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Investigating the effect of board characteristics on the dividend payout of commercial banks in Kenya.

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INVESTIGATING THE EFFECT OF BOARD CHARACTERISTICS ON THE DIVIDEND PAYOUT OF COMMERCIAL BANKS IN KENYA.

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DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made in the thesis itself.

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DEDICATION

I dedicate this work to my family for the continuous support they have given me.

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ABSTRACT

Commercial banks' dividend payment policies vary since each firm selects what, how, and when to pay dividends to its shareholders. Despite operating in the same economic climate, some banks pay higher dividends while others pay lower dividends. The Board of directors legally decides the distribution of the earnings of a company. Is there a relationship between board characteristics and dividend payout? How do board characteristics affect the dividend payout of commercial banks in Kenya? To answer these questions, the study evaluated the effect of board characteristics on the dividend payout of commercial banks in Kenya. The study carried out an analysis of the 37 licensed banks commercial banks in Kenya from 2017 to 2021. The study was grounded using stakeholder and agency theories. The study used both secondary and primary data to achieve its objective. Secondary data was obtained from published annual reports of Commercial Banks and primary data was collected using questionnaires to get more insights into the perception of stakeholders regarding the relationship between board characteristics and dividend payout. The data was analyzed using logit and tobit regression models and the results indicated that board independence had a positive statistically significant effect on dividend payout of commercial banks in Kenya. Board gender diversity had a negative statistically significant effect (p value <0.1) on dividend payout of commercial banks in Kenya. Board size, board members' average age and board average years of experience showed no statistically significant effect on dividend payout of commercial banks in Kenya. The study had a limitation of time as it focused only on five years' period that is between 2017 to 2021. It is unclear if the study was done for a longer period, the same results would still hold. The study also did not incorporate all board characteristics hence future studies can consider incorporating that.

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OPERATIONAL DEFINITION OF TERMS

Corporate governance -involves a set of relationships between a company's management, its board, its shareholders, and other stakeholders (OECD, 2015).

Dividend -distribution of earnings to shareholders (Jaffe et al., 2010).

ABBREVIATIONS AND ACRONYMS

CBK- Central Bank of Kenya

DPR- Dividend Payout Ratio

ESG- Environmental, Social and Corporate Governance

NSE- Nairobi Securities Exchange

OCC- Office of the Comptroller of the Currency

OECD- The Organization of Economic Cooperation and Development

PG- Prudential Guidelines

ROA- Return on Assets

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Dividend policy guides the earnings distribution. It involves balancing the shareholders' desire for current dividends and firm needs for funds growth (Pandey, 2015). Dividend behavior is an outcome of corporate governance as shown by research (La Porta et al., 2000). Faccio et al., (2001) hold the same view that dividend behavior is because of governance. Grossman et al., (1980); Fluck (1998) state that dividend payment rules can handle agency issues that may arise between firm executives and shareholders by limiting the amount of free cash flow possessed by firm management, who might occasionally act in ways that appear to be detrimental to stakeholders. Payment of dividends alleviates the need for monitoring and incurring agency costs. The high dividend payout of the firms reduces the conflict that arises out of information asymmetry between the managers and agents (Nguyen et al., 2019).

Corporate governance provides the structure through which the objectives of the company are set, the means of attaining those objectives and monitoring performance are determined (OECD, 2015). The board of directors is one of the forms of an internal control mechanism as they act as a watchdog of top managers (Maingi, 2016). The function of the board of directors is an important instrument of the corporate governance system. This is because the board of directors acts on behalf of the shareholders to exert oversight over senior management (John &Senbet, 1998). Moreover, company boards are in charge of significant corporate decisions such as dividend payout (Chen et al., 2017), and the success of such decisions is determined by the board's characteristics. Board of directors' monitor and contribute to the performance of the firms consequently dividend payout and legally decide whether firms pay dividends or not. The presence of various forms of corporate governance structures is because of agency costs as highlighted in the agency theory. The corporate governance framework, therefore, prohibits managers from pursuing goals that do not maximize shareholders' value (Hutchinson & Gul, 2004).

Studies have evaluated the effect of board characteristics on the dividend payout of firms. Elmargh et al., (2017); Gyapong et al., (2021); Mehdi (2017); Tahir et al., (2020);

Dissanayake and Dissabandara (2021); Mehdi et al., (2017); Khan (2022) among other studies have shown how different board characteristics affect dividend payout of firms. Gyapong et al., (2021) observed that in Australian firms' board diversity in terms of gender had a positive relationship with the dividend payout with women directors increasing dividend payments in widely held firms and reducing in closely held firms. Similarly, Dissanayake and Dissabandara (2021) findings show that women on board had a significant positive effect on dividend payout for non-financial firms listed in Colombo Stock Exchange. However, Khan (2022) findings indicated that board gender diversity had no significant relationship with dividend payout for non-financial firms in Turkey. Thompson and Manu (2021) and Elmargh et. al (2017) finding indicate that board size had a positive significant relationship with dividend payout for United States firms and UK listed SMEs respectively, however, the effect of board diversity, board independence on dividend payout were conflicting in both countries. Sanan et al. (2019) noted that board independence and board gender diversity had a negative and significant effect on dividend payout for Indian non-financial firms. Mai and Syarief (2021) on the other hand found that board size had a negative significant effect on dividend payout; audit committee size had a positive significant relationship with dividend payout whereas board gender diversity and board independence did not have any effect on the dividend payout in the banking sector on Indonesian Stock Exchange.

Board independence, board tenure, board size, and CEO duality depicted a positive relationship on dividends payout whereas board gender diversity and board member age had a negative association with dividend payout for non-financial firms in Malaysia (Tahir & Rahman, 2020). Al-Kahmisi and Hassan (2018) however, established that board independence had a negative relationship with dividend yield whereas board size indicated a significant positive relationship with dividend yield for Malaysian banks. However, Sani and Musa (2017) found that board size and board composition had a negative impact on dividend policy whereas the board audit committee was statistically insignificant in determining the dividend policy of listed Deposit Money Banks in Nigeria.

In Kenya, the studies that have evaluated the effect of the corporate structure have shown equivocal conclusions as well. Board independence has a statistically significant positive effect on dividend payout whereas board size and the number of board committees are insignificant determinants of dividend payout for listed manufacturing firms in Kenya (Mwangi, 2019). Similarly, Njogu (2020) and Ikunda (2016) found that board size had a statistically significant positive influence on dividend payout whereas board independence, and board gender diversity were insignificant determinants of dividend payout of non-financial listed firms in the Nairobi Securities Exchange. The studies that have been done in the banking sector have shown equivocal conclusions. Ada (2013) observed that board size, insider holding, board composition, and leverage showed a positive statistically significant effect on the dividend payout of Commercial Banks in Kenya. Aboka (2018) however states that board size, board diversity, board independence, and debt levels are statistically insignificant in determining the dividend payout ratio of commercial banks. The significant determinant of dividend payout according to Aboka (2018) is profitability.

Due to the global climate change the reporting of Environmental Social and Governance (ESG) disclosures has gained a lot of momentum and companies are under pressure to report on how they promote sustainability. Studies have investigated how board characteristics affect the disclosure of firms though since it is an emerging issue, not all companies/firms are reporting ESG disclosures. Githaiga and Kosgei (2023) did a study investigating the influence of board characteristics on sustainability reporting among listed firms in East Africa and they found out that board gender diversity, board financial expertise, and board independence had a positive significant effect on reporting whereas board size had a negative effect on sustainability reporting.

Contrary, KanadlI et al., (2022) noted that boards that have achieved independence of perspective prioritize shareholder profit maximization over considerations of corporate sustainability. They further note that women on boards not only contribute to the economic but also environmental and social issues of sustainability when making decisions. Furthermore, the effect of gender diversity on board attention to corporate sustainability is

dependent on contextual (board openness) and structural (chairperson leadership) factors that facilitate social interactions within boardrooms.

In Kenya, NSE issued ESG disclosure manual in November 2021 to guide in the reporting of the ESG disclosures by listed firms in the securities exchange. Central Bank of Kenya issued a guidance on climate risk management in 2021 and all the banks in Kenya should disclose climate related information. There is a global trend towards having board representation with ESG skills so as to navigate the ESG disclosure and to avoid the perception of green washing. Board characteristics influences the formulation and implementation of climate related risk management strategies and policies and overseeing its effective implementation.

Owing to the commencement of the fourth industrial revolution in the last decade, there has been disruption in the banking industry due to the competition amongst banks and fintech (financial technology) because they are providing similar or even better services to customers hence posing a threat to conventional banking (Lauren, 2020). Mokaya (2020); Katutu (2019) and Kachumbo (2020) found out that fintech has led to a decrease in the financial performance of commercial banks in Kenya hence the need for banks to come up with innovative products to remain competitive in the market.

Therefore, there is a need for a board of directors that is agile with the ability to come up with real-time strategies to stay relevant in the market. Lauren (2020) states that to thrive in the financial business in the future, the banking industry must devise a complicated system adaption plan. Machkour and Abriane (2020) state that banks can lose to competitors and even become extinct if they do not aggressively innovate especially with the emergence of fintech. Hence, board characteristics plays a critical role as it determines the quality of decisions taken by the board.

The COVID-19 epidemic showed severe flaws in both prior and current corporate governance standards, as well as potential outcomes that could harm a company's performance (Naeem et al., 2022). During COVID-19, the performance of firms was affected due to the economic meltdown across all sectors which led to some firms cutting

or omitting dividends while others paid dividends. The board of directors had to make critical decisions whether to pay dividends or not. The exceptional problems posed by the COVID-19 pandemic therefore necessitated a re-examination of long-term corporate governance policies (Naeem et al., 2022). Jebran et al., (2023) on the other hand evaluated how corporate governance practices can help firms to survive COVID 19 crisis. Their review illustrated that independent risk management committees, institutional ownership, board independence, blockholders, and family ownership are some of the essential and effective governance mechanisms compared to other governance attributes during COVID-19 crisis.

From the empirical review, most studies have arrived at different conclusions due to different jurisdictions and sectors. Also, among the sectors, such as the banking sector, there is no consensus on the relationship between board characteristics and dividend payout. Moreover, which board characteristics affect the dividend payout of commercial banks in Kenya is a puzzle that is yet to be solved. It is against this background that this study investigated the effect of board characteristics on the dividend payout of commercial banks in Kenya.

1.1.1Commercial Banks in Kenya

The Banking Industry in Kenya was liberalized in 1995. Banks in Kenya are governed by the Companies Act, Banking Act, Central Bank Act, and supervised by the Central Bank of Kenya. There are 38 banks in Kenya licensed by the Central Bank of Kenya as at 31st December 2022. Since the sector is regulated, CBK issued prudential guidelines effective January 2013 that describe sound corporate governance principles for banks. CBK/PG/02 states that the board of directors has overall responsibility for the bank, including the approval and oversight of the bank's strategic objectives, risk strategy, corporate governance, and corporate values. The prudential guidelines further state that the board of directors must have the appropriate number of directors that corresponds to the bank's complexity, size, scope, and operations of the institution. Moreover, the board should consider whether its size, diversity, and demographics make it effective. The diversity is

in terms of gender, technical expertise, relevant banking knowledge, nationality, experience, age, and academic qualifications.

The Central Bank of Kenya requires all institutions licensed under the Banking Act to have at least five directors due to the nature of deposit-taking institutions and their role in protecting the depositors' interests. The guideline also postulates that, for effective supervision of business affairs, the directors ought to be informed regularly on the business condition of the bank. The board of directors should deliberate on the information and give guidance to the management. Owing to the difference in the board characteristics of the boards for different banks, dividend payout varies across the different tiers. The success or failure of the bank is determined by the policies adopted hence board of directors contribute to the financial performance of the banks, consequently dividend payout. The banking sector plays a significant role in the growth of the economy of Kenya. Therefore, the financial soundness of the banking system of the Country is important as it influences investment and business operations.

1.2 Statement of the Problem

In the early eighties, most of the banks collapsed not only in Kenya but also globally (OCC, 1998). During the last decade some of the banks collapsed and some being put under receivership. For instance, Dubai Bank was put under receivership on August 2015 followed by Imperial Bank in October 2015, and Chase Bank in April 2016 due to inappropriate bank practices, violation of banking rules and regulations, liquidity crisis, and weak corporate structures. Corporate governance practices are implemented by the board of directors who oversee the operations of the firms in this case commercial banks. Dividend decision as afore discussed is an outcome of corporate governance. The board of directors contributes to the financial performance of commercial banks, which in turn affects the dividend payout.

The disruptions that have occurred in the financial industry due to technological advancements has affected the financial performance of commercial banks in consequence dividend payout and also challenged conventional banking. Therefore, there is a need for

a board of directors that is agile with the ability to come up with real-time strategies to stay relevant in the market. Board of directors determine the adaptability of the banks amidst the technological advancements and disruptions that are happening in the financial service space thus influencing the financial performance of commercial banks. The success of a bank or failure of a bank is dependent on the policies and procedures adopted by the bank's management and board of directors (OCC, 1998).

Dividends are paid for a variety of reasons; dividends are used to increase the value of the company, thereby increasing shareholder wealth. Second, companies use dividends to signal to shareholders and other stakeholders that the company is financially stable. Some companies, may choose to reinvest their profits back into the business for growth opportunities, debt reduction, other capital allocations among others.

Commercial banks' dividend payment policies vary since each firm selects what, how, and when to pay dividends to its shareholders. Despite operating in the same economic climate, some banks pay higher dividends, others pay lower dividends while others have zero dividend payouts. Do board characteristics contribute to the difference in dividend?

Past studies Elmargh et al., (2017); Gyapong et al., (2021), Mehdi (2017), Tahir & Rahman (2020), Dissanayake and Dissabandara (2021); Abor and Fiador (2013), have shown differing conclusions on the impact of corporate governance and dividend policy due to differences in sectors and countries where the study is carried out. Also, the studies that have evaluated the effect of board characteristics on dividend payout have focused on non-financial firms. Studies that have evaluated the relationship between board characteristics on dividend payout of commercial banks in Kenya have conflicting findings; Ada (2013) found out that board size and board composition had a statistically significant positive effect on the dividend payout of commercial banks in Kenya whereas Aboka (2018) had a different conclusion, the findings of her study show that board size, board diversity, board independence, and debt level were statistically insignificant determinants of dividend payout by commercial banks in Kenya. From the review of the literature, the question of the effect of board characteristics on dividend payout is a puzzle that has not been solved

by the current literature due to mixed results on the topic in question. This study therefore, investigated the relationship between board characteristics and dividend payout.

1.3 Objectives of the Study

1.3.1 General Objective of the Study

The general objective of the study was to investigate the effect of board characteristics on the dividend payout of commercial banks in Kenya.

1.3.2 Specific Objectives of the Study

The specific objectives of the study were:

1. To investigate the different types of dividend payout policies adopted by commercial banks in Kenya.
2. To examine the relationship between board characteristics and dividend payout of commercial banks in Kenya.
3. To assess the perception of stakeholders on the relationship between board characteristics and dividend payout of commercial banks in Kenya.

