Influence of Gender Diversity on Dividend Policy in Kenya

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Abstract
Management of corporations has been faced by challenges emerging from internal managers not being able to effectively offer stewardship. The organizations owners therefore have to improvise means of ensuring that their interests are protected. The purpose of this study is to gender and age influence dividend policy among Kenyan firms listed on the Nairobi Securities Exchange. In the recent past, most corporations in developing economies experience unstable dividend payment hence the need to determine whether board diversity can remedy the dividend payment situation prevailing. 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 gender diversity and dividend policy in annual reports. The study was expected to assist in defining the role of gender diversity on dividend policy in emerging economies as well as determining whether gender diversity would act as a remedy to dividend policy puzzle among corporations. The results of the study revealed that gender diversity had influence on dividend policy of firms. The correlation results showed that gender diversity (r=.254, p= .000) had positive relationship with dividend policy. The results also show that gender diversity was the most important factor that influences dividend policy decisions. The study recommends that policy makers need to ensure development of regulations to enhance gender diversity among firms since gender 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: Stewardship, Gender Diversity, Dividend, Policy, Resource dependency, policy puzzle

INTRODUCTION

Boards around the world are under increased pressure to appoint female directors (Adams & Ferreira (2009)). Some countries like Norway, UK, Sweden and Spain has made the appointment of female directors to boards of firms mandatory through legislation (Adams and Ferreira, (2009). According to Gul *et al*., (2011) board gender diversity would improve quality of board discussions and increase the ability of the board to provide better oversight of firm's disclosures and reports which facilitate more effective communication to investors. Current studies also postulate that female directors provide greater oversight and monitoring of managers actions and reports (Hillman *et al*.,2007, Adams and Ferreira, 2009) by promoting better board attendance, assuming monitoring positions on the audit, nominating, and corporate governance committees demanding greater accountability from managers for poor performance. Nielsen and Huse (2010) alludes that the ratio of female directors is positively related with board strategic control and indirectly to firms financial performance. They argue that women directors on boards result to decreased level of conflict. Since female directors would strongly strive to reach consensus in order to reduce agency problems.

Agrawal and Knoeber (2001), note that female directors with board position bring along different benefits and resource like collaborative skills which is emphasized in the resource dependence theory. The female directors therefore would contribute to the enhanced firm financial performance through effective contributions. Hillman *et al*.,(2002) and Peterson *et al*., (2007), argue that female directors may have different functions on the board. Majority of studies in both developed and emerging economies has examined the relationship between gender diversity and firm performance. Carter *et al*., (2010) in their study on gender and ethnic diversity of US boards and board committees and firm performance did not find a significant relationship between gender diversity of boards and financial performance of a sample of a major US corporation. The study also indicated that the relationship between gender diversity of the board and financial performance were endogenous. A study by Sinikka, *et al*., (2009) on the boardroom gender paradox revealed two discourses in the talk of female board professionalism are the discourse of competence and the discourse of gender, which could both be casually

drawn on by the same individual as the interview unfolded. Yi and Bob (2009) investigated the "business case" for board diversity where they noted that gender diversity did not have significant influence on performance. Toyah and Trian (2009) examined the relationship between demographic diversity in the boardroom and firm performance where they found a positive relationship between board gender diversity and innovation. In a study by Marinova, *et al*., (2010) that examined the relationship between board gender diