Effect of Age Diversity on Dividend Policy in Kenya

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Abstract:
In the modern corporations owners embrace mechanisms like age diversity to mitigate against managers failures to act in their interests. The purpose of this study is to examine how age affects dividend policy among Kenyan firms listed on the Nairobi Securities Exchange. The study was guided by agency, signaling, resource dependency and power circulation theories. The research design used was explanatory where all firms listed on the NSE were examined. Document analysis was used to collect secondary data from annual reports of firms. Data was analyzed using descriptive statistics such as the mean, median, and standard deviation and multiple regression analysis was done to examine the effects between age diversity and dividend policy in annual reports. The study was expected to contribute new knowledge on the relationship between board diversity and dividend policy as moderated by chief executive officer power. The results of the study revealed that age diversity did not influence dividend policy. The correlation results showed that age diversity ($\beta = .005$, $p = .634$). The study recommends that policy makers need to ensure development of regulations to enhance board diversity among firms since board diversity brings about overwhelming benefits to corporate owners by minimizing agency problems related to free cash flows hence enhance payout to shareholder and reduce risk of misallocation of excess resources by firm managers. The study also recommends further studies to be carried out on the relationship between board diversity and dividend policy on privately owned, SME's, both listed and unlisted firms using similar study variables and a Longer period for the same study be considered to determine whether optimal results would be achieved.
Keywords: Age Diversity, Dividend, Policy, Resource dependency, power

INTRODUCTION
Majority of studies has focused on the relationship between demographic diversity with emphasis on gender against firm performance. The effect of board age diversity on firm performance is scanty in the literature (Randoy, *et al*., 2006; Carter, *et al*., 2010; Waelchi & Zeller, 2012). Their studies indicate that the average age of a board of directors was negatively related to corporate financial performances thus show that if the average age within the boardroom increases, the financial firm performances will decrease. The main driver behind the negative relation is the deterioration of cognitive abilities (Waelchi & Zeller, 2012). Huse and Rindova, (2001) argue that boards must represent different types of shareholders. The researchers indicate that directors age diversity assist in the process of creating different perspectives, views and consensus. It is further argued that a firm attracts customers in different age groups due to variety products and services hence in order to represent the spread of interests of customer due to age dispersion, boards need directors from different age groups to enhance a variety of perspectives. Serfling (2012) in his study on CEO age, underinvestment, and agency cost, argue that age of a CEO can have an important effect on corporate financial policy choices, firm performance and the existence of agency cost within a firm.

The research postulate that old CEO's have lower sales and income growth and earn lower adjusted stock returns. Serfling (2013) in another study of CEO age and riskiness of corporate policies indicates that a trading strategy that goes long in portfolio of stock consists firms managed by younger CEOs and short in portfolio of stocks comprising of firm led by elder CEOs would generate positive risk adjusted return. The researcher note that CEO age can have a significant impact on risk taking behavior and firm performance, Rhodes (2004) posit that executive functions are proven to aging effects. Gilpatrick (2000) state that boardroom are composed of middle to retirement aged members. According to Liickerath-Rovers (2010), Dutch listed firm represent middle and old board members resulting to lack of knowledge and skill from younger directors which certainly affect financial performance hence dividend policy. It is alluded that diversity in age result to contributions due to diverse skills, experience and knowledge from among the older board members which can be learnt by younger members. In this case skill, experience, and knowledge stay within the firm hence not lost when older directors retire. On the basis of the resource dependence theory, age diversity may contribute to enhanced dividend policy of the firm.

MATERIALS AND METHODS

Research Design

John *et al*. (2007) defined research design as a blueprint for fulfilling research objectives and answering research questions. It is a master plan specifying the methods and procedures for collecting and analyzing the needed information. This study adopted an explanatory research design. Explanatory study examines the causal relationship between variables with an aim to explain the relationship between the independent and dependent variables (Thornhill *et al.,* 2000 and Orodho, 2003). The explanatory research design was deemed appropriate since it enables the study to be carried out in a natural setting. The study was longitudinal survey in nature since data was collected for a period of 7 (seven) years from 2007 to 2013.

The Study Area

The Study was conducted in firms listed on the Nairobi Securities Exchange for the period ranging from 2007 to 2013. Allfirms listed at the NSE were targeted. The firms were categorized into; Agricultural, Automobile & Accessories, Commercial & Services, Construction & Allied, Energy & Petroleum, Insurance, Investments, Investment Services,Manufacturing & Allied, Telecommunication & Technology and Growth & Enterprise Market Segment. Firms listed on the NSE were targeted because it was easy to access their annual reports through the Capital Market Authority library for the purposes of data collection and analysis since they were actively traded and are also audited by independent auditors hence makes data more reliable.

Target Population

The study targeted all firms listed on the Nairobi Securities Exchange (NSE). Currently NSE has64 listed firms. The study examined the entire population of sixty four (64) firms from all the sectors as categorized by the Nairobi Securities Exchange among the investment segments. The number of firms in Agricultural, Automobile & Accessories, Banking, Commercial & Services, Construction & Allied, Energy &Petroleum, Insurance, Investments, Investment Services, Manufacturing & Allied, Telecommunication & Technology and Growth & Enterprise Market Segment.

Sampling Design and Procedure

The study employed census to select population of the study among the listed firms on the Nairobi Securities Exchange. The census refers to a survey that collects data from all members of a population, whether it's people or businesses (Sekaran, 2003). The census was employed since the population was small and to ensure that all members of the population has a chance to be studied. Due to the relatively small number of firms listed on the Nairobi Securities Exchange (64), all firms were considered for inclusion in the survey.

Purposive sampling was employed in order to achieve consistency in the study (Mugenda and Mugenda, 1999). At least 70% of firms in each of the sectors were represented in the survey.

Data Collection Method and Instruments

Content analysis technique was used to obtain data from annual reports of firms listed on the NSE between 2007 and 2013.Data from annual reports on both the independent and dependent variables as indicated on the conceptual framework was collected from all the firms chosen for the study. Document analysis guide was used to collect data on the indicators of age diversity and dividend policy. This was for the period of study ranging from 2007 to 2013. According to Oso and Onen (2005), document analysis is an instrument for collecting unobtrusive information. Document analysis was used since data to be collected are of secondary nature, which would enabled the researcher to collect data without interruption and it would save time.

Prior studies on board age diversity have measured age in terms of dispersion of age of all board members. Siciliano (1996) measured this variable by dividing ages of board members into five categories; under 20, 20-35, 36-50, and 51-65 and over 65. The data collected provided information in total percentages in each age category. The diversity scale was calculated as a percentage in each age category, the highest percentage of any sub-groupings is subtracted from 100 (a higher score representing greater diversity) hence multiplied by the total number of categories with any amount of representation (Siciliano, 1996). Other scholars have used the average age of the board for robustness check of results (Waelchli & Zeller, 2012; Carter et al., 2010; Marinova *et al.*, 2010). Mclntyre *et al*., (2007) measured board age diversity as a standard deviation of ages. In this study age diversity was measured in terms of the method used by Siciliano (1996) where dispersion of ages was considered and also the method adopted by Mclntyre *et al*., (2007) where standard deviation of ages was utilized.

Data Collection Procedures

The researcher carried out pre-test of the research instruments to ensure reliability. A sample of firms listed on the NSE was selected for this activity and any corrective measures executed in order to enable the instruments reliability for data collection. The research assistants were identified and briefed on the research process including data collection instruments while taking into consideration the ethical issues that may be likely to arise in the course of the data collection.

Data Analysis

The data was gathered from annual reports of the firms listed on the Nairobi Securities Exchange. The information elicited was presented quantitatively. The EViews 7 Statistical package was used to perform all the analysis for

the study. Descriptive statistics was performed for the independent and dependent variables of the study which are dividend policy, age diversity. This statistics are mean, median, and standard deviation. A correlation was also carried out between the study variables which are dividend policy and age diversity. Regression analysis was also carried out to determine the effect of age diversity on dividend policy. Fixed effect multiple regression analysis was performed using the following model:

$Y_{ij}=a_0+ \beta_4X_{4ij} +\varepsilon$

Where $Y_{ij} =$ Dividend policy

       $X_{4ij}=$ Age

       $a_0=$ A constant or the value of Y when all X values are Zero.

       $\varepsilon =$ The error term, normally distributed about a mean of 0.

Reliability of the Instruments

Reliability reflects the consistency that instruments demonstrate when applied repeatedly under similar conditions (Kerlinger 1983). Before actual data analysis the researcher will establish reliability of the research instruments. This was done using internal consistency technique. A sample of firms that qualify for the study from the study sample was taken for the test hence correlated among the study items for a similar period of research.

Validity of the Instruments

Concurrent validity of an instrument is demonstrated when an instrument is seen to predict the behaviour of subjects in the present and not in the future (Mugenda and Mugenda, 1999). To test validity of the instruments used in this study, a pilot study was conducted on firms listed on the Nairobi Securities Exchange for the period 2007 to 2013. This will give the position on past and future behaviour on dividend policy of firms listed on the NSE. Construct validity was attained since the study was for a period of seven years for all the sampled firms listed on the NSE. On the other hand, content validity was achieved by the identification of the indicators of gender, age, ethnicity and professional expertise as well as the indicators of dividend policy. This ensured that all the relevant information is captured to enhance validity.

ANALYSIS, PRESENTATIONS AND INTERPRETATIONS

Descriptive Statistics

Table: Descriptive Statistics

Variables	Dividend Policy	Age
Mean	1.200553	12.98534
Median	1.321756	13.69000
Maximum	3.295837	21.68000
Minimum	-0.798508	4.150000
Standard Deviation	0.728255	3.665280
Skewness	-0.367110	-0.431448
Critical ratio Skewness	-2.538993	-3.2621197
Kurtosis	2.910763	2.401154
Critical ratio Kurtosis	10.065658	9.0773996
Jarque-Bera	6.541708	15.76667
Probability	0.037974	0.000377
Sum	344.5586	4453.970
Sum Sq. Dev.	151.6818	4594.524
Observations	343	343

Source: Survey Data (2017)

     The dividend policy had the highest and lowest values of 3.295837 and -0.798508 respectively resulting to a range of 4.0943. On an average a firms paid dividend of 1.2 per share. The standard deviation indicated a variation of .73, the results hence shows that there was a high variation in dividend payout among the listed firms on the NSE. Age exhibited the highest and lowest scores of 21.68 and 4.15 resulting to a range of 17.53 with an average of 12.99 and a standard deviation of 3.665 which indicates a very high variation in ages of board of directors among companies listed on the NSE.