1.4 Research Questions

The research questions of the study were:

1. Which are the different types of dividend payout policies that have been adopted by commercial banks in Kenya?
2. What is the relationship between board characteristics and dividend payout of commercial banks in Kenya?
3. What is the perception of stakeholders on the relationship between board characteristics and dividend payout of commercial banks in Kenya?

1.5 Scope of the Study

This study aims to assess the effect of board characteristics on commercial banks in Kenya and the period under study was between 2017-2021. The study excluded 2022 because commercial banks published their audited financial statements for 2022 at the end of the first quarter of the year that is 31st March 2023 thus at the time of data collection, the data

for 2022 was not available. The study focused on commercial banks in Kenya because it has a far-reaching effect on the economy as witnessed in the global financial crisis of 2007-2008. Interest rate cap law was introduced in 2016 due to the increased cost of lending that had deterred retail customers from accessing loans. This led to the shrinking of the balance sheet due to decreased interest income. The small banks reported declined profits as they were the most affected by the interest rate cap law. The interest rate cap was lifted in 2019. This study, therefore, seek to establish how dividend payout of commercial banks varied pre- and post-interest rate cap and the dividend policy adopted by the board taking into consideration the board characteristics.

1.6 Justification for the Study

1.6.1 Academicians

This study adds to the body of knowledge in the field of corporate governance specifically filling conceptual gap in the literature on how board characteristics affect the dividend payout of financial institutions. This is because most studies focused on non-financial firms. In addition, it will be a foundation for further research given the detailed literature review conducted and recommendations for future studies suggested.

1.6.2 Investors

This study will of benefit to investors because it will inform them whether board characteristics affect the dividend payout, also the board characteristics to look for before making an investment decision. This will inform their decision-making on which bank to invest in and help them align with their investment objectives

1.6.3 Firms

This study will be relevant to companies because it will inform them on how to compose the board and align it with their strategies. After all, they approve and oversee the implementation of the bank's strategic objectives hence promoting the shareholders' interests. Moreover, the success or failure of banks is dependent on the board and the management of a bank.

1.6.4 Policy Makers

For policymakers and regulators, for example, the capital market authority CMA, Central Bank of Kenya, the study gave meaningful information that facilitated the formulation of sound policies on corporate governance for commercial banks in Kenya so as to safeguard the interests of shareholders and depositors amongst other stakeholders.

1.7 Chapter Summary

This first chapter gives an insight into the background of board characteristics and dividend payout. It also highlights some of the current trends in the corporate governance space. The chapter also discusses the rationale of the research study as well as the objectives the researcher anticipates to achieve. The significance and the scope of the study is also discussed.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature related to the studies. The chapter presents the theoretical contains theoretical framework that underpins the study and the conceptual framework, revealing the relationship between the variables. It also has the empirical literature review of the variables and their indicators. The chapter includes the research gaps revealed through the review of the empirical literature.

2.2 Theoretical Review

The objective of this approach is to look at the body of theory that has formed around a certain topic, concept, theory, or phenomenon. The theoretical literature review aids in the identification of current theories, their relationships, the extent to which existing theories have been studied, and the development of new hypotheses to be tested.

From the empirical review done during the study, studies on corporate governance have been grounded by agency theory due to the agent-principal relationships that exist in firms between the shareholders, top managers, and the board of directors. The stakeholder theory was used to ground the study because of the other stakeholders that the board of directors needs to take into consideration before paying dividends for example depositors. Similar to other studies such as Ada (2013); Aboka (2018); Sanan (2019); Mwangi (2019) and Maingi (2016) the study was grounded by the aforementioned theories.

2.2.1 Agency Theory

Agency Theory originated from Ross and Barry (1970) and Adams (1974) authored it. The theory describes the agent-principal relationship. The principal who is the shareholder in this case hires executives to act on their behalf. The agents should work in the best interests of their principal. Agency problem occurs when managers act in their interest at the expense of the principal who are the shareholders'. Agency costs are incurred to monitor the managers' activities and ensure that they are working in the best interest of the principal.

The cost of agency, also known as the cost of conflict of interest, suggests that the cost of the agency is across several levels within a company, with the conflict between shareholders and management being the most important (Jensen & Meckling, 1976). Jensen et al., (1976) state that management uses firm resources to benefit themselves at the expense of the shareholders. Appointment of board of directors is one of the agency costs incurred in the monitoring of the management to ensure that they maximize the shareholders' wealth and that they act in the best interests of the shareholder since the directors in a board are assumed to manage and control the organizational resources (Fama & Jensen, 1983).

Legally board of directors approves the payment of dividends to shareholders and scholars have argued that it alleviates the agency costs (Nguyen et al., (2019). Rozeff (1982); Grossman and Hart (1980); and Easterbrook (1984) argue that dividends payment reduces the free cash flow available to management to pursue investment projects that are detrimental to shareholders, and hence dividends payment reduce the agency costs associated with misaligned management- shareholders interest (Zainudin et al., 2018; Fluck ,1998). Nguyen and Bui (2019) corroborate that paying dividend lessens agency cost and information asymmetry; hence, managers can pay dividends to send a positive signal in the stock market consistent with the substitution hypothesis.

However, the agency view depicts conflicting hypotheses about the corporate governance role of dividend payout in a firm. In the substitution hypothesis, dividend payout substitute for weak corporate governance and establish a positive relationship with the shareholders whereas the outcome hypothesis states that dividend payout is because of strong corporate governance (La. Porta et al., 2000).

The structure of the board in terms of board characteristics is of importance in ensuring shareholders' wealth maximization and reduction of agency costs. In as much as boards are viewed as one of the mechanisms that operate in the interest of shareholders to align or push managers to behave in the best interests of shareholders, board characteristics influence the decisions made by the board (Thompson & Manu, 2021). Fernandez and

Arrondo (2005) state that dividend payouts and a good board lower the agency costs and hence can be substituted. This theory was useful in establishing the relationship between board characteristics and dividend payout of commercial banks in Kenya.

2.2.2 Stakeholders Theory

Freeman (1984) developed this theory, it states that the sole purpose of a firm is not only to create wealth for the shareholders but also to take care of the interests of the other stakeholders. According to stakeholder theory, managers in firms have a network of connections to serve, which includes suppliers, workers, and business partners. In the stakeholder theory, a stakeholder is an individual or group that may influence a specific firm's achievement of objectives as well as its achievement of the stated objectives through its activities (Gap, 2009).

According to Wanyama and Olweny (2013), the nature of the interaction between the enterprises and their stakeholders affects the firm processes and outcomes and hence might influence decision-making processes. According to proponents of the stakeholder hypothesis, the relationship between a company's manager, its suppliers, workers, and other business partners has an impact on the firm both internally and outside. As a result, the theory prioritizes the aforementioned connection over the manager-owner relationship depicted in the agency theory (Freeman, 1999). Sundaram (2004) stated that the theory addressed a broader variety of stakeholders and that the business system is made up of numerous stakeholders, with each organization's primary goal being to produce wealth for its stakeholders.

In commercial banks, the board of directors should not only consider the interests of the shareholders but also the other stakeholders such as depositors. This theory is relevant for this study as the board of directors, which is determined by the board characteristics should act in the best interests of their stakeholders that is shareholders and depositors when making decisions such as dividend payout. Therefore, according to this theory corporate governance whose component is the board is considered to have a positive impact on the dividend payout of commercial banks. The theory was useful in evaluating objectives one

and three because it informed whether when formulating the different dividend payout policies, the interests of the other stakeholders were well taken care of.

2.3 Empirical Review

This part addressed the major principles that underpin the investigation, as well as past studies linked to the current research.

2.3.1 Dividend payout

The dividend is defined as the distribution of earnings to shareholders (Jaffe et al., 2010). A dividend policy involves is a policy that is adopted by the firm that guides the earnings distribution. It involves balancing the shareholders' desire for current dividends and the firm's needs for funds growth (Pandey, 2015). Pandey (2015) states that dividend payout is affected by the firm's investment and financing decisions since a decision to invest in projects implies that less cash will be available for dividend payments. Thus, investment decisions and financing decisions are inextricable from the dividend policy. The residual theory supports the above argument as it states that a firm should only pay dividends only after exhausting all acceptable investment opportunities.

Dividend payout reduces the free cash flow in the hands of the managers thus reducing agent-principal conflicts (Grossman et al., 1980; Fluck, 1998). Moreover, higher dividend payments to shareholders reduce the scale of agency conflict (BenNasr, 2015; Firth et al., 2016). Rozeff (1982) proposed agency costs as a possible explanation for dividend policy and discovered a substantial correlation between dividend policy and agency costs. The dividend payout has been linked to corporate governance practices in a firm as it can act as a substitute for weak corporate governance or as an outcome of good corporate governance (La Porta et al., 2000; Jiraporn et al., 2011; Sawicki,2009; Setiawan & Phua,2013). Dividend payout is an outcome of corporate governance hence this study will aid in understanding the corporate governance principles of Commercial Bank in Kenya.

2.3.2 Board Characteristics

Corporate governance describes the purpose, structure, and responsibilities of a board of directors, taking into account the nature of business (Campbell, 2007). Board of directors

is responsible for setting the firm objectives, monitoring the performance, and protecting the interests of the stakeholders of a firm among other roles (Kaplan 2001; Maingi, 2016). The recent financial crises, the collapse of banks, accounting fraud, and failure catalyzed the discussion of principles of corporate governance in media, boards, and among the stakeholder groups (Subramanian, 2015; Caylor, 2006). Following these corporate crises, investors demanded improved systems to increase the transparency and responsibility of corporate executives. As a result, the role of the board of directors in developing corporate governance processes has received considerable attention and criticism (Elad et al., 2017).

According to John and Senbet (1998), three board characteristics are critical in evaluating the performance of a firm's corporate governance and the board: board size, board diversity, and independence. The authors go on to emphasize the importance of these traits in improving board oversight and monitoring to ensure excellent company performance. This study therefore evaluated the effect of board size, board diversity, board independence on dividend payout of commercial banks in Kenya as suggested above. Given the importance of board characteristics in corporate governance, businesses must have a complete strategy for utilizing board characteristics to enhance corporate governance practices (Elad et al., 2017). Moreover, company boards are in charge of significant corporate choices such as dividend payout and Chen et al., (2017) state that the success of such decisions is determined by the board's characteristics.

2.3.3 Board Diversity and Dividend Payout

Board diversity and dividend payout is something that has been evaluated by different studies. Studies have looked at diversity in terms of age, gender, experience, and education and evaluated its effect on the dividend payout of different firms in different sectors. The study looked at board diversity in terms of gender, age and experience to achieve its objectives.

Chen et al., (2017) did a study on the S&P companies in the United States excluding the financial firms and they found that there was a significant positive relationship between females on board and dividend pay-out as the larger the number of female directors the

greater the dividend payout. However, Sanan (2019) findings show that females on board had a significant negative effect on dividend payout for Indian firms. Similarly, Saeed and Sameer (2017) established that board gender diversity had a significant negative effect on dividend payouts for firms in China, India and Russia. In line with the aforementioned studies, Elmagrhi et al., (2017) reported that board gender diversity had a significant negative relationship with the level of dividend payout for UK listed SMEs.

Women have demonstrated social, economic, political, intellectual, and legal potential to influence business decision-making and lack of gender diversity on corporate boards exposes corporations to legal risk, endangering company profitability, external networking, and competitive advantage (Eluyela et al., 2019). As a result, one of the most promising types of diversity in the boardroom has been board gender diversity. Several studies have found that gender-diverse boards pay better dividends. Ye et al., (2019) investigated the effect of board gender diversity on dividend payouts in a sample of 22 countries between 2000 and 2013. According to the findings, board gender diversity has an important effect in lowering agency difficulties and increasing the dividend payout ratio. Correspondingly, Thompson and Manu (2020) and Al-Rahahleh (2017) findings revealed that board gender diversity had a positive significant effect on the dividend payout of US firms in the Institutional Shareholders Service database from 2007 to 2018 and non-financial businesses listed on the Amman Stock Exchange between 2009 and 2015 respectively.

Eluyela et al. (2019) found no evidence to support the claim that gender-diverse boards influence the intention to pay dividends or the amount paid. They investigated the effect of a gender-diverse board on dividend payout in Nigerian companies and their findings revealed that female directorship had no substantial impact on dividend payout in Nigerian enterprises. Similarly, Guizani and Abdalkim (2021) results revealed that there is a significant indirect effect of board gender diversity through dividend pay-out on the efficient allocation of free cash flow for firms in Malaysia.

In Kenya, Maingi (2016) examined the one-third rule on gender diversity and its impact on the performance of the listed Nairobi Securities Exchange (NSE) and found that there is a

positive relationship between board gender diversity and financial performance. Naburi and Ndede (2019) did a study to evaluate the relationship between board composition and dividend decisions of companies listed in NSE and the results indicated that board gender diversity, had a positive and significant influence on the dividend payout. Based on these arguments the following hypothesis is developed;

The empirical literature reveals that the scholars who have done the effect of board gender diversity on dividend payout is still not know since some of the companies have women on their board for compliance and not for their input. Also, the effect of board gender diversity on dividend payout for commercial banks in different jurisdictions have not been explored and for the studies that have done, there is no comprehensive conclusion.

H1a: Board gender diversity has a positive effect on dividend payout of commercial banks in Kenya

Board of directors of different ages has different experiences, knowledge of industry practices, and level of education that equips them to run the organizations. There has been a trend of having young boards globally due to their agile attribute due to the dynamic business environment (Tahir et al., 2020). According to Tahir et al., (2022) and Badu (2013), though the older board members might have experience, they are unenthusiastic in embracing change and innovative policies. Thompson and Manu (2021) did a study on the effect of board members' age on the dividend payout of United State firms and they found that it had a strong significant positive effect on dividend payout since older board of directors come with experience and knowledge and are risk averse thus, they would prefer to pay dividends. Similarly, Taufik and Destriana (2020) posit that board members' age has a significant positive effect on the dividend policy of listed firms in the Indonesia Securities Exchange. However, Tahir et al., (2020) found that board members' age had a significant negative effect on dividend payouts for non-financial firms in Malaysia.

Webi (2017) sought to determine the effects of board diversity on the performance of non-governmental organizations in Nairobi County Kenya. The findings indicated that age diversity, occupational diversity, and network diversity had a positive relationship with organizational performance. Agenda (2015) evaluated the effect of board diversity on the

financial performance of trading and manufacturing listed companies in the Nairobi Securities Exchange and the findings showed that board average age, gender, and education had a weak positive relationship on the financial performance of the firms. The results however varied from one sector to another and the focus was on the non-financial firms thus a contextual gap in board diversity in terms of age and experience.

In the era of fourth industrial revolution, the banking sector has experienced a lot of disruptions, it's the era that mobile, digital and internet banking were introduced in the industry. The sector has also faced a lot of cybercrimes with the need of the board to be equipped on cybersecurity and come up with innovative ways of how to stay abreast in this era so that they can exist. Scholars that have been done the effect of board age on dividend payout have focused on non- financial firms. According to the researchers' knowledge, no study has been studies to evaluate the effect of board age on dividend payout for commercial banks in Kenya. Moreover, there has been global discussions around the importance of young board in corporate boards. This study seeks to find out how the banking industry has accommodated the global trend and evaluate the effect it has on the dividend payout of commercial banks in Kenya.

