management equity holding for listed manufacturing firms for the period 2008-2014. The majority of the manufacturing firms (13 firms) had the directors holding 0% to 10% of the total equity representing 76% of the total population, while the highest equity holding by company directors was 60%, representing 6% of the firms that were studied. 2 companies had a management equity holding ranging between 11% and 20% while 1 company had a management equity holding of 21% to 30% representing 12% and 6% respectively, of the study population.

4. 3 Dividend payout of manufacturing firms listed at the NSE between 2008-2014.

Dividend payout was measured as a percentage of the total amount of dividends paid out divided by the total net profits for the respective companies over the period between 2008 and 2014.

Table 4.3 Levels of Dividend Payout of Manufacturing Firms Listed at the NSE

DPY Range (percentage)	Frequency	Percentage	Cumulative Percentage
0 to 20	8	47	47
21 to 40	4	24	71
41 to 60	3	18	88
61 to 80	1	6	94
81- to 100	1	6	100

	17		
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Source: Research data (2015)

According to table 4.3 above, the level of dividend payout of 8 companies ranged from 0% to 20%. This represented 47% of the total companies that were included in the study, 4 companies ranged from 21% to 40% representing 24% of the population while 3 companies ranged from 41% to 60% representing 18% of the population. Only 1 company had a range of 61% to 80% and similarly, only one company had a dividend payout of between 81% to 100%, both representing 12% of the population of study.

4.4 Control variables

Two control variables that influence the level of dividend payout were included in the model. These include the profitability of manufacturing firms listed at the NSE and the size of companies listed at the NSE.

4.4.1 Profitability of Manufacturing Firms Listed in the NSE.

Profitability is represented as the percentage of the total net profitability of the respective companies over the period between 2008 and 2014.

Table 4.4.1: Profitability of publicly listed manufacturing firms in Kenya between 2008 and 2014

Profitability (%)	Frequency	Percentage	Cumulative Percentage
0(zero profits/Loss)	1	6%	6%
1 to 10	4	24%	29%
11 to 20	8	47%	76%
21 to 30	3	18%	94%
31 to 40	0	0%	94%
41 to 50	0	0%	94%
51 to 60	1	6%	100%
	17		

Source: Research data (2015).

Table 4.4.1 above indicates that among the companies that were included in the study, one firm (representing 6% of the total firms studied) incurred losses between 2008 and 2014. However, four firms' profitability ranged between 1% to 10%, representing 24% of the total firms that were under study. Profitability of Majority of the firms' that were included in the study ranged between 11% to 20%, representing 47% of the total firms studied. Furthermore, table 4.41 above indicates that 3 firms' profitability ranged from 21% to 30% and only 1 firm had profitability ranging from 51% to 60% representing 18% and 6% respectively of the total manufacturing firms that were studied.

4.4.2 Size of Manufacturing Firms Listed in the NSE.

Firm size is represented as the total asset size of the respective companies over the period between 2008 and 2014.

Table 4.4.2: Size of publicly listed companies in Kenya between 2008 and 2014 (Ksh Billions)

Firm size range(Ksh. 'Billion)	Frequency	percentage	Cumulative frequency
0 to 20	12	71%	71%
21 to 40	3	18%	88%
41 to 60	1	6%	94%
61 to 80	0	0%	94%
81 to 100	0	0%	94%
101 to 120	0	0%	94%
121 to 140	0	0%	94%
141 to 160	1	6%	100%
	17		

Source: Research data, (2015)

According to table 4.4.2 above, 12 companies had total assets ranging between Ksh 0 and Ksh 10 billion. This represented 71% of all the companies that were included in the study. Moreover, the asset size of 3 firms (18%) ranged between Ksh 21 billion and Ksh 40 billion while only 1 company had an asset size ranging between 41 billion and 60 billion. The firm with the largest

asset size ranged between 141billion to 160 billion, representing 6% of the total manufacturing firms that were studied.

4.5 The impact of corporate governance on dividend payout of manufacturing firms listed at the NSE

Table: 4.5.1 Correlation analysis and test of significance

Correlations								
		BOC	BOS	CEOT	MEH	DPY	FS	FP
BOC	Pearson Correlation	1	.341	-.432*	-.573**	-.101	.200	.014
	Sig. (1-tailed)		.090	.042	.008	.350	.221	.479
BOS	Pearson Correlation	.341	1	-.197	-.098	.432*	.961**	-.266
	Sig. (1-tailed)	.090		.225	.355	.041	.000	.151
CEOT	Pearson Correlation	-.432*	-.197	1	.495*	-.328	-.088	-.237
	Sig. (1-tailed)	.042	.225		.022	.099	.369	.180
MEH	Pearson Correlation	-	-.098	.495*	1	-.190	-.050	-.105
	Sig. (1-tailed)	.573**	.355	.022		.232	.425	.345
DPY	Pearson Correlation	-.101	.432*	-.328	-.190	1	.450*	.051
	Sig. (1-tailed)	.350	.041	.099	.232		.035	.422
FS	Pearson Correlation	.200	.961**	-.088	-.050	.450*	1	-.246
	Sig. (1-tailed)	.221	.000	.369	.425	.035		.170
FP	Pearson Correlation	.014	-.266	-.237	-.105	.051	-.246	1
	Sig. (1-tailed)	.479	.151	.180	.345	.422	.170	
*. Correlation is significant at the 0.05 level (1-tailed).								
**. Correlation is significant at the 0.01 level (1-tailed).								

Source: Research data (2015).

The Pearson's value of the relationship between board size and dividend payout was -0.432. This indicates that there exists a negative and a weak relationship between the two variables implying that an increase in board size reduces the dividend payout. The significance value of the relationship between the two variables was 0.041 and this signifies that board size has a statistical significant impact on dividend payout. Based on these findings, the study rejects the null hypothesis and concludes that board size has a statistical significant impact on dividend payout of manufacturing firms listed at the NSE for the period 2008 to 2014. This is consistent with findings by Abor and Fiador (2015) who found board size to have a significant impact on dividend payout.

According to the table 4.5.1 above, board composition and dividend payout were found to have a weak negative relationship as evidenced by the low Pearson's value of -0.101. The one tailed significant value was 0.350 and this shows that board composition has no statistical significant impact on dividend payout because $0.350 > 0.05$. Therefore, the study fails to reject the null hypothesis and concludes that, board composition has no statistical impact on the dividend payout for manufacturing firms listed at the NSE for the period 2008-2014. These findings are similar to Kurawa and Ishaku (2014) who found that board composition has negative and insignificant effects on dividend payout ratio.

Table 4.5 shows that the correlation coefficient value between CEO tenure and dividend payout was -0.328. The low negative correlation value implies that the two variables have a weak negative relationship. This suggests that an increase in CEO tenure reduces the dividend payout. However, the one tailed significant value of 0.099 implies that the CEO tenure had statistically insignificant impact on dividend payout. Based on these findings, the study fails to reject the null hypothesis and concludes that, CEO tenure has no statistical significant impact on dividend payout of manufacturing firms listed at the NSE for the period 2008-2014.

According to table 4.5 above, management equity holding and dividend payout were found to have a weak negative relationship based on the correlation coefficient value of -0.190. This suggests that an increase in management equity holding reduces the dividend payout. The one tailed significant value of 0.232 implies that management equity holding had no statistical significant impact on dividend payout of the manufacturing firms that were included in the study.

Therefore, the study fails to reject the null hypothesis and concludes that, management equity holding has no statistical impact on dividend payout of manufacturing firms listed at the NSE for the period 2008-2014. However, this is in contrast to a study by Ada (2012) that found that management equity holding is positively related to dividend payout and that it has a statistical significant impact on dividend payout.

Firm size was found to have a strong positive relationship with dividend payout, signified by the correlation coefficient of 0.45. The one tailed significance value of 0.035 implies that firm size has a statistical impact on dividend payout. Moreover, Firm profitability was found to have a weak positive relationship with dividend payout. The significance value was found to be 0.422 implying that firm profitability had no statistical impact on dividend payout.

4.5.2 Regression analysis

Table 4.5.2: Multiple Regression analysis

Model Summary										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.692 ^a	.478	.401	.231102	.478	1.529	6	10	.263	2.407
a. Predictors: (Constant), FP, BOC, FS, CEOT, MEH, BOS										
b. Dependent Variable: DPY										

Source: Research Data (2015)

According to table 4.5.2 above, the correlation coefficient(R) value was 0.692. This means that there is a strong relationship between corporate governance and dividend payout($r > 0.5$). However, table 4.5.2 indicates that corporate governance explains only 47.8% of the differences in dividend payout as shown by the coefficient of determination value (R^2) of 0.478. The adjusted R^2 of 0.401 suggests that the R^2 of 0.478 is not by chance since the adjusted R^2 is close to R^2 . Moreover, the significance value of 0.263 implies that corporate governance cannot be used to adequately predict changes in dividend payout because $P > 0.05$. This implies that corporate governance has no statistical significant impact on dividend payout. The Durbin-

Watson measure of autocorrelation in this analysis was 2.407. This signifies that there was no autocorrelation among the independent variables due to the fact that it was within the acceptable levels of 1.5 to 2.5. Autocorrelation occurs where the R^2 result is as a result of the relationship between the independent variables rather than relationship between independent and dependent variables.

4.5.3 Test of hypothesis

Table 4.5.3: ANOVA test

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.490	6	.082	1.529	.263 ^b
	Residual	.534	10	.053		
	Total	1.024	16			
a. Dependent Variable: DPY						
b. Predictors: (Constant), FP, BOC, FS, CEOT, MEH, BOS						

Source: Research Data (2015)

According to table 4.5.3 above, the overall significance of the model was 0.263 with an F value of 1.529. The level of significance was higher than 0.005 and this means that corporate governance practices do not have statistically significant impact on dividend payout. Therefore, this study fails to reject the null hypothesis and concludes that corporate governance has no statistical impact on dividend payout of manufacturing firms listed at the NSE for the period 2008-2014.

Table 4.5.4: Regression Coefficients

Coefficients ^a								
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B		
	B	Std. Error	Beta			Lower Bound	Upper Bound	
1	(Constant)	.669	1.451		.461	.655	-2.565	3.902
	BOC	-1.105	.611	-.622	-1.808	.101	-2.467	.257
	BOS	.799	1.428	.616	3.559	.034	-2.384	3.981
	CEOT	-.276	.289	-.286	-.954	.362	-.921	.369
	MEH	-.006	.005	-.335	-1.074	.308	-.017	.006
	FS	-.011	.357	-.031	-.030	.977	-.807	.786
	FP	.233	.520	.114	.448	.664	-.925	1.391

a. Dependent Variable: DPY

Source: Research data (2015)

According to table 4.5.4 above, the significance of board size in explaining changes in dividend payout among the manufacturing firms that were included in the study was 0.034. This indicates that board size has statistically insignificant impact on dividend payout ($p < 0.05$). The t value of 3.559 is above the acceptable level of 3 and this further signifies that the impact of board size on dividend payout was statistically significant. The significance of board composition in explaining changes in dividend payout among the manufacturing firms that were included in the study was 0.101. This indicates that board composition has statistically insignificant impact on dividend payout ($p > 0.05$). The t value of -1.808 is below the acceptable level of 3 and this further signifies that the impact of board composition on dividend payout was not statistically significant. Similarly, the significance level of CEO tenure was 0.362 which is more than the acceptable level of 0.05. This implies that CEO tenure has no statistical significant impact on dividend payout of manufacturing firms listed at the NSE. The data further indicates that management equity holding has no statistical significant impact on dividend payout based on the significance value of 0.308. Moreover, their t values of -0.954 and -1.074 were less than 3 thereby implying that they could not be used to adequately explain changes in dividend payout.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of the Results

This research sought to evaluate the impact of corporate governance on dividend payout of manufacturing firms listed at the NSE. A correlation research design was adopted where all manufacturing firms that were consistently listed at the NSE for the period 2008-2014 formed the population. This research relied on secondary data which was collected from the manufacturing firms' financial statements and annual reports. Information on dividend payout and corporate governance was obtained from these published annual reports of the respective manufacturing firms. Four corporate governance practices were considered ranging from board size, board composition, CEO tenure and management equity holding.

The research findings revealed that the minimum board size among the manufacturing firms that were considered for the study had 3 directors while the maximum board size had 14 directors. The most frequent board size among the manufacturing firms that were studied was 7, resulting into an average of 8 directors. Further, the research findings revealed that the majority of the firms (10 firms) that were considered in the study had the ratio of outside directors to the total number of the directors ranging between 0.7 and 0.8, representing 59% of the total population.