Correlation Results

Pearson correlation analysis was carried out to determine the correlation among study variables. The Pearson correlation between age and dividend policy (r = .009, p = .88) was positive and insignificant. These imply that age has little association with dividend policy among Kenya firms listed on the NSE. The Pearson correlation between age and corporate size (r = -.061, p = .264) was negative and insignificant, hence a negative common variability between the variables. The Pearson correlation between age and leverage (r = -.116, p = .032), professional expertise (r = -.125, p = .02) and gender (r = -.213, p = .000) were negative and significant. These postulates that the association between age and leverage, professional expertise and gender had common variability

of -.12, -.13 and -.21 respectively. The Pearson correlation between age and ethnicity (r = .149, p = .006) was positive and significant. These imply that there was a common variability .15 between the variables.

Normality Test

According to Gujarrati and Porter (2009) normality test must be exhibited before a study can proceed on with other regression tests like autocorrelation, multicollinearity and heteroscedasticity. Normality test confirms whether the error terms are normality distributed or not in the model. In this study the critical ratios of skewness and kurtosis highlighted in Table 4.1 on descriptive statistics was used to the normality assumption of the error terms on the regression model. The study found that on all the variables the skewness and kurtosis values were below the critical values of skewness and kurtosis respectively, therefore indicated that the data for the study was normally distributed (Hair *et al.*, 2006). The study also in Table 4.1 employed the Jarque-Bera statistics to test normality of the data whose results indicated existence of normality of the distribution since the Jarque-Bera Statistics for both the dependent and independent variables were large and significant. The central limit theorem also states that when a study sample size is more than 100 observations the data tends to be normally distributed (Gujarrati and Porter, 2009).This study had 343 firm year observation which indicates that the central limit theorem on normality of distribution was fulfilled hence this model is normally distributed.

There is no significant relationship between age diversity and dividend policy in Kenya.

The results of regressing age diversity to dividend policy which indicates that there is no significant relationship. This means that the null hypothesis (H_{o4}) which states that "there is no significant relationship between age diversity and dividend policy in Kenyan firms is accepted". This is because the results are not significant (β= -.022, p = .229) hence the alternative hypothesis (H_{a4}) that states that there is a significant relationship between age diversity and dividend policy in Kenyan firms is rejected. The beta is negative (-.022) which implies that firms with less age diverse boards have low dividend payout policy that could mitigate against free cash flow. The study is inconsistent with prior studies by Huse and Rindova (2001), who argue that age diversity assist in the process of creating different views, consensus and help in attracting of customers in different age groups hence as a result enhance variety of perspectives on the board. Serffling (2012) also posit that age of chief executive officer can have an important effect on corporate financial policy choices, firm performance and existence of agency costs within the organization.

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

Summary of the findings

The hypothesis that there is no significant relationship between age diversity and dividend policy in Kenyan firms was tested. Age diversity was found to be at very high mean of 12.99 with a minimum of 4.15 and maximum of 21.68. The study results posited an insignificant relationship between age diversity and dividend policy of firms in Kenya. The beta was negative (-.022) which indicated that firms with less diverse boards have low dividend payout policy that could mitigate against free cash flow in corporations. The study did not concur with the finding of Huse and Rindova (2001) and Serffling (2012) who found out that age diversity assist in the process of creating different views, consensus and help in attracting of customers in different age groups therefore enhance the perspectives on the board. In Kenya the negative results could be attributed to the fact that firms had not fully embraced the culture of appointing the youthful persons as directors to their board.

Conclusion

The study was grounded on agency, signaling, stakeholder and power circulation theories. According to the study findings, it was found that gender diversity was the most important variable in determining the relationship between board diversity and dividend policy decisions in Kenya. The outcome of the study concurred with the finding of Yi and Bod (2009), Soku, *et al.* (2017) and Jie *et al.* (2017) who postulated that gender diverse boards helps to mitigate against agency problem of free cash flow. The study findings therefore supported the agency, stakeholder and signaling theories of the study. Age diversity was found to be less diverse hence contribute to low dividend payout by firms in Kenya. The less diverse board is attributed to failure by firms not being able to embrace age diversity so as synergy in the board is enhanced.

Recommendations for Practice and Policy

In view of the findings and conclusions of the study posits that age diversity did not have any effect on dividend payout policy of the firms in Kenya contrary to prior study's findings by Huse and Rindova (2001) and Serffling (2012). The study therefore, recommends that the policy makers needs to ensure that regulations that enforce the Capital Market Authority Act are strengths to enable full implementation of the Capital Market Authority Act which has a provision on appointments of board that have diversity in relation to age. This would also enhance image of the firm through improved market segments particularly the youth.

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