From the above discussion, the hypothesis made are:

H1b: Board age has a positive effect on the dividend payout of commercial banks in Kenya.

HIc: Board members' average years of experience has a positive effect on the dividend payout of commercial banks in Kenya.

2.3.4 Board size and Dividend Payout

The question of how big the board should be, has been researched and different researchers have different conclusions. Some of the researchers' state that a small board is better than a large board and vice versa applies. Jensen (1993) state that smaller board are more effective in coordinating and managing board members. Furthermore, independent directors play an important role in supervising executive management activities on smaller boards. As a result, a huge board may imply poor monitoring when compared to a smaller one. Grounded on substitution theory, larger boards are less effective in monitoring management and ensuring that they act in the best interests of the shareholders because

they are likely to be involved with more communication and co-ordination problems hence, poor governance structures (Lipton and Lorsch, 1992; Jensen, 1993). Contrary, Ntim et al., (2015) posit that firmed by outcome theory large boards are effective in monitoring and controlling management since they are associated with more expertise and experience, which enhances the minimization of agency problems hence increase in firm performance and consequently dividend pay-out (Ntim et al., 2015; Almatari, 2019; Gabrielsson, 2007 and Fiegener et al., 2000).

The findings of past studies on the relationship between board size and dividend payout are mixed hence the studies have not established the optimal board size. Afifa et al., (2022) did a study of all service firms that were listed on the Amman Stock Exchange (ASE) between 2012 and 2019 and found that there is a negative relationship between board size and dividend payout policy however, they excluded the banking sector owing to the difference in regulatory requirements. Elmarghi et al., (2017); Dissanayake and Dissabandara (2021), also state that there is a positive relationship between board size and dividend payout for UK-listed SMEs, and listed firms in the Colombo Stock Exchange respectively. However, the banking and insurance sectors were excluded from their study due to their governance structures. Contrary, Alshabibi et al., (2021) found that there is no significant relationship between board size and dividend payout evidence from a study done on a sample of 109 listed firms in the Muscat Securities Exchange between 2009 and 2019.

The studies that have been done on the banking sector have shown inconclusive results since they differ in jurisdiction. Dissanayake et al., (2018) did a study on the effect of board characteristics on the dividend pay-out for firms in the finance and banking sector in Sri Lanka and reported a negative relationship between board size and dividend pay-out. Contrary, Mai et al., (2021) found that there is a positive relationship between the board size and dividend pay-out for banks listed on Indonesia Stock Exchange.

In Africa, studies have shown mixed results as well. Sani and Musa (2017) determined the relationship between corporate board attributes and the dividend payout policy of the listed

deposit money banks in Nigeria and they found that board size has a significant negative relationship with the dividend payout policy of DMBs listed in Nigeria. Shehu (2015) found that there is an insignificant negative relationship between the payout ratio and the board size for publicly listed companies in Malaysia.

In Kenya, the studies that have evaluated the effect of board size similar to other countries are inconclusive. Ada (2013) observed that board size has a positive statistically significant effect on the dividend payout of Commercial Banks in Kenya whereas, Aboka (2018) findings show that board size has an insignificant effect on the dividend payout ratio of commercial banks in Kenya. This study therefore seeks to evaluate the effect of board size on dividend payout of commercial banks in Kenya. From the review of the above studies, the hypothesis adopted by the study is;

H2: Board size has a negative relationship with the dividend payout of commercial banks in Kenya.

2.3.5 Board Independence and Dividend Payout

Board independence is shown by a board dominated by external directors who are not serving, as executives or does not have direct interests in the institution (Gregory, 2000). CBK/PG/02 (2013) states that the independent non-executive director of a bank is an individual who is not an employee of the bank serving as an executive and has not served as an executive within the last five years or as a member of the institution's senior management. Independent directors are important to the bank because they enhance objectivity, provides necessary checks and balances on the board to ensure that the decisions carried by the board and ensure that the interests not only for the shareholders are taken care of but also for the other stakeholders such as depositors (CBK/PG/02, 2013).

Gregory (2000) states that independent directors ensure that there is control and they safeguard the reliability of the financial statement disclosures. According to Rozeff (1982), investors rely on dividends to oversee management when a firm's management control mechanisms are ineffective and external directors have a better power to preserve shareholder money in terms of distribution (Hu and Kumar, 2004; Al-Najjar & Hussainey,

2009; Ntim, 2011). According to La Porta et al., (2000), agency costs will decline in a well-governed business, reducing the demand for dividends in firms with more independent boards, which is consistent with substitution theory. Contrary, Boshnak (2021) and Klein (1998) argue that external directors have less information and experience about the business and may not make as excellent judgments as internal (executive) directors, resulting in a negative relationship between independence and performance, and hence dividend payout.

Elmarghi et al., (2017) did a study on the effect of board characteristics on dividend payout and their findings show that there is no relationship between board independence and dividend payout for the UK listed SMEs. Similarly, Dissanayake and Dissabandara (2021) did a study on 170 companies listed in the Colombo Stock Exchange on the impact of board characteristics on dividend policy and the results showed that there is an insignificant relationship between board independence and dividend payout. Correspondingly, Thompson and Manu (2021) drew similar conclusions for the US firms in the Institutional Shareholder Services database from 2007 to 2018. Abdelsalarn et al., (2008) also discovered no significant association between dividend policy and board independence in Egypt. Their studies however excluded the banking, and insurance sectors due to their unique characteristics.

According to Sanan (2019), board independence has a negative and significant effect on the dividend payout of non-financial Indian firms. Similarly, Boshnak (2021) evaluated the impact of board composition and ownership structure on dividend payout and his findings were board independence has a negative significant effect on dividend payout for Saudi Arabian non-financial firms. Shehu (2015) also discovered that independent directorship of the board had a substantial negative impact on dividend distribution in Malaysia. Tahir et al., (2020) had a conflicting conclusion as their study established that board independence has a significant positive effect on dividend payout for Malaysian non-financial firms. Similarly, Roy (2015) did a study evaluating the effect of corporate governance and ownership structure on dividend policy and found that board independence had a positive effect on dividend payout for Indian non-financial firms. Alshabibi et al.,

(2021) correspondingly, found out that board independence has a positive significant effect on dividend payout for firms listed in Omani.

Studies that have been done to evaluate the effect of board independence on dividend payout in the banking sector have shown mixed results as well. Aboka (2018) did a study on the effect of corporate governance on the dividend payout of Commercial Banks in Kenya and found that board independence did not have any effect on dividend payout. Similarly, Mai and Syarief (2021) did a study evaluating the effect of corporate governance and dividend policy in the banking sector on the Indonesian Stock Exchange and they found that board independence had an insignificant effect on dividend payout. Al-Kahmisi and Hassan (2018) however, established that board independence had a negative relationship with dividend payout for Malaysian banks. Njogu (2020) did a study on the effect of board composition on the listed firms in Kenya and found that there was no significant relationship between dividend payout and board independence. The study however, focused on non-financial listed firms listed in the Nairobi Securities Exchange. From the above discussion, the hypothesis adopted by the study is

H3: Board independence has a negative significant effect on the dividend payout of commercial banks in Kenya.

2.4 Determinants of Dividend payout of Commercial banks in Kenya

In this section, the researcher discusses some of the determinants of dividend pay-out by commercial banks in Kenya, namely, profitability and bank size. It further discusses the effect of COVID-19 on the dividend pay-out of commercial banks in Kenya.

The profitability of a corporation is an important and explanatory variable for dividend policy, according to financial research (Jensen et al., 1992; Fama and French, 2000). However, dividend policies in industrialized and developing countries differ significantly. Glen et al., (1995) reported this disparity, demonstrating that dividend pay-out rates in underdeveloped nations are roughly two-thirds of those in wealthy countries. Furthermore, firms in emerging market firms do not have a consistent pay-out policy due to the variance in firm's performance in different periods. The assumption, therefore, is that the dividend

pay-out of commercial banks is influenced by profits declared by the bank during a certain period. This study will use ROA as a measure of profitability. Due to the difference in profitability across the different tiers of the bank, this study controlled for the profitability of banks to examine the relationship between board characteristics and dividend pay-out.

Firm size plays an important role in explaining the dividend pay-out ratio of firms (Vogt, 1994). They discovered that larger organizations are more mature and, as a result, have easier access to capital markets, reducing their reliance on internally generated funds and allowing for higher dividend pay-out ratios. This is because major corporations will pay huge dividends in order to lower agency costs (Ghosh & Woolridge, 1988; Eddy & Seifert, 1988; Redding, 1997). Banks are divided into different tiers according to their sizes, namely, tier 1 (large banks), tier 2 (medium banks), and tier 3 (small banks). The hypothesis is that firm size has a positive effect on the dividend pay-out of commercial banks in Kenya. Similar to other scholars, such as Ada (2013), this study will use the natural logarithm of total assets to calculate firm size. To achieve objective two, this study will control for this variable so as to examine the relationship between board characteristics and dividend pay-out for commercial banks in Kenya.

The COVID-19 epidemic showed severe flaws in both prior and current corporate governance standards, as well as potential outcomes that could harm a company's performance (Naeem et al., 2022). During COVID-19, the performance of firms was affected due to the economic meltdown across all sectors which led to some firms cutting or omitting dividends while others paid dividends. The board of directors had to make critical decisions about whether to pay dividends or not. Authorities such as the Central Bank of Kenya, among others in the world adopted dividend restrictions to enhance bank resilience during the pandemic. In Kenya, commercial banks had to seek clearance from CBK to pay dividends for the 2020 financial year (Alushula, 2021). The assumption was that COVID-19 affected the dividend pay-out of commercial banks in Kenya. This study therefore evaluated whether there was a statistically significant difference in dividend pay-outs for the period 2019–2021, that is before, during, and after COVID-19.

2. 5 Research Gaps

The review of the literature has shown that there exist research gaps that there are yet to be filled in the study in question. Gyapong et al., (2021); Chen et al., (2017); Ye et al., (2019); Thompson and Manu (2020) found that board gender diversity had a positive relationship with the dividend payout. However, Dissanayake and Dissabandara (2021); Saed and Sameer (2017), and Elmarghi et al., (2017) had a different finding that board gender diversity harmed dividend payout. From the empirical literature review, studies that evaluated the relationship between board gender diversity and dividend payout focused on non-financial firms. Dissanayake and Dissabandara (2021) state that conclusions differ in jurisdiction and sector under study. Hence, there exists a contextual gap in terms of sectors because the above studies focused on the effect of board characteristics on non-financial firms. Also, geographical gap because the studies were done in other markets and not Kenya.

In Kenya, the studies that have evaluated the effect of the corporate structure have shown mixed results, Ada (2013) observed that board size, insider holding, board composition, and leverage showed a positive statistically significant effect on the dividend payout of Commercial Banks in Kenya. Aboka (2018) however states that profitability is the significant determinant of dividend payout whereas board size, board diversity, board independence, and debt levels are statistically insignificant determinants of the dividend payout ratio of commercial banks. Ada (2013) and Aboka (2018) used a multiple linear regression model to carry out their analysis and they recommended that other methods be used to examine the relationship between the variables in question. Moreover, Aboka (2018) recommended the use of primary data to complement the study which this study has incorporated it. Board characteristics that affect the dividend pay-out of commercial banks in Kenya is a puzzle that is yet to be solved hence the existence of a conceptual gap that this study seeks to solve It also seeks to fill the methodological gap by using Tobit and Logit regression models to carry out data analysis.

The table below summarizes some previous studies, their findings, and the gaps that this study seeks to fill.

Author	Purpose	Concepts	Methodology used	Findings	Research Gap
Aboka (2018)	The objective of the study was to determine the effect of corporate governance on dividend pay-out of commercial banks in Kenya	Board size, Board diversity, board independence	Multiple regression model	The study discussed that board size, board diversity, board independence was statistically insignificant in determining the dividend pay-out of commercial banks in Kenya. However, profitability and bank size determined the dividend pay-out.	Methodological gap- the method used for data analysis and data used for analysis. Conceptual gap- the indicators of corporate governance used in the study.
Ada (2013)	The aim of the study was to evaluate the functional form relationship between corporate governance practices and dividend pay-out of commercial banks in Kenya.	board size, insider holding, board composition, CEO duality	Multiple regression analysis	The findings show that board size, board composition had a statistically significant positive effect on dividend pay-out of commercial banks in Kenya.	Methodological gap- the method used for study Conceptual gap- indicators of board characteristics used in the study
Thompson & Manu (2021)	The purpose of the study was to examine whether board characteristics are more important in determining dividend	Board average age, board gender diversity, board size, board independence, board financial expertise,	-Fixed effect logistic regression -Fixed effect Tobit regression model	The findings of the study indicate that board average age, board gender diversity and board size have a strong positive significant	Contextual gap- sectors and the place of study

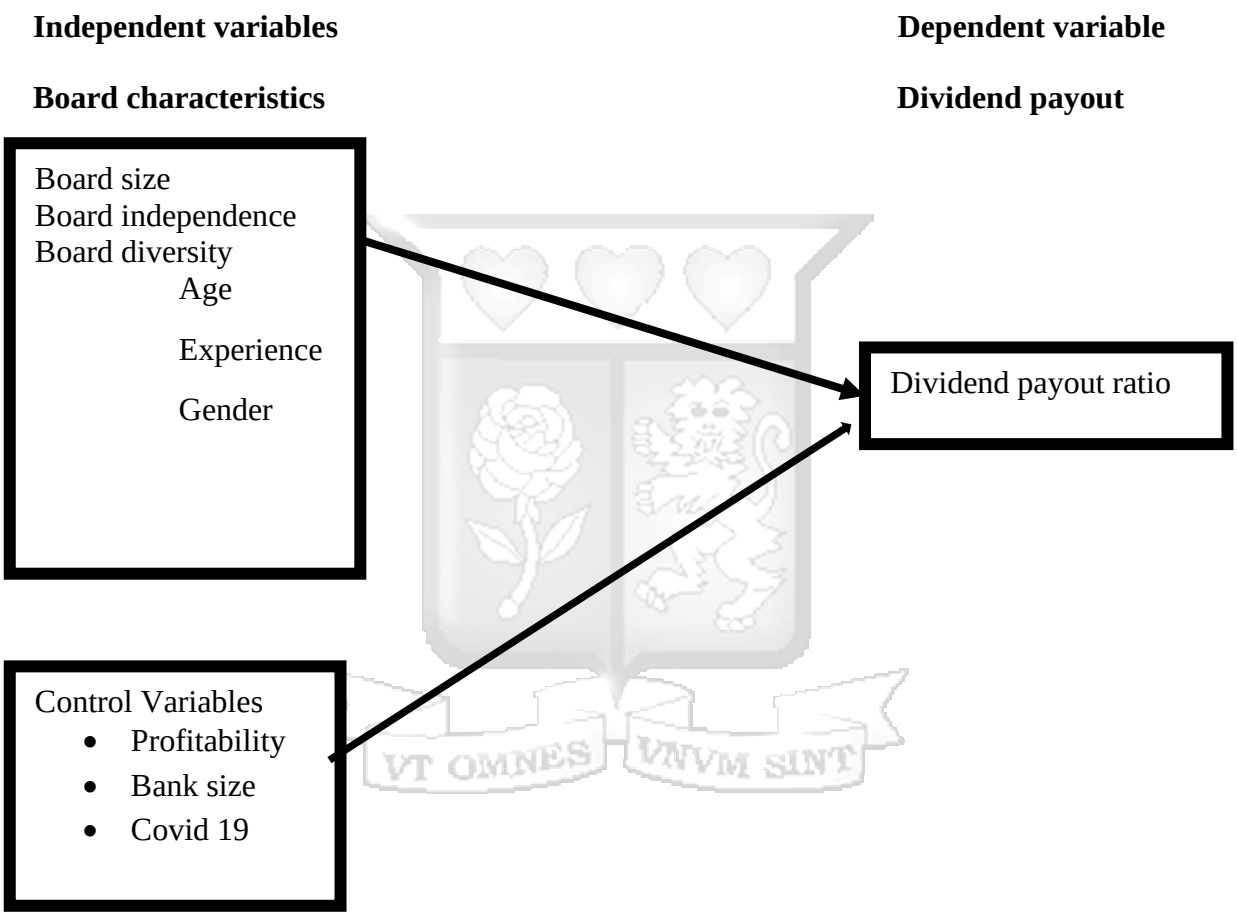
	policy than management characteristic of US firms in the Institutional Shareholder Services database.	independent chairman and voting rights controlled by the directors		effect on the dividend pay-out whereas board independent chair and voting rights of directors have a negative significant effect. The findings also indicate that in terms of dividend yields, the financial expertise of directors and board size were the most important determinants of dividend policy.	
Elmarghi et al. (2017)	The objective of the study was to investigate the extent in which corporate board characteristics influence the level of dividend pay-out ratio for UK listed small- and medium-sized enterprises.	board size, frequency of board meetings, board gender diversity, audit committee size	multivariate regression techniques, - fixed effects, lagged effects and two-stage least squares regressions.	The findings of the study indicate audit committee have a significant positive relationship on dividend pay-out whereas frequency of board meetings and board gender diversity has a significant negative relationship on dividend pay-out of UK listed SMEs. Board independence and CEO duality however, have	Contextual gap-country of the study Population gap-focused on SMEs.

				an insignificant effect on dividend pay-out.	