In regard to CEO tenure, the maximum CEO tenure was twenty seven years while the minimum was one year. This indicates that the CEO who held office for the longest period of time was 27 years while the one who served for the shortest period of time was 1 year. Majority of the CEOs of manufacturing firms under study (23.5%) had held office for either four or seven years. Furthermore, the findings of the study revealed that majority of the manufacturing firms (13 firms) had the directors holding 0% to 10% of the total equity representing 76% of the total population, while the highest equity holding by company directors was 60%, representing 6% of the firms that were studied.

The level of dividend payout for majority of the firms (8 Firms) ranged between 0% and 20% of the total net profits after tax. This represented 47% of the total companies that were included in the study, 4 companies ranged from 21% to 40% representing 24% of the population while 3

companies ranged from 41% to 60% representing 18% of the population. Only 1 company had a range of 61% to 80% and similarly, only one company had a dividend payout of between 81% and 100%. In respect to the control variables, profitability of majority of the firms' that were included in the study ranged between 11% to 20%, representing 47% of the total firms studied while majority of the firms (12 firms) had total assets ranging between Ksh 0 and Ksh 10 billion which represented 71% of all the companies that were included in the study.

The results of the correlation analysis indicated that board size, board composition, CEO tenure and management equity holding had a weak negative correlation with dividend payout. Nonetheless, one tailed tests indicated that board composition, CEO tenure and management equity holding did not have a statistical significant impact on dividend payout. On the other hand, the significance value of the relationship between board size and dividend payout was 0.041 and this signifies that board size has a statistical significant impact on dividend payout ($P < 0.05$). The computed correlation coefficient value was 0.692 which indicated that there is a strong relationship between corporate governance and dividend payout ($r > 0.5$). However, the significance value of 0.263 implies that corporate governance cannot be used to adequately predict changes in dividend payout because $P > 0.05$. This implies that corporate governance has no statistical significant impact on dividend payout of manufacturing firms.

5.2 Conclusions

The aim of the study was to evaluate the impact of corporate governance on dividend payout of manufacturing firms listed at the NSE. The empirical results from the multiple regression analysis indicated that the correlation coefficient (R) value was 0.692. This means that there is a strong positive relationship between corporate governance and dividend payout ($r > 0.5$). However, corporate governance explains only 47.8% of the differences in dividend payout as shown by the coefficient of determination value (R^2) of 0.478. Moreover, the significance value of 0.263 implies that corporate governance cannot be used to adequately predict changes in dividend payout ($P > 0.05$).

5.3 Recommendations for Further Study

A comparative study should be specifically done using other measures of corporate governance such as board meetings and board independence. Furthermore, the unique characteristics of firms within other industries (different operating environments with different operational structures)

should be explored, to determine whether they affect the corporate governance practices of these firms. Secondly, a study on corporate governance practices and dividend payout of both private and public business enterprises should also be carried out to assess the effect of corporate governance on dividends for all business entities.

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APPENDIX 1: MANUFACTURING COMPANIES LISTED AT THE NSE

	COMPANY NAME	PRODUCT MANUFACTURED	YEAR LISTED
1	ARM Cement Limited- Athi River Mining	Cement, fertilizers, minerals; mining & manufacturing	1997
2	Bamburi Cement	Cement	1996
3	British America Tobacco Kenya Ltd	Tobacco Products	1969
4	Crown-Berger (Kenya)	Paint manufacturing	1992
5	Eaagads Limited	Coffee growing, manufacture &sale	1972
6	East Africa Breweries Ltd	Beer, spirits	1972
7	East African Cables Limited	Cable manufacture	1973
8	Eveready East Africa Ltd	Batteries	2007
9	Kakuzi Limited	Coffee, tea, passion fruit, avocados, citrus, pineapple, others	1951
10	Kapchorua Tea Co.	Tea growing, processing and marketing	1972
11	Kengen Ltd	Electricity generation	2006