2.5 Conceptual Framework

The study seeks to determine the effect of board characteristics on the dividend payout of Commercial banks in Kenya. The independent variable is board characteristics whereas the dependent variable is dividend payout. The conceptual framework is shown below;

Figure 2. 1 Conceptual Framework



2.6 Operationalization of Variables

Variable	Indicators	Measure	Source
Independent variable ● Board characteristics	● Board independence ● Board Size Board Diversity ● Board age ● Board gender ● Board experience	Number of independent directors Total number of board members The average age of the directors Number of females on the board divided by the total number of directors Average years of experience of the board members	Khan (2021), Afifa et al. (2022) Khan (2021); Elmarghi et al., (2017) Tahir et al., (2020) Thompson and Manu (2021); Khan (2021) Thompson and Manu (2021)
Dependent variable ● Dividend Payout	Dividend payout ratio Dividend payout dummy (DPD)	DPR= Dividends paid/ Net Income DPD -To indicate if a bank pays a dividend or not, with "1" if the bank pays and "0" otherwise.	Tahir et al., (2020) and Khan (2021) Thompson and Manu (2021) and Khan (2021)
Control Variables	Bank size Profitability	Natural logarithm of total assets Return on Assets=Net Income/Total assets	Khan (2021); Afifa et al., (2022) Afifa et al., (2022); Khan (2021) Researcher (2023)

	Covid 19	Test of difference of means of the study variables during period t-1, t, t+1 that is 2019, 2020 and 2021	

2.7 Chapter Summary

This chapter highlights the theoretical and empirical literature review and provides an overview of the conceptual framework that will be followed in this study. It also introduces us to the following chapter, which outlines the research methods used. The following chapter will also provide an overview of the study concept, design, population, and sample techniques that will be used, as well as data collection and analytic tools.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

In this chapter, the researcher discussed the research design, the target population, the sampling technique, measures of data validity and reliability, data collection instruments, data analysis techniques, and ethical considerations.

3.2 Research Philosophy

The study adopted a positivist approach to research. The goal of positivist research is to always be reasonable and employ logical methodologies to achieve objectivity (Saunders, Lewis, & Thornhill, 2012). In positivist investigations, the researcher gathers and evaluates data objectively by employing statistical and mathematical processes to conclude the research. The positivist approach is appropriate for this study because the study used secondary data to determine the relationship between the variables in question and primary data was collected using highly structured questionnaires.

3. 3 Research Design

According to Saunders et al. (2012), the research design is the organization of data collecting and analysis techniques to align them with the study purpose. This study adopted descriptive correlational research design. Descriptive research design aided in describing the different tiers of commercial bank, whether they paid dividends and how board characteristics of the bank affect the dividend payout of commercial banks in Kenya. Kothari (2004) states that the method is appropriate when the researcher knows what to measure, the tools, and the population under study. The advantage of using a descriptive technique for this study is that it allows for the collection of detailed information that may be either quantitative or qualitative in character. This provides for a more comprehensive approach to data collecting and analysis. The primary problem with the descriptive technique is that the results are not reproducible, and the study cannot often be duplicated (Nasio, 2019). The study controlled impediments by focusing on the banking sector. Similar to other studies the study used a correlational research design to describe the relationship between the variables under study.

A correlational research design seeks to establish relationships between two or more variables within the same population (Curtis, Comiskey & Dempsey, 2016; Heraniah, 2022)

3.4 Target population and sampling

3.4.1 Target Population

Mugenda and Mugenda (2003) define a population as a group of individuals, objects, or events that have common observable characteristics. The population was 37 licensed commercial banks in Kenya between the years 2017-2021 as listed on the Central Bank of Kenya website. The study included both dividend-paying and non-dividend-paying commercial banks. This is because excluding non-dividend paying companies can occasionally result in a selection bias problem. For the primary data, the study targeted the senior banking officers of all the 37 licensed commercial banks in Kenya.

3.4.2 Sampling Techniques

The sampling technique used by the study was census sampling technique to obtain secondary data. This technique is used when the units of study are not too many and thus can be incorporated for analysis (Maingi, (2016); Saunders et al., (2007)). The study therefore, analyzed all 37 licensed commercial banks that were in operation at the beginning of 2017 and the end of 2021.

The sampling technique used to select the respondents for the primary data was purposive sampling. Purposive sampling is a non-probabilistic sampling technique where the researcher selects the items of the sample, and their choice concerning the items remains supreme (Kothari, 2004). The targeted bank employees were chief finance officers'/ finance managers, head of treasury and chief risk officers per bank since they were most appropriate to answer the questionnaire. Given that there were 37 commercial banks, the sample size was 111 officers.

3.5 Data Collection Procedures

The approaches used to acquire primary or secondary data pertinent to the study are referred to as data-collecting methods (Nasio, 2019). This study used both secondary and

primary data for analysis. The secondary data was used to attain objectives one and two. The data on the board characteristics and dividends paid were collected from published annual reports of commercial banks. Secondary data was obtained and summarized using a data collection sheet and included indicators of board characteristics and measures of financial performance for the period 2017–2021. Some of the information that was collected was net income, total assets, dividend pay-out, total number of directors and number of independent directors.

This study also used primary data to get more insights on the relationship between the variables in question hence achieve objective 3. The respondents were chosen due to their direct involvement in dividend decisions. The information collected pertained the extent to which the respondents perceived board characteristics influenced dividend decisions. The primary data was obtained using questionnaires containing both open ended and close ended questions. The usage of questionnaires stems from their low cost and ability to collect a wide range of data in a short period of time.

The questionnaires were structured in such a way that section A was demographics and general information about the respondents, section B was on board characteristics and dividend payout. In section B the five point Likert scale was used to indicate the extent to which the respondents perceived selected board characteristics affect the dividend payout and an open ended question where the respondents were to indicate other factors that they considered important when making dividend decision. The primary data were obtained through the use of structured questionnaires that were administered through google forms to the target respondents while other questionnaires were administered through drop and pick method with the help research assistants. Follow ups were done through calls and emails by the researcher and questionnaires were collected after a period of two weeks.

3.6 Data Analysis

This study employed both descriptive and inferential statistics. Descriptive statistics described the characteristics of the population of the study Inferential statistics, which included regression and correlation analysis. STATA Version 16 was used to analyze the

secondary data. Since the secondary data was panel data, STATA was the best to provide the underlying relationship by considering the time series effect in the data. To assess the perception of stakeholders on the relationship between board characteristics and dividend payout of commercial banks in Kenya, descriptive statistics like mean and standard deviation was used to analyze the data.

3.6.1 Model

Dividend payout is the dependent variable for the study. This study used two different proxies for measuring the independent variable. First, dividend payout dummy (DPOD) was used to indicate if a bank pays a dividend or not, with "1" if the bank pays and "0" otherwise. The study used dividend payout ratio (DPRO) to measure the cash dividend intensity.

Board characteristics are the independent variable. The indicators of board characteristics are board independence, the board size, and board diversity in terms of age, gender, and experience. The control variables are profitability and bank size. Similar to Njogu (2020), and Khan (2022) this study used Tobit and Logit regression due to the nature of the data. As the dependent variable is dividend payout which is the likelihood of commercial banks paying dividends, a binary variable equals 1 if a bank pays and zero if otherwise then logit is the most appropriate (Khan, 2022; Njogu 2020). The dividend payout ratio has two possible outcomes, zero or positive value which is dependent on whether the firm pays dividends or not. Since it is a left-censored variable at zero and it includes a mix of discrete and continuous values Tobit regression is suitable (Khan, 2022; Pahi & Yadav, 2018; Njogu, 2020; Thompson & Manu, 2021). The researcher borrowed the below equation from Khan (2022), Njogu (2020)

The Tobit regression is as follows

$DPOR_{it} = a + B_1 BS_{it} + B_2 BI_{it} + B_3 BA_{it} + B_4 FB_{it} + B_5 BE_{it} + B_6 ROA_{it} + B_7 BSZ_{it} + E_{it}$

DPO_{it}- dividend payout of the bank *I* for period *t*

a- Is the parameter coefficient

BS_{it}- is the board size for bank *i* for the period *t*

BI_{it}- is the number of independent directors for bank *i* for the period *t*

BA_{it}- is the board average age for bank *i* for the period *t*

FB_{it}- is the number of females on board for bank *i* for the period *t divided* by the total number of directors for bank *i* for the period *t*

BE_{it} - is the board's average years of experience for bank *i* for the period *t*

ROA_{it} – is the return on assets for bank *i* for the period *t*

BSZ_{it}- is the size of bank *i* for the period *t*

E_{it}- Error term of bank *i* for the period *t*

To determine whether board characteristics affect the dividend decision of commercial banks in Kenya, the research used a random effect using a logit model to establish the probability of a bank paying dividends or not. Logit model is appropriate because it is a binary decision. Similar to other studies such as Khan (2022), Thompson (2021), Afifa et al., (2022), Tahir et al., (2020), and Njogu (2020).

The logit model is as follows;

$$DPOD = a + B_1 BS_{it} + B_2 BI_{it} + B_3 BA_{it} + B_4 FB_{it} + B_5 BE_{it} + B_6 FF_{it} + B_7 BSZ_{it} + E_{it}$$

The primary data was analyzed using descriptive statistics analysis to describe the perception of the practitioners regarding the relationship between board characteristics and dividend payout. The measures of central tendency (mean, and median) and standard deviation were used to analyze the data and understand which board characteristics is highly ranked by the practitioners as the determinant of dividend payout.

3.6.2 Diagnostic Tests

Brooks (2011) emphasizes the need to check the fundamental assumptions of linear regression to ensure the validity of the findings and the reliability of the model. Diagnostic tests were done before any relevant analysis could be performed namely; autocorrelation, heteroscedasticity, multicollinearity and Hausman test.

3.6.2.1 Autocorrelation

The autocorrelation test is done to determine whether there is a relationship between the variables' current and past values, the Wooldridge test was used to test if there is any autocorrelation between the variables over the period.

3.6.2.2 Heteroscedasticity

When the errors do not have a constant variance, they are heteroscedastic. Since the study is using panel data, Breusch-Pagan Lagrange Multiplier (LM) test for homoscedasticity was used to test the likelihood of heteroscedasticity.

3.6.2.3 Multicollinearity

Wooldridge (2013) states that multicollinearity exists when the explanatory variables are highly correlated with each other. The researcher used Variance Inflation Fcator test to determine the interaction between the variables under study to ensure that there is no multicollinearity between the variables. Thompson and Manu (2021); Kock (2015) posit that when the VIF is around or greater than ten (10) there is a high degree of multicollinearity and VIF less than 10 shows little to no existence of multicollinearity among variables.

3.6.2.4 Hausman Test

When dealing with panel data, a decision must be made on how to treat individual specific effects, that is, whether to use a fixed effects model or a random effects model (Bole & Rebec, 2013). This choice is influenced by the relationship between the unobserved effects and the independent variables. In panel data analysis, the Hausman test is a standard test for distinguishing between a fixed effects model and a random effects model (Bole & Rebec, 2013; Thompson &Manu, 2021). According to Thompson and Manu (2021) the Hausman test is used in empirical studies to determine whether a fixed effects model or a random effects model is suitable in panel regression analysis. This study therefore used Hausman Test to determine whether fixed effect model or random effect model was suitable for the study.

3.7 Research quality

Quality research is concerned with the scientific process as it pertains to all areas of study design. It is the systematic process of verifying that the study's results are accurate, dependable, and that the inferences reached are authentic and appropriate (Kothari, 2004). Secondary data and both primary and objective interpretation of study results were used to ensure study quality.

3.7.1 Reliability of data collection instrument

The ability of study measuring constructs to produce consistent results among respondents is referred to as reliability (Kothari, 2004). Cronbach's alpha has been used by scholars to assess reliability of the instruments and to check for internal consistency (Pham, 2020). This study followed Cooper and Schindler's (2010) interpretation that a co-efficient of at least 0.60 and above is reliable for the study.

The questionnaire that was used to collect primary data was subjected to reliability test and the Cronbach's alpha results are shown below;

Table 3 1 Cronbach's Alpha

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No of Items
0.678	0.683	8

Since the Cronbach's alpha is above 0.6, the instrument was considered to be reliable for data analysis.

For secondary data, the researcher ensured that the data was obtained from authentic source.

3.7.2 Validity of data collection instruments

The level of correctness of a claim is referred to as its validity (Polit & Beck, 2012). The content validity of the instrument was assessed; the questionnaire contents covered the use of proper terminology, sentence structure, and whether the questions were appropriate for the intended respondents.

A draft questionnaire was created to accomplish this. Before the actual study, the final questionnaire was also pre-tested, and any necessary changes, such as dropping questions that did not add value, were made. The study's data collection techniques (questionnaire) were coherent and accurate, and the data was cleaned before analysis. The researcher double-checked the data gathering and calculation techniques to confirm the correctness of the secondary data results.

3.8 Ethical Considerations

This study considers ethical considerations, and the respondent businesses' privacy and confidentiality. The study met the conditions established by the ethical code of conduct for researchers. By crediting all sources of information received, the study ensured the authenticity of scientific knowledge, the research conclusions, and the protection of intellectual property rights.

3.9 Chapter Summary

This chapter discussed the research methodology adopted by the researcher to achieve the objectives of the study. The researcher discussed the philosophical stance, research design adopted by the study, outlined the population and sampling techniques used to obtain the sample, data collection procedures and analysis. Research quality and ethical considerations were also discussed in the section.

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

4.1 Introduction

The study intended to investigate the effect of board characteristics on dividend payout of commercial banks in Kenya. The current chapter presents the research findings obtained, data analysis and interpretation on the specific objectives of the study. The study used primary and secondary data for analysis. Objective one and two were answered using secondary data and objective three using primary data.

The chapter presents primary data that was collected through questionnaires and were obtained from the personnel in the banks who are involved in dividend decision for example chief financial officers. The secondary data were obtained from the annual reports of commercial banks published in the banks' website.

4.2 Secondary Data Analysis

The secondary data was used to achieve objective one and two. The section presents objective one and then objective two findings.

4.2.1 Types of dividend pay-out policies adopted by commercial banks in Kenya

The study analyzed the different pay-out policies adopted by commercial banks during the study period. This was achieved by going through the annual reports of the commercial banks and evaluating the dividend pay-outs of commercial banks in Kenya during the study period that is from 2017 to 2021.

4.2.1.1 Descriptive Statistics

Table 4. 1 Representation of banks in terms of dividend payout

	Paid Dividends					**Did not pay dividends**				
	2017	**2018**	**2019**	**2020**	**2021**	**2017**	**2018**	**2019**	**2020**	**2021**
Tier 1	6	6	5	5	6	0	0	1	1	0
Tier 2	4	4	5	4	5	7	7	6	7	6
Tier 3	2	2	2	0	2	18	18	18	20	18

The table above shows a representation of banks that paid and those that did not pay dividends across the different tiers. The table above shows that during years 2017,2018 and 2021, all the tier 1 banks paid dividends except for years 2019 and 2020 where five of the banks paid dividends. For Tier 2 banks, 45.45% paid dividends and 10% of the tier 3 banks paid dividends. The above table indicates that during year 2020, no tier 3 bank paid dividends.

4.2.1.2 Dividend payout policies adopted by commercial banks in Kenya.

The figure below shows dividend per share (Kshs) of the banks that paid dividends during the study period that is from 2017 to 2021.

Figure 4. 1 Representation of Dividend payout for commercial banks in Kenya

Banks	2017	2018	2019	2020	2021	Line Graph
	KShs					
Tier 1 Banks						
KCB	3	3.5	3.5	1	3	
Absa	1	1.1	1.1	0	1.1	
Stanchart	17	19	19	10.5	19	
I & M	3.5	3.9	2.55	2.25	1.5	
Equity	2	2	0	0	3	
Co-op Bank	0.8	1	1	1	1	
Tier 2 Banks						
CFC Stanbic Bank	5.25	5.8	7.05	3.8	9	
Diamond Trust Bank	2.6	2.6	2.7	0	3	
Bank of Baroda	20	30	20	20	30	
Family	0	0	0.24	0	0.83	
Prime	80	119	40	149	81	
Tier 3 Banks						
Middle East	0.2	0.2	0.2	0	0.39	
Victoria Comm	3.5	2.53	2.7	0	2.5	

From the analysis of the above dividend per share and the dividend pay-outs of commercial banks in Kenya, the findings indicated the different dividend pay-out policies employed

across the different tiers. It also indicates that tier 1 banks strive to have a constant dividend payout similarly to some banks in tier 2 and 3. However, there are some banks that employed fluctuating dividend payout under the study period. The dividend payout employed by some banks over the study period was growing dividend payouts such as CFC Stanbic Bank. The dividend pay-out policies evident as shown by the spark lines in the above figure were the constant amount per share dividend pay-out policy, growing dividend pay-outs and fluctuating dividend pay-outs.

The analysis further shows that 13.5% employed a constant amount per share which for some banks such as Equity Bank, Diamond Trust Bank, and Middle East, the constant amount per share grew over the period. 16.21% employed a fluctuating dividend and 64.86 % had zero dividend pay-outs. From the above table, it can also be observed that there are some banks have irregular dividend pay-outs such as Equity bank which did not pay dividends in the years 2019 and 2020 while others such as Cooperative Bank of Kenya has regular dividend payout.

From the above, it is evident that the dividend pay-out in the year 2020 were affected due to the Covid 19 pandemic that led to some of the banks reducing their dividend pay-out and some not paying any dividends at all. During the year 2020 due to the pandemic, the banks needed to get approval from Central Bank of Kenya before declaring dividends so as to ensure that the banks had enough capital to survive the pandemic. The above findings therefore indicated that the dividend payout policies employed by the banks are constant dividend payout, fluctuating dividend payout and zero dividend payout.

4.2.2 The relationship between board characteristics and dividend payout of commercial banks in Kenya.

Data obtained from 37 commercial banks for the period 2017 to 2021. The panel data was analyzed using logit and tobit regression models.

4.2.2.1 Descriptive Statistics

The study analyzed a population of 37 licensed commercial banks that existed between 2017 -2021. One of the banks was not analyzed since it had since merged and information

before the merger were missing. The sector is dominated by small banks which dominate the market by 50%, followed by Tier 2 banks (Medium banks) 32% and Tier 1 (Large banks) 18% as shown by the figure below.

Figure 4. 2 Bank representation in tiers

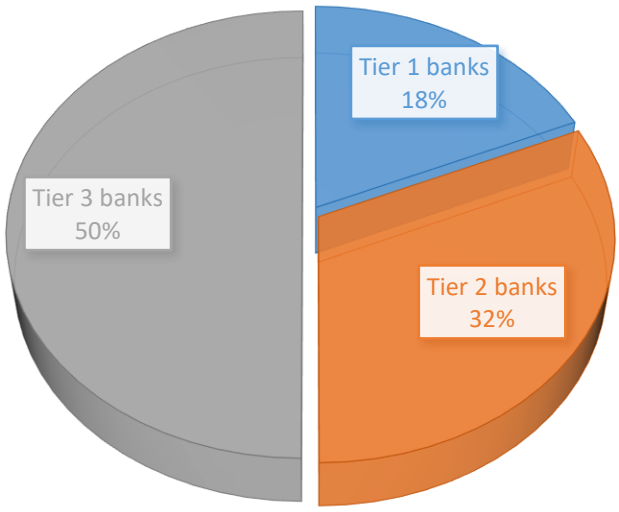


Table 4. 2 Descriptive statistics of the whole data set

Below table shows the descriptive statistics of the data set by stating the mean of the variables, standard deviation, maximum and minimum values. It analyzes the data within the bank, between the banks and the overall population across the five years' period that is from 2017 to 2021.

Variable		Mean	Std. Dev	Min	Max	Observations
DPR	overall	0.1057	0.2208	-0.4176	1.4023	N=185
	between		0.1482	0.0000	0.4579	n=37
	within		0.1651	-0.3787	1.2725	T=5
No of independent directors	overall	4.0648	1.8551	2.0000	11.0000	N=185

	between		1.8300	2.0000	9.6000	n=37
	within		0.4065	2.6649	5.4640	T=5
Average age of directors	overall	57.2162	2.3328	49.0000	64.0000	N=185
	between		2.0840	51.0000	62.2000	n=37
	within		1.0924	55.0162	61.6162	T=5
Average years of experience for board of directors	overall	29.2054	1.4107	25.0000	33.0000	N=185
	between		0.9098	27.2000	31.2000	n=37
	within		1.0865	25.8054	32.0054	T=5
No. of female in board	overall	1.5892	1.1053	0.0000	5.0000	N=185
	between		1.0498	0.0000	4.2000	n=37
	within		0.3788	-0.4108	2.9891	T=5
Total no. of directors	overall	8.2595	2.3423	5.0000	15.0000	N=185
	between		2.2808	5.0000	14.2000	n=37
	within		0.6307	4.4595	10.4595	T=5
ROA	overall	0.0077	0.0419	-0.3215	0.0949	N=185
	between		0.0339	-0.1321	0.0600	n=37
	within		0.0251	-0.1817	0.1080	T=5
Bank Size	overall	17.67170	1.3496	14.7750	20.4467	N=185
	between		1.3452	15.7344	20.2975	n=37
	within		0.2264	16.2031	18.5577	T=5

The average dividend payout ratio for the 37 commercial banks was 0.1057 with a minimum ratio of -0.4176 and a maximum of 1.4023. The average age of the board is 59.2162 with a minimum of 49 years and a maximum of 64 years. The years of experience for the board members was 29.2054 with a maximum of 33 years and a minimum of 25. The no of females in board had a mean of 1.5991 and a maximum of 5 and minimum of zero. It shows that there are some of the banks that have not included women in their boards. The total number of directors had a mean of 8.2595 with a maximum of 15 and a minimum of 5. This indicates that the commercial banks had adhered to the regulations of having a minimum of five directors. The return on asset has a mean of 0.0077 with a minimum of -0.3215 and a maximum of 0.09487. This shows that the return for assets for commercial banks is quite low as it ranges at 7.35%, and an indication that some of the banks have been performing poorly. The bank size had a mean of 17.67 with a minimum of 14.774 and a maximum of 20.446. The different sizes represent the three tiers of commercial banks in Kenya. It indicates that the natural logarithm of total assets for the largest bank is 20.446 and for the smallest bank is 14.774.

4.2.2.2 Test for difference in means

Before conducting any inferential statistics analysis, the researcher did a test for differences in mean between commercial banks that paid dividends and those that did not pay dividends to establish whether the differences were significant or not.

Table 4. 3 Test for difference in mean for dividend paying and non-dividend paying banks

Variable	Paid dividends		Did not pay dividends		diff mean = mean (0) – mean (1)	t value	p value
	mean(1)	Std error	mean(0)	Std error			
DPR	0.3265	0.03628	0.0000	0.00000	-0.32650***	9.001	0.000
No of independent directors	5.6833	0.25654	3.2880	0.10400	-2.39533***	8.653	0.000
Average age of directors	57.3667	0.30897	57.1440	0.20657	-0.22267	0.607	0.545

Average number of years of experience for the board directors	29.5500	0.19078	29.0400	0.12096	-0.51000*	2.329	0.021
No. of females in board	2.0167	0.17221	1.3840	0.08174	-0.63267***	3.319	0.001
Total no. of board member	9.6167	0.28333	7.6080	0.19038	-2.00867***	5.948	0.000
ROA	0.0291	0.00243	-0.0025	0.00411	-0.03167***	6.631	0.000
Bank size	18.8596	0.16241	17.1016	0.08669	-1.75807***	9.550	0.000

Note***denotes 1% significance level; ** denotes 5% significance level; * denotes 10% significance level

As shown above, the number of independent directors varied significantly in commercial banks that paid dividends as compared to those that did not pay dividends as shown by t (59) = 8.653, $p<0.01$. This implies that the bank that paid dividends had more number of independent directors as compared to the bank that did not pay dividends. However, the average age of directors in commercial banks that paid dividends did not vary significantly to those that did not pay dividends as p value >0.1.

The average number of years of experience for the board of directors that served in commercial banks that paid dividends was significant as compared to those that served in commercial banks that did not pay dividends as shown by t (59) = 2.329, $p<0.1$. Similarly, the number of females in boards that paid dividends were significantly higher as compared to those that did not pay dividends as indicated by t (59) =3.319, $p<0.01$. Also, the total number of board members' in commercial banks that paid dividends were more than in those that did not pay dividends and the difference is significant as indicated by t (59) =5.948, $p<0.00$.

The results further indicate that bank size and return on assets (ROA) for commercial banks that paid dividends had a significant difference as compared to those that did not pay dividends at t(59)= 9.550, $p<0.00$ and t(59)= 6.631, $p<0.00$ respectively.

4.2.2.3 Test of difference in means before, during and after COVID 19

The test of difference of mean was done before, during and after COVID 19 to evaluate whether it had an effect on dividend payout declared by commercial banks in Kenya. This was done prior to analysis to inform whether it was significant to include it in the model or not. The null hypothesis was that there was no significant difference in dividend payout before, during and after COVID 19.

The data used to carry out analysis was from 2019 to 2021. The descriptive statistics are summarized below in the table below;

Table 4. 4 Descriptive statistics before, during and after COVID 19

		N	Mean	Std. Deviation	Minimum	Maximum
DPR	Before_covid	111	0.1021	0.22338	-0.42	1.40
	During_covid	37	0.1099	0.18643	0.00	0.72
	After_covid	37	0.1124	0.24885	0.00	1.00
	Total	185	0.1057	0.22083	-0.42	1.40
No of independent directors	Before_covid	111	4.03	1.740	2	10
	During_covid	37	4.22	2.162	2	11
	After_covid	37	4.03	1.907	2	9
	Total	185	4.06	1.855	2	11
Average age of directors	Before_covid	111	56.88	2.430	49	63
	During_covid	37	57.32	2.015	52	63
	After_covid	37	58.11	2.132	53	64
	Total	185	57.22	2.333	49	64
years of experience (av)	Before_covid	111	28.92	1.428	25	33
	During_covid	37	29.24	1.090	27	32
	After_covid	37	30.03	1.343	26	32
	Total	185	29.21	1.411	25	33
No. of females in board	Before_covid	111	1.51	1.035	0	4
	During_covid	37	1.73	1.239	0	5
	After_covid	37	1.68	1.180	0	4
	Total	185	1.59	1.105	0	5
Total no. of board member	Before_covid	111	8.26	2.299	5	15
	During_covid	37	8.32	2.450	5	14
	After_covid	37	8.19	2.425	5	14
	Total	185	8.26	2.342	5	15
ROA	Before_covid	111	0.00685	0.050853	-0.322	0.095
	During_covid	37	0.00903	0.019504	-0.052	0.051
	After_covid	37	0.00909	0.026448	-0.123	0.037
	Total	185	0.00774	0.041934	-0.322	0.095

Bank size	Before_covid	111	17.5942	1.37175	14.77	20.33
	During_covid	37	17.8650	1.30114	16.16	20.45
	After_covid	37	17.7112	1.34492	15.95	20.33
	Total	185	17.6718	1.34963	14.77	20.45

The above analysis shows that during the 3-year period, the minimum dividend payout ratio value was -0.42 and the max dividend was 1.40. The minimum number of directors were 2 and the maximum was 11 members. The minimum average age of directors was 49 years and the maximum was 64 years. The average years of experience of the board of directors had a minimum of 25 years and a maximum of 33 years. The number of females in board had a minimum of 0 and a maximum of 5 during the three-year period. The minimum number of total number of board members was 5 and maximum of 15. The return on assets minimum value was -0.322 and maximum value of 0.095, bank size had a minimum value of 14.77 and maximum value of 20.45.