12	Kenya Orchards Ltd	Fruit growing, preservation and distribution, fruit-juice manufacture and marketing	1959
13	Limuru Tea Co. Ltd	Tea	1967
14	Mumias Sugar Company	Sugar cane growing, sugar manufacture & marketing	2001
15	Rea Vipingo Plantations Ltd	Coffee	1996
16	Sameer Africa Ltd	Manufacturing of tyres	
17	Sasini Ltd	Tea & Coffee	1965
18	Unga Group Ltd	Flour milling	1971
19	Williamson Tea Kenya Ltd	Tea growing, processing & distribution	1972

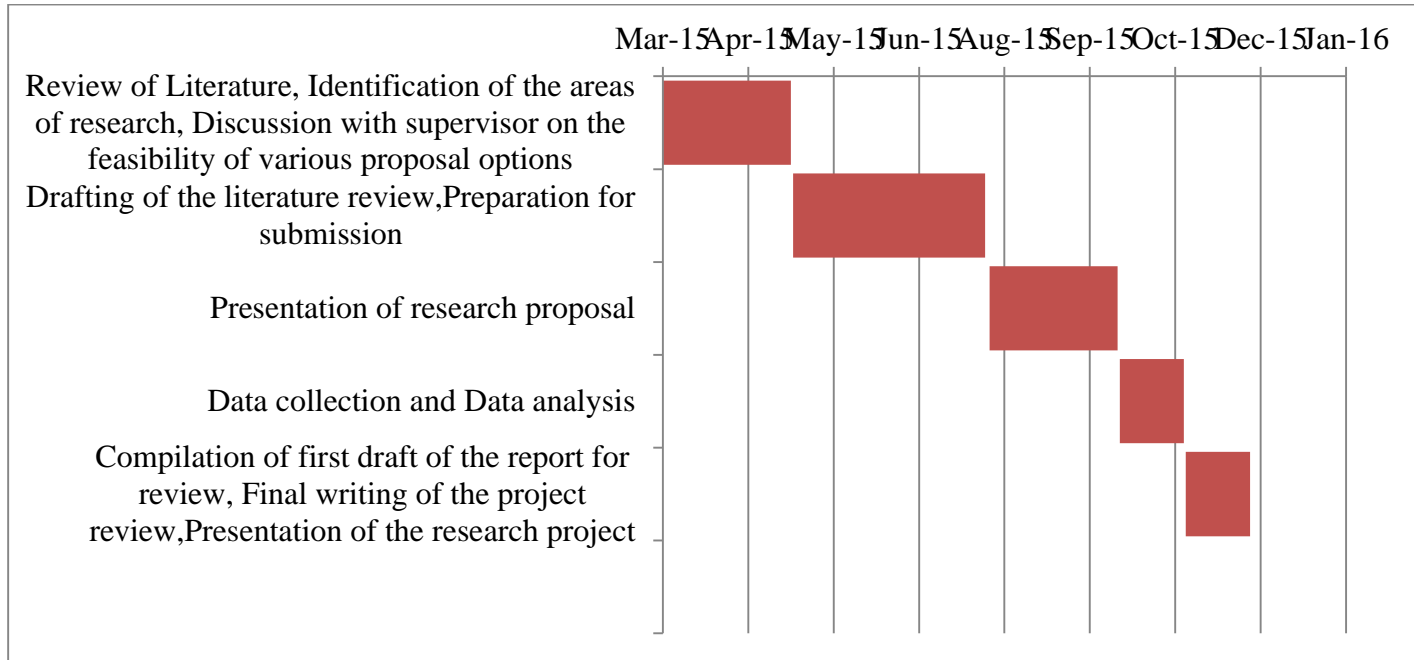
APPENDIX 2: DATA COLLECTION SHEET

COMPANY NAME	YEAR	DPR	BOS	BOC	CEOT	MGTEQHO L	FS	FP

Key:

DPR= Dividend Payout ratio	MGTEQHOL=Management Equity Holding
BOS=Board Size	FS= Firm Size
BOC=Board Composition	FP= Firm Profitability
CEOT- CEO Tenure	

APPENDIX 3: WORK PLAN.



APPENDIX 4: BUDGET

ITEM	COST (Ksh)
1. Stationary	3,000
2. Computer related costs (internet browsing & printing) and data collection and analysis costs	22,000.
3. Traveling expenses	10,000.
4. Photocopy and binding	4,000.
5. Personal expenses	7,000
6. Miscellaneous expenses	4,000.
TOTAL	50, 000