The study further undertook analysis of variance (ANOVA) tests to check for significant differences for mean of DPR during, before and after COVID 19 that is from 2019 to 2021. The results are presented below;

Table 4. 5 Model Anova

		Sum of Squares	df	Mean Square	F	Sig.
DPR	Between Groups	0.004	2	0.002	0.038	0.963
	Within Groups	8.969	182	0.049		
	Total	8.973	184			
No of independent directors	Between Groups	1.059	2	0.530	0.153	0.859
	Within Groups	632.162	182	3.473		
	Total	633.222	184			
Average age of directors	Between Groups	42.198	2	21.099	4.004	0.020
	Within Groups	959.153	182	5.270		
	Total	1001.351	184			
years of experience (av)	Between Groups	34.141	2	17.070	9.356	0.000

	Within Groups	332.054	182	1.824		
	Total	366.195	184			
No. of females in board	Between Groups	1.643	2	0.822	0.670	0.513
	Within Groups	223.135	182	1.226		
	Total	224.778	184			
Total no. of board member	Between Groups	0.339	2	0.169	0.031	0.970
	Within Groups	1009.207	182	5.545		
	Total	1009.546	184			
ROA	Between Groups	0.000	2	0.000	0.061	0.941
	Within Groups	0.323	182	0.002		
	Total	0.324	184			
Bank size	Between Groups	2.108	2	1.054	0.576	0.563
	Within Groups	333.049	182	1.830		
	Total	335.157	184			

The results show that there are no significant differences i.e. since the F (2,182), p value > 0.05, we fail to reject the null hypothesis and conclude that there is no sufficient evidence to say that the difference in the mean DPR before, during and after COVID 19 is significant. The above results also show that difference in means in the number of independent, number of females in board, total of board members, ROA and bank size were not statistically significant before, during and after COVID 19. The average years of experience had a statistically significant difference since F (9.356), p value < 0.05 before, during and after covid 19, similarly average age of directors since F (4.004), p value<0.05. Since there was no statistically significant difference in the dividend payout for commercial banks before, during and after Covid 19, this variable was not included in the model.

4.2.2.4 Correlational Analysis

Correlation serves as a measure for the direction and strength of relationships between two variables. To ensure sturdiness when determining the direction of significant variables,

Spearman correlation was used to determine the correlation coefficients of the study variables.

Figure 4. 3 Correlational matrix

	DPR	ln_age	ln_exper	ln_fem~d	ln_ind~d	ln_tot~d	ROA	Banksize
DPR	1.0000							
	.							
ln_age	0.0469	1.0000						
	0.5696	.						
ln_exper	0.1717**	0.4583	1.0000					
	0.0364	0.0000	.					
ln_fem_board	0.1163	-0.2581	-0.1034	1.0000				
	0.1575	0.0015	0.2095	.				
ln_indepen~d	0.6094***	-0.0833	0.1259	0.4015	1.0000			
	0.0000	0.3123	0.1258	0.0000	.			
ln_total_b~d	0.3752***	0.0026	0.0265	0.3777	0.5054	1.0000		
	0.0000	0.9753	0.7477	0.0000	0.0000	.		
ROA	0.6104***	0.0843	0.2407	0.0744	0.6220	0.4326	1.0000	
	0.0000	0.3062	0.0032	0.3671	0.0000	0.0000	.	
Banksize	0.6328***	0.0064	0.1283	0.2881	0.7242	0.5276	0.6824	1.0000
	0.0000	0.9378	0.1189	0.0004	0.0000	0.0000	0.0000	.

The above results show that there is a moderate statistically significant positive correlation between bank size (r=0.6328***, p value= 0.000) and dividend payout ratio of commercial banks in Kenya. This indicates that as the bank size increases that is in terms of assets, the dividend payout of the firm also increases. The results show that ROA (r= 0.6104***, p=000) which is a measure of profitability and board independence (r=0.6094***, p=000) have a moderate statistically significant positive correlation with dividend payout ratio of commercial banks in Kenya. This mean that profitability and board independence have a positive linear relationship with dividend payout ratio for commercial banks in Kenya. That is an increase in profitability and board independence positively influence the dividend payout ratio of commercial banks in Kenya.

Board size (r= 0.3752***, p=0.000) and board average years of experience (r=0.1717**, p=0.0364) have a weak statistically significant positive linear relationship with dividend

payout ratio of commercial banks in Kenya. The results further indicate that board average age has a moderate positive insignificant correlation with dividend payout ratio of commercial banks in Kenya. The number of females in the board on the other hand had a weak positive insignificant correlation with dividend payout ratio of commercial banks in Kenya.

4.2.2.5 Diagnostic tests

Diagnostic tests were carried out by the researcher to ensure validity of the findings and reliability of the model. Diagnostic tests that were carried out by the researcher are namely; autocorrelation, heteroscedasticity, multicollinearity and Hausman test.

4.2.2.5.1 Hausman Test

Hausman Test was used to choose between fixed effects and random effects model. The null hypothesis was random effect model is suitable.

Figure 4. 4 Hausman test

Hausmann Tests

```
. hausman fixed random

                ---- Coefficients ----
             |      (b)          (B)            (b-B)     sqrt(diag(V_b-V_B))
             |     fixed        random       Difference          S.E.
-------------+------------------------------------------------------------
Totalnoofb~r |   -.9624001     -.113352        -.849048        .9060083
Noofindepe~s |    .1689644     .8920989       -.7231345        .9173059
      ln_age |   -.6705446    -.1533712       -.5171734        .3649324
Nooffemale~d |   -.6409402    -.5581319       -.0828083        .9798796
    ln_exper |    .6244798     .2305922        .3938876        .3604888
         ROA |   -5.657319     11.25603       -16.91335        16.35461
    Banksize |   -.9045637     1.435784       -2.340347        3.088189
------------------------------------------------------------------------------
                          b = consistent under Ho and Ha; obtained from xtlogit
         B = inconsistent under Ha, efficient under Ho; obtained from xtlogit

    Test:  Ho:  difference in coefficients not systematic

                  chi2(7) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                          =        7.74
                Prob>chi2 =      0.3564
```

The prob> Chi2 was 0.3564 implying that the individual effects being adequately modeled by random effects was accepted. Therefore, the random effect model was appropriate to aid in achieving the study objectives.

4.2.2.5.2 Autocorrelation

The study tested for autocorrelation using Wooldridge test. This test checks for the presence of autocorrelation in the error terms in the panel data model.

H0: no first-order autocorrelation

F(1, 29) = 2.818

Prob > F = 0.1040

The results above show that the p value 0.1040 > 0.05 hence the researcher failed to reject the null hypothesis as it indicates that there is no strong evidence of first order autocorrelation.

4.2.2.5.3 Heteroscedasticity

The study used Breusch-Pagan Lagrange Multiplier (LM) test for homoscedasticity. The null hypothesis is that the error term of the regression model is homoscedastic.

The null hypothesis is that the variance of the error term (u) is equal to zero which implies homoscedasticity and the alternative hypothesis is that the variance of the error term is not equal to zero indicating heteroscedasticity.

The results are as follows;

Test: Var(u) = 0

chibar2(01) = 0.91

Prob > chibar2 = 0.1702

From the above shown results, the p value 0.1702 > 0.05 hence the researcher failed to reject the null hypothesis indicating that there is no strong evidence to reject the null hypothesis of homoscedasticity. Hence there is no significant heteroscedasticity in the error term of the regression model.

4.2.2.5.4 Multicollinearity

To prevent drawing the wrong inferences regarding the relationship between the dependent and predictor variables, multicollinearity tests were performed on the regression model. To detect the presence of a multicollinearity test, the Variance Inflation Factor (VIF) and tolerance level was used.

Table 4. 7 Test for multicollinearity

Variable	Variance Inflation Factor (VIF)
Board independence	2.66
Board size	1.59
Board members average age	1.51
Board members average number of years of experience	1.49
Number of female in board	1.43
ROA	1.61
Bank size	2.65

The findings indicate that board independence had a VIF value of 2.66, board size VIF value of 1.56, Board members average age had a VIF value of 1.51, Board members average number of years of experience had a VIF value of 1.49, Number of female in board had a VIF value of 1.43, ROA had a VIF value of 1. and bank size had a VIF value of 2.65. Since all the variables had a Variance Inflation Factor (VIF) that is less than 10, there was no multicollinearity problem.

4.2.2.6 Regression Analysis

4.2.2.6.1 Logit Regression model

To determine whether board characteristics affect the dividend decision of commercial banks in Kenya, the study used a random effect logit regression model to establish the probability of a bank paying dividends or not.

First the data was diagnosed to check whether the assumption of the logit regression model hold. The first assumption states the first assumption states that the outcome is a binary or dichotomous variable. DPD Dummy which is the dependent variable is binary where it is 1 when a bank pays dividend and 0 when a bank does not pay dividend.

Figure 4. 5 Logistic regression model

```
Random-effects logistic regression              Number of obs     =       148
Group variable: Company                         Number of groups  =        31

Random effects u_i ~ Gaussian                   Obs per group:
                                                              min =         2
                                                              avg =       4.8
                                                              max =         5

Integration method: mvaghermite                 Integration pts.  =        12

                                                Wald chi2(7)      =     17.52
Log likelihood = -48.979261                     Prob > chi2       =    0.0143
```

DPDDummy	Odds ratio	Std. err.	z	P>|z|	[95% conf.	interval]
ln_total_board_1	11.57845	22.84406	1.24	0.214	.2422402	553.4196
ln_independent_d	122.9879**	256.4297	2.31	0.021	2.06589	7321.792
ln_age	.0290984	.3683942	-0.28	0.780	4.87e-13	1.74e+09
ln_fem_board	.080933*	.1098822	-1.85	0.064	.0056553	1.158233
ln_exper	1280.895	11765.71	0.78	0.436	.0000194	8.44e+10
ROA	5392.586	93422.75	0.50	0.620	9.67e-12	3.01e+18
Banksize	2.449699	1.373758	1.60	0.110	.8161508	7.352837
_cons	3.83e-17	1.59e-15	-0.91	0.361	2.27e-52	6.46e+18
/lnsig2u	1.357911	.7382233			-.0889803	2.804802
sigma_u	1.971817	.7278206			.956485	4.064948
rho	.541669	.1832741			.2175795	.8339597

```
Note: Estimates are transformed only in the first equation to odds ratios.
Note: _cons estimates baseline odds (conditional on zero random effects).
LR test of rho=0: chibar2(01) = 11.59                  Prob >= chibar2 = 0.000
```

Note ** denotes 5% significance level; * denotes 10% significance level

The Wald Statistic (7) = 17.52, $p < 0.05$. The results indicate that the logistic random effect model is suitable to be used to determining the relationship between dependent and independent variable as prob> chi2 is 0.013 < P value 0.05.

The results indicate that number of independent directors is positively statistically significant (Beta =123, z=2.31, p<0.05) in determining the likelihood of dividend payout of commercial banks in Kenya. This implies that a unit increase in the natural logarithm of number of independent board of directors, increases the odds of dividend payout of a bank by 122.9879. Number of females in board is also statistically significant (Beta= 0.809, Z= -1.85, p<0.1) hence it implies that a unit increase in the natural logarithm of number of females in board increases the odds of dividend payout of a bank by 0.0809.

The results also indicate that board size, board age, board years and experience, ROA and bank size were statistically insignificant in determining the probability of the bank to pay dividends or not. Even in one-unit increase in natural logarithm in total number of directors, there is an increase in odds of dividend payout of a bank by 11.578, since p value> 0.1 it is statistically insignificant.

Similarly, results indicate that a unit increase in the natural logarithm in average age of the directors, increases the odds by 0.2909, but since p value >0.1, it is statistically insignificant. The output shows that a unit increase in the natural logarithm in board average years and experience increases the odds of dividend payout by 1280.90 but since p> 0.1, it is statistically insignificant. ROA has the highest odds ratio of 5392.59 though it is statistically insignificant as p value>0.1. This implies that a unit increase in the natural logarithm of ROA increases the odds of dividend payout by 5392.59. The high odds also indicate that profitability measured by ROA increases the probability of a bank paying dividends. The results in regards to bank size indicate that a unit increase in natural logarithm in bank size leads to 2.45 increase in the odds of dividend payout of commercial bank in Kenya though it is statistically significant as p value > 0.1.

4.2.2.6.2 Tobit regression Model

The researcher carried out the Tobit regression model so as to establish the relationship between dividend payout and the selected board characteristics.

Figure 4. 6 Tobit regression model output

```
Random-effects tobit regression                 Number of obs     =       149
                                                        Uncensored =       149
Limits: Lower = -0.42                               Left-censored =         0
        Upper =  +inf                              Right-censored =         0

Group variable: Company                         Number of groups  =        31
Random effects u_i ~ Gaussian                   Obs per group:
                                                              min =         2
                                                              avg =       4.8
                                                              max =         5

Integration method: mvaghermite                 Integration pts.  =        12

                                                Wald chi2(7)      =     46.43
Log likelihood = 28.688605                      Prob > chi2       =    0.0000
```

DPR	Coefficient	Std. err.	z	P>|z|	[95% conf.	interval]
ln_age	-.1717343	.4852589	-0.35	0.723	-1.122824	.7793557
ln_exper	.5264152	.4094999	1.29	0.199	-.2761899	1.32902
ln_fem_board	-.0901643*	.0499357	-1.81	0.071	-.1880365	.0077078
ln_independent_d	.2279308**	.0744787	3.06	0.002	.0819553	.3739063
ln_total_board	.0344125	.0886993	0.39	0.698	-.1394349	.2082599
ROA	-.3826644	.4906577	-0.78	0.435	-1.344336	.5790071
Banksize	.036399*	.0204156	1.78	0.075	-.0036148	.0764129
_cons	-1.932183	1.708336	-1.13	0.258	-5.28046	1.416095
/sigma_u	.0484864	.0292314	1.66	0.097	-.008806	.1057789
/sigma_e	.1942364	.0126811	15.32	0.000	.1693819	.2190909
rho	.0586579	.0695956			.0031503	.3443676

LR test of sigma_u=0: chibar2(01) = 0.86 Prob >= chibar2 = 0.177

Note ** denotes 5% significance level; * denotes 10% significance level

The above results show that the lower limit for the dependent variable (DPR) is -0.42 indicating that the data is left censored. The log likelihood of the model is 28.6886 and the Wald Statistic (7) = 46.43, $p < 0.01$. This indicates that the model is statistically significant in determining the relationship between the independent and dependent variable as the p value for the chi square test is $p< 0.01$.

The results show that number of independent directors has a statistically significant (Beta=0.2279, p value <0.05) positive association with dividend payout of commercial banks in Kenya. This means that a unit increase in natural logarithm of the proportion of independent directors, results to an increase in dividend payout ratio by 0.228 units. From the analysis above, the number of females in board has a negative statistically significant (Beta= 0.901, p value <0.1) association with dividend payout of commercial banks in

Kenya. This implies that a unit increase in the natural logarithm of the number of females in board, leads to a decline in dividend payout ratio by 0.901 units.

The results indicate that bank size has a positive statistically significant (Beta= 0.036, $p<0.1$) association with dividend payout ratio of commercial banks in Kenya. This therefore mean that a unit increase in the natural logarithm of bank size leads to an increase of dividend payout ratio by 0.036.

The results further indicate that board members average age of experience and board size have a positive association to dividend payout of commercial banks in Kenya but statistically insignificant. This implies for a unit increase in the natural logarithm of total number of board members and average number of years of experience, it results to an increase in the dividend payout ratio by 0.034 units and 0.526 units respectively. However, the results show that board of directors age and ROA has a negative association but statistically insignificant determinant of dividend payout ratio of commercial banks in Kenya. This implies that a unit increase in the natural logarithm in average number of board of directors' age and ROA leads to a decline in dividend payout ratio by 0.172 units and 0.383 units respectively.

The above analysis therefore indicates that number of independent directors, number of females in board and bank size are statistically significant in determining the dividend payout. The other independent variables being the total number of board directors, the average years of experience of the board, the board member's average age and return on assets had an association but the results indicated that they were not statistically significant.

4.3 Primary Data Analysis

Primary data was collected through the use of highly structured questionnaires to enable assessment of the perception of the stakeholders regarding the relationship between board characteristics and dividend pay-out of commercial banks in Kenya.

4.3.1 Descriptive Characteristics of the Respondents

The survey gathered demographic information in order to assess the respondent's ability to deliver credible information. The position and number of years spent at the commercial bank were among the details needed.

Table 4. 8 Descriptive statistics primary data

Item		Frequency	Percent
Response rate	Responded	95	86%
	Not responded	16	14%
Position of the respondents	Chief Finance Officer/Finance Manager	50	53%
	Head of Treasury	10	11%
	Head Risk Manager	35	37%
Respondents working duration	0-5 years	13	14%
	6-10 years	43	45%
	Over 10 years	39	41%

The target respondents of the study were a total of 111 who were respective senior banking officers who were involved in the dividend decision of the bank. A questionnaire was issued through a google forms, others through drop and pick method and 95 of them responded translating to a response rate of 86%. The response rate is considered justified as it conforms to Kothari (2004) assertion of 75% to be appropriate to allow the generalization of the findings.

The results obtained indicated that 53% were from Chief Finance Officers/ Finance Managers, 11% from Head of Treasury and 37% from Head of Risk Managers. As shown in the table above, 14% had worked for the bank for the duration of 0-5 years, 45% a duration of 6-10 years, and 41% a duration of over 10 years.

4.3.2 Perception of stakeholders on the relationship between board characteristics and dividend payout

To determine the perception of stakeholders on the relationship between board characteristics and dividend payout of commercial banks in Kenya, a questionnaire with

selected board characteristics was issued to the respondents. The respondents were required to rate using a Likert scale of 1-5 the extent to which they perceived the selected board characteristics influenced the dividend payout of commercial banks in Kenya. The table below shows the extent at which the respondents perceived board characteristics to have an influence to the dividend payout of commercial banks in Kenya.

Table 4. 9 The extent at which the respondents perceived board characteristics to have an influence to the dividend pay-out of commercial banks in Kenya

Perception of how board characteristics influence the dividend pay-out of commercial banks in Kenya	N	Mean	Standard Deviation	Coefficient of variation
Board member's level of Experience and skills	95	4.11	0.805	20%
Board member's age	95	4.07	0.992	24%
Board member's level of education	95	3.74	1.265	34%
Board Gender Diversity	95	3.72	1.069	29%
Board size	95	3.62	1.054	29%
Board Independence	95	3.31	1.112	34%

As shown above, on the board characteristics that influence the dividend pay-out of commercial banks in Kenya, respondents to a large extent states that board members level of experience and skills influenced dividend pay-out of commercial banks in Kenya, with a mean of 4.11 and a standard deviation of 0. 805. Board members' age followed closely with a mean of 4.07 and a standard deviation of 0.992.

The respondents indicated a moderate extent to the following board characteristics influence dividend pay-out of commercial banks in Kenya; board members' level of education with a mean of 3.74, followed by board member's gender with a mean of 3.72, board size with a mean of 3.62, and board independence with a mean of 3.31. As shown above, the findings indicate that different characteristics are perceived differently on how they affect the dividend payout of commercial banks in Kenya by the stakeholders.

4.4 Chapter Summary

It can be concluded from the study that board characteristics affect the dividend payout of commercial banks in Kenya. This is due to the fact that the difference in means for the banks that paid dividend and those that did not pay dividends were statistically difference for some of the independent variables. The dividend payout policies differed from one tier to another as shown in the findings, however tier 1 banks strive to have a constant dividend payout ratio. The dividend payout employed were constant amount per share dividend pay-out policy, growing dividend pay-outs and fluctuating dividend pay-outs.

The analysis also showed that in terms of the relationship between board characteristics and dividend payout, the findings were, bank size and number of independent directors had a positive and significant influence on the dividend payout of commercial banks in Kenya while female on board had a negative significant on dividend payout of commercial banks in Kenya. Board members average age, ROA and board average years of experience did not have a statistically significant influence on dividend payout of commercial banks in Kenya.

From the analysis of primary data, the results indicated that stakeholders of commercial banks in Kenya perceive differently the extent to which board characteristics influences the dividend payout of commercial banks in Kenya. Board members level of experience and skills and board members' age were perceived to a large extent to influence the dividend payout, whereas board members' level of education, board size, board independence and board member's gender were perceived to have a moderate extent influence on dividend payout of commercial banks in Kenya.

CHAPTER FIVE: DISCUSSIONS, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

This chapter outlines discussions of the findings, conclusions, and recommendations from the study.

5.2 Discussions

This section highlights discussions of study findings as captured in chapter four in relation to the study title, investigating the relationship between board characteristics and dividend payout of commercial banks in Kenya. The discussions will be based on the study objectives that was aimed to be achieved.

5.2.1 Dividend payout policies adopted by Commercial banks in Kenya

The findings indicated that that different dividend payout policies are employed across different tiers. The dividend pay-out policies that were observed were the constant amount per share dividend pay-out policy, growing dividend pay-outs, fluctuating dividend pay-outs and zero dividend payouts.

The results indicate that tier 1 banks strive to have a constant dividend payout similarly to some banks in tier 2 and 3. However, there are some banks that employed fluctuating dividend payout under the study period. The dividend payout employed by some banks over the study period was growing dividend payouts such as CFC Stanbic Bank.

The analysis further shows that 13.5% employed a constant amount per share which for some banks such as Equity Bank, Diamond Trust Bank, and Middle East, the constant amount per share grew over the period. 16.21% employed a fluctuating dividend and 64.86 % had zero dividend pay-outs. It can be observed that there are some banks had irregular dividend pay-outs such as Equity bank which did not pay dividends in the years 2019 and 2020. During COVID 19 that is in the year 2020, some of the banks reduced their dividend payout such as KCB Bank, a bank like Cooperative Bank in Kenya maintained their payout whereas some did not pay such as Middle East Bank and Equity Bank.

Due to the economic slowdown during Covid 19 it was expected that it affected profitability of the commercial banks consequently dividend payout. During Covid 19 commercial bank were not charging any fees on mobile banking which led to decrease in interest income, banks also had to restructure the loans that had issued as there was high non-performing loans due to economic meltdown during the pandemic which affected all the sectors. The results however were surprising as it indicated that there were no significant differences since the F (2,182), p value > 0.05, and hence the researcher failed to reject the null hypothesis and conclude that there is no sufficient evidence to say that the difference in the mean DPR before, during and after COVID 19 is significant. Similarly, Mazur et al., (2020) examined the dividend behavior of the S&P 500 firms during the COVID-19 crisis characterized by the stock market crash and a V-shaped stock price recovery propelled by technology stocks. Their findings indicated that great majority of firms either maintained or increased the level of dividend payment during the crisis period. Mazur et al., (2020) indicate that the finding was surprising because the relationship between the dividend pay-out and bottom-line earnings available to common shareholders was significantly negative.

Dividend payout is determined by the company's dividend policy as it states the when to pay the shareholders. For commercial banks with stable dividends, they have employed constant payout ratios and constant amount per share. Some commercial banks have employed long term dividend policy where they do not pay the dividends now but pays its shareholders dividends after they have achieved the growth prospects of the bank. Profitability of the company increases the probability of dividend payout but it is not statistically significant. This is because some of the banks made profit during the period and they have had zero dividend payouts over the last five periods. From the review of literature, no research has been found that surveyed the dividend payout policies adopted by commercial banks in Kenya.

5.2.2 The relationship between board characteristics and dividend payout of commercial banks in Kenya.

The study investigated the relationship between board characteristics and dividend payout of commercial banks in Kenya. The study evaluated how board gender diversity, Board age, board independence, board level of experience and skills influenced the dividend payout. The relationship was controlled by profitability measure in return on assets and bank size.

To achieve this objective, the study approached it in two ways first, to examine the probability of the bank declaring dividend given the board characteristics and secondly, evaluating the relationship between dividend payout and board characteristics.

For the first approach, the results revealed that the number of independent directors is positively statistically significant ($p<0.05$) in determining the likelihood of dividend payout of commercial banks in Kenya. The results also indicated that number of females in board is statistically significant in determining the probability of dividend payout. This is in line with Thompson and Manu (2021) finding as they also found out that female on board was significant in determining the probability of non-financial US firms paying dividends. However, Njogu (2020) found out that board gender diversity was not significant in determining the probability of a non-financial listed firms in NSE firm paying dividends, this could be as a result of the difference in sectors studied.

The findings indicated that board size, board average age, board average years of experience were insignificant in determining the likelihood of dividend payout even though all of them had a positive association. This finding contradicts the findings of Thompson and Manu (2021) and Khan (2022) where they found out that board size and board average age was significant in determining the probability of paying dividends for non- financial US firms and non-financial Turkish firms respectively. It also contradicts the findings of Njogu (2020) as the study indicated that board size was significant in determining the likelihood of dividend payment by non-financial listed firms in NSE. The prudential guidelines (2013) state that commercial banks should have a minimum of five directors

which the researcher suppose it is the reason why the findings indicated that the board size was not significant and also because of the difference in the sectors.

The results showed that bank size had a positive association but was not statistically significant in determining the probability of dividend payout of commercial banks in Kenya. This finding contradicts the findings of Khan (2022), Thompson and Manu (2021) and Njogu (2020. This could be because banks across the different tiers paid dividends even though a unit increase in natural logarithm of the bank sizes increases the likelihood of a bank paying dividends, it was not statistically significant.

The surprising finding was that ROA of the banks did not determine the probability of dividend payout. The results showed a positive association in determining the probability of commercial banks paying dividend though statistically insignificant. This contradicts the findings of Khan (2022); Thompson and Manu (2021) and Njogu (2020). This could be because their studies focused on non-financial firms in Trukey, US firms and non-financial listed firms in NSE respectively. This could be because of the some of the banks though they recorded high profits during the period, they did not pay dividends due to strategic reasons such as increasing the presence in the market and venturing its operations to other regions outside Kenya. During the study period, the analysis also showed that some of the banks paid dividends out of retained earnings though they had recorded losses in that particular period.

The second approach used was to determine the relationship between board characteristics and dividend payout. The first null hypothesis part (a)for this study objective as discussed in chapter 2 was that board gender diversity has a positive effect on dividend payout of commercial banks in Kenya. The study findings reveal that board gender diversity has a statistically significant negative relationship with the dividend payout of commercial banks in Kenya as given by p=0.071. Similarly, Sanan (2019), Saeed and Sameer (2017); Elmagrhi et al. (2017) found out that females on board had a significant negative effect on dividend payout for Indian firms, firms in China, India and Russia and UK listed SMEs respectively.

The researcher therefore rejected the null hypothesis. Therefore;

H1a: *Board gender diversity has a negative effect on dividend payout of commercial banks in Kenya.*

The first objective part (b) postulated in the study was that board age had a positive effect on the dividend payout of commercial banks in Kenya. The findings revealed that the board age did not have a significant relationship with the dividend payout of commercial banks in Kenya as shown by p=0.723. The researcher therefore rejected the null hypothesis. This can be corroborated by the aforementioned results that indicated that the difference in the average age of the board members was not statistically significant between the banks that paid dividends and those that did not pay dividend. This however contradicts the findings of Thompson and Manu (2021) as their study indicated that board average age had positive significant statistical relationship with dividend payout of non-financial firms in US. The finding could be because the average board age of the directors in the dividend paying and non-dividend paying firms did not vary significantly. Therefore;

H1b: Board average age has negative effect on dividend payout of commercial banks in Kenya.

The part (c) of the first hypothesis stated that related to this objective was that board members' experience has a positive effect on the dividend payout of commercial banks in Kenya. The results however revealed that directors average years of experience had a statistically insignificant (p=0.199) positive effect on dividend payout of commercial banks in Kenya. The study therefore failed to reject the null hypothesis.

HIc: Board average years of experience has a positive effect on dividend payout of commercial banks in Kenya.

The second hypothesis was board size has a negative relationship with the dividend payout of commercial banks in Kenya. The findings however revealed that board size had a positive statistically insignificant effect on dividend payout of commercial banks in Kenya. The researcher therefore rejected the null hypothesis. This is in line with Aboka (2018) findings as the study found out that board size was insignificant in determining the dividend payout of commercial banks in Kenya. Alshabibi et al. (2021) also found that there was no

significant relationship between board size and dividend payout evidence from a study done on a sample of 109 listed firms in the Muscat Securities Exchange. It however contradicted with the findings of Thompson and Manu (2021); and Khan (2022) as they found out that board size was statistically significant in determining the dividend payout of non-financial firms in US and listed Turkish firms respectively. The finding could be as a result of the regulation of the financial firms where in some instances the commercial banks need to seek approval from the regulator in order to pay dividends hence the board size as indicated by the findings has a positive association with dividend payout but it is not statistically significant.

H2: Board size has a positive relationship with dividend payout of commercial banks in Kenya.

The third hypothesis in regards to the relationship between board characteristics and dividend payout for commercial banks in Kenya was board independence has a negative significant effect on the dividend payout of commercial banks in Kenya. The findings however, indicate that board independence had a positive statistically significant effect on the dividend payout policy, given by p value =0.002. The researcher therefore rejected the null hypothesis

H3: Board independence has a positive significant effect on dividend payout of commercial banks in Kenya.

Similarly, Alshabibi et al. (2021) and Tahir et al., (2020) found out that board independence has a positive significant effect on dividend payout for firms listed in Omani and Malaysian non-financial firms respectively. This however contradicts the findings of Aboka (2018) as the results indicated that board independence did not have any effect on dividend payout of commercial banks in Kenya. Njogu (2020) also found out that there was no significant relationship between dividend payout and board independence for non-financial listed firms in NSE. The results could be because of the emphasis that the regulator has on board independence. Independent directors are important to the bank because they enhance objectivity, provides necessary checks and balances on the board to ensure that the decisions carried by the board and ensure that the interests not only for the shareholders are taken care of but also for the other stakeholders such as depositors (CBK/PG/02, 2013).

This finding is consistent with the agency theory as the directors are supposed to act at the best interest of the principal who in this case are shareholders. According to John and Senbet (1998), board independence is critical in evaluating the performance of a firm's corporate governance.

5.2.3 Perception of stakeholders on the relationship between board characteristics and dividend payout

To determine the perception of stakeholders on the relationship between board characteristics and dividend payout of commercial banks in Kenya, a questionnaire with selected board characteristics was issued to the respondents. The findings showed that board average years of experience and skills (mean = 4.11) and board member's age (mean= 4.07) were considered to a large extent to influence dividend payout of commercial banks in Kenya. The findings are in line with literature as the study showed the board average years of experience had a positive effect on dividend payout of commercial banks in Kenya. Similarly, Thompson and Manu (2021) found out that board age had a statistically significant effect on the dividend payout of non-financial US firms.

The results also showed that board members level of education, board gender diversity, board size and board independence were thought to have moderate effect on the dividend payout of commercial banks in Kenya. Thompson and Manu (2021) found out that board members' level of education was not significant in determining the dividend payout of non-financial firms however it showed negative association because of the conservative measures taken the boards. Board independence on the other hand is in line with the findings of the secondary data as it showed that board independence had a statistically significant effect on the dividend payout of commercial banks in Kenya. Similarly, other studies done by Alshabibi et al., (2021) and Tahir et al., (2020) found out that board independence has a positive significant effect on dividend payout for firms listed in Omani and Malaysian non-financial firms respectively.

Literature has shown mixed results in regards to board gender diversity. From the analysis of the secondary data, the findings showed that board gender diversity had a significant

negative effect on dividend payout of commercial banks in Kenya. Njogu (2020) and Aboka (2018) found out that board gender diversity was insignificant in determining the dividend payout of non-financial listed firms in NSE and commercial banks in Kenya.

Literature has shown that board size has an effect on dividend payout. With some studies showing that there is positive relationship and others negative relationship between board size and dividend payout. From the analysis board size had positive association with dividend payout of commercial banks in Kenya though it was statistically insignificant. This in line with the findings of Aboka (2018) as she found out that there was no significant relationship between board characteristics and dividend payout of commercial banks in Kenya. Similarly, Elmarghi et al., (2017); Dissanayake and Dissabandara (2021), also state that there is a positive relationship between board size and dividend payout for UK-listed SMEs, and listed firms in the Colombo Stock Exchange respectively. However, Afifa et al., (2022); Dissanayake et al., (2018) found that there is a negative relationship between board size and dividend payout policy for non-financial service firms that were listed on the Amman Stock Exchange (ASE) and banking sector in Sri Lanka respectively. This is therefore corroborated by the perception of the stakeholders' as they perceive that it moderately influences the dividend payout.

5.3 Conclusions

In conclusion, this study aimed to investigate the effects of board characteristics on dividend payout of commercial banks in Kenya, to assess the perception of stakeholders on the relationship between board characteristics and dividend payout of commercial banks in Kenya, moreover, evaluate the different payout policies adopted by commercial banks in Kenya.

The findings indicated that board independence had a positive statistically significant effect on the dividend payout of commercial banks in Kenya. This implies that board independence is crucial in the banking sector as it ensures that there are balances and checks. This finding validates the outcome hypothesis under the agency theory. The findings also indicate that the women are more conservative in making the investment and financing decisions hence the board gender diversity had a negative statistically significant

effect on dividend payout of commercial banks in Kenya. Board size had a positive statistically significant effect on dividend payout, this therefore indicates that larger boards influence management to pay dividends conveying a positive signal to the shareholders and also mitigate the agency conflict. The study also validates the stakeholder's theory since the stakeholders' interests were taken into consideration before paying dividends. Board characteristics determine the quality of decision making that is taken by board members. This study therefore concludes that board characteristics influences the dividend payout of commercial banks in Kenya.

5.4 Recommendations

The study found out that board characteristics influence the dividend payout of commercial banks in Kenya. Board independence had a statistically significant effect on dividend payout of commercial banks in Kenya. Board independence is critical in evaluating the performance of a firm's corporate governance. Other board characteristics are significant as they affect the quality of decisions taken in the board hence influences the performance of the banks consequently dividend payout. This study therefore recommends practitioners to take into consideration board independence when coming up with board composition; this not only applies to financial firms but also non-financial firms as independent board members provide the necessary checks and balances.

The study also recommends that regulators, practitioners and policy makers have guidelines to ensure that there is board gender diversity, as most of the commercial banks do not have women on board. Women have demonstrated social, economic, political, intellectual, and legal potential to influence business decision-making and lack of gender diversity on corporate boards exposes corporations to legal risk, endangering company profitability, external networking, and competitive advantage.

The study also recommends commercial banks to develop dividend policies to guide them on the distribution of earnings as 64% of the banks did not pay dividends over the study

period. This will guide them on when to pay dividends, how to pay dividends and when to retain the surpluses.

The study recommends the investors both retail and corporate to evaluate the board characteristics of the Company that they intend to have a stake in as board characteristics influences the profitability of the firm consequently the dividend payout. This will enable them to invest in companies that are in line with their investment objectives.

5.5 Limitations and Suggestions for further research

The study had several limitations despite the contributions to literature. The study focused on how different board characteristics influenced the dividend payout of the commercial bank. During the study period, there are several macroeconomic factors that could have affected that the study did not focus on such inflation among others. Future studies can replicate the same study and include other control variables such as growth when evaluating the relationship between the variables in question.

The study had a limitation of time as it focused only on five years' period that is between 2017 to 2021. It is unclear if the study was done for a longer period, the same results would still hold. For instance, the effect of Covid 19 was limited to a short time period, which further studies can evaluate to check if the same results would still hold. The study also did not incorporate all board characteristics hence future studies can consider incorporating that. This study recommends further studies to be done on how management characteristics affect dividend payout.

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APPENDICES
APPENDIX 1: QUESTIONNAIRE

SECTION A: DEMOGRAPHICS

The questionnaire aims to collect data from senior managers of commercial banks in Kenya to examine "The perception of stakeholders on the relationship between board characteristics and dividend pay-out of commercial banks in Kenya". Data obtained will be held in confidence and the identity of respondents will be kept anonymous. Your cooperation in this data collection exercise is highly appreciated.

1. Name of the bank that you are working for (optional)……

2. How long have you been working in the banking industry?

   0-5 years ☐ 5-10 years ☐ above 10 years ☐

3. What is your current position with the current employee?

   CFO ☐ Finance Manager ☐ Senior risk officer Head Treasury ☐

   other……

4. On a scale of 1 to 5 with 1 being rarely and 5 being most likely are you involved in the dividend decisions of the bank

   1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

SECTION B: BOARD CHARACTERISTICS AND DIVIDEND PAYOUT

Below are several statements regarding the extent to which board characteristics affect the dividend payout of commercial banks in Kenya. Please indicate (by ticking one box for each statement) the extent to which you agree with each statement

Items	Strongly disagree(1)	Disagree(2)	Neither disagree nor agree (3)	Agree(4)	Strongly agree (5)

Board gender diversity influences the dividend pay-out of commercial banks in Kenya					
Board age forms the dividend pay-out of commercial banks in Kenya					
Board independence affects dividend pay-out of commercial banks in Kenya					
Board size influences the dividend pay-out of commercial banks in Kenya					
Board experience and skills control the dividend pay-out of commercial banks In Kenya					
Board members' level of education regulates the dividend pay-out of commercial banks in Kenya.					

5. What other factors do you consider to be important when making dividend decision apart from the above listed?
   i.
   ii.

Thank you

APPENDIX 2: RESEARCH BUDGET

Proposal			
Item	**Quantity**	**Price per unit**	**Budget (Kshs)**
Stationery	3	400	1,200
Printing	200	10	2,000
Transport	-	-	3,000
Telephone costs			2,000
Miscellaneous			4,000
Subtotal			**12,200**
Final Project			
Stationery	10	400	4,000
Printing	500	10	5,000
Transport	-	-	5,000
Data collection/research assistant			30,000
Telephone costs			4,000
Miscellaneous (10% of contingencies)			5,000
Subtotal			53,000
Total			**65,200**

VT OMNES
VNVM SINT

APPENDIX 3: LIST OF COMMERCIAL BANKS

TIER 1 BANKS			
No	Bank	Postal Address	Physical address
1	ABSA Bank Kenya Plc	P. O. Box 30120 – 00100, Nairobi	Waiyaki Way, Westlands,
2	Co-operative Bank of Kenya Limited	P. O. Box 48231 - 00100 Nairobi	Co-operative House, 4th Floor Annex, Haile Selassie Avenue, Nairobi
3	Equity Bank Kenya Limited	P. O. Box 75104-00200, Nairobi	Equity Centre, 9th Floor, Hospital Road, Upper Hill, Nairobi
4	I&M Bank Limited	P.O. Box 30238 – 00100, Nairobi	1 Park Avenue, First Parklands Avenue, Nairobi.
5	KCB Bank Kenya Limited	P. O. Box 48400 – 00100, Nairobi	Kencom House, 8th Floor, Moi Avenue, Nairobi.
6	Standard Chartered Bank Kenya Limited	P. O. Box 30003 – 00100, Nairobi	Standard Chartered Building-Westlands RoadChiromo Lane, Westlands, Nairobi.
7	NCBA Bank Kenya PLC	P. O. Box 44599-00100 Nairobi	NCBA Centre, Mara/Ragati Road, Upper Hill, Nairobi
TIER 2 BANKS			
1	Ecobank Kenya Limited	P. O Box 49584- 00100 Nairobi	Fortis Office Park – Off Waiyaki Way, Muthangari Drive, Nairobi.
2	Family Bank Limited	P. O. Box 74145-00200 Nairobi	Family Bank Towers, 6th Floor, Muindi Mbingu Street, Nairobi.
3	Bank of Africa Kenya Limited	P. O. Box 69562-00400 Nairobi	BOA House, Karuna Close, Off Waiyaki Way, Nairobi

4	Bank of Baroda (Kenya) Limited	P. O Box 30033 – 00100 Nairobi	Baroda House, 29 Koinange Street, Nairobi.
5	Bank of India	P. O. Box 30246 - 00100 Nairobi	Bank of India Building, Kenyatta Avenue, Nairobi.
6	Citibank N.A Kenya	P. O. Box 30711 - 00100 Nairobi	Citibank House, Upper Hill Road, Upper Hill, Nairobi.
7	Diamond Trust Bank Kenya Limited	P. O. Box 61711 – 00200, Nairobi	DTB Centre, Mombasa Road, Nairobi.
8	Guaranty Trust Bank (K) Ltd	P. O. Box 20613 – 00200, Nairobi	Sky Park Plaza, Woodvale Close, Westlands, Nairobi.
9	National Bank of Kenya Limited	P. O. Box 72866 - 00200 Nairobi	National Bank Building, 2nd Floor, Harambee Avenue, Nairobi.
10	Prime Bank Limited	P. O. Box 43825 – 00100, Nairobi	Prime Bank Building, Chiromo Lane/Riverside Drive-Junction, Westlands, Nairobi.
11	Stanbic Bank Kenya Limited	P. O. Box – 30550 - 00100 Nairobi	Stanbic Bank Centre, Westlands Road, Chiromo
	TIER 3 BANKS		
1	Consolidated Bank of Kenya Limited	P. O. Box 51133 - 00200, Nairobi	Consolidated Bank House, 6th Floor, Koinange Street, Nairobi.
2	Access Bank (Kenya) PLC	P. O. Box 34353 - 00100 Nairobi,	Transnational Plaza, City Hall Way, Nairobi
3	Credit Bank PLC	P. O. Box 61064-00200 Nairobi	14th Floor, One Africa Place, Waiyaki Way, Nairobi.
4	African Banking Corporation Limited	Postal Address: P.O Box 38610-00800, Nairobi	ABC Bank House, Woodvale Groove, Westlands, Nairobi.

5	Development Bank of Kenya Limited	P. O. Box 30483 - 00100, Nairobi	Finance House, 16th Floor, Loita Street, Nairobi
6	DIB Bank Kenya Limited	P.O Box 6450-00200, Nairobi	Upper Hill Building, Bunyala, Lowerhill Road
7	First Community Bank Limited	P. O. Box 26219-00100., Nairobi	Mezzanine 1, FCB Mirhab Building, Ring Road, Kilimani, Nairobi
8	Guardian Bank Limited	P. O. Box 67681 – 00200, Nairobi	Guardian Centre, Biashara Street, Nairobi.
9	Gulf African Bank Limited	P. O. Box 43683 – 00100, Nairobi	Geminia Insurance Plaza, Kilimanjaro Avenue, Upper Hill, Nairobi.
10	Habib Bank A.G Zurich	P. O. Box 30584 – 00100, Nairobi	Habib House, Koinange Street, Nairobi.
11	Kingdom Bank Limited	P. O. Box 22741 – 00400, Nairobi	Argwings Kodhek Road, Kilimani Nairobi.
12	Mayfair CIB Bank Limited	P.O Box 2051-00606, Sarit Centre, Nairobi, Kenya	KAM House, Mezzanine Floor, Opposite Westgate Mall, Mwanzi Road, Westlands
13	Middle East Bank (K) Limited	P. O. Box 47387 - 0100 Nairobi	Mebank Tower, Milimani Road, Milimani, Nairobi
14	M-Oriental Bank Limited	P.O BOX 44080-00100, Nairobi	Finance House, 7 Koinange Street, Nairobi
15	Paramount Bank Limited	P. O. Box 14001 -00800 Nairobi	Sound Plaza Building, 4th Floor, Woodvale Grove, Nairobi
16	SBM Bank Kenya Limited	P. O. Box 34886-00100 Nairobi	Riverside Mews, Riverside Drive, Nairobi
17	Sidian Bank Limited	P. O. Box 25363 – 00603, Nairobi	7th Floor K-Rep Centre, Wood Avenue, Kilimani, Nairobi.

18	Spire Bank Ltd	P. O. Box 52467-00200, Nairobi	Mwalimu Towers, Hill Lane, Upper Hill, Nairobi.
19	UBA Kenya Bank Limited	P. O. Box 34154 - 00100 Nairobi	Apollo Centre, 1st Floor, Ring Road / Vale Close, Westlands, Nairobi
20	Victoria Commercial Bank PLC	P. O. Box 41114 - 00100 Nairobi	Victoria Towers, Mezzanine Floor, Kilimanjaro Avenue, Upper Hill, Nairobi.

Strathmore UNIVERSITY

21st March 2023

Ms Mutai Dianah Chebet,
dianachebet.mutai@strathmore.edu

Dear Ms Mutai,

RE: Investigating the Effect of Board Characteristics on the Dividend Payout of Commercial Banks in Kenya

This is to inform you that SU-ISERC has reviewed and **approved** your above SU-masters research proposal. Your application reference number is **SU-ISERC1653/23.** The approval period is from **21st March 2023 to 20th March 2024.**

This approval is subject to compliance with the following requirements:

i. Only approved documents including (informed consents, study instruments, MTA) will be used
ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-ISERC.
iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-ISERC within 48 hours of notification
iv. Any changes, anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-ISERC within 48 hours
v. Clearance for export of biological specimens must be obtained from relevant institutions.
vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal.
vii. Submission of an executive summary report within 90 days upon completion of the study to SU-ISERC.

Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology, and Innovation (NACOSTI) https://research-portal.nacosti.go.ke/ and obtain other clearances needed.

Yours sincerely,

for: **Dr Ben Ngoye,**
Secretary; SU-ISERC

Cc: Mr Ambrose Rachier,
Chairperson; SU-ISERC

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This is to Certify that Miss.. Dianah Chebet Mutai of Strathmore University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: INVESTIGATING THE EFFECT OF BOARD CHARACTERISTICS ON THE DIVIDEND PAYOUT OF COMMERCIAL BANKS IN KENYA for the period ending : 05/April/2024.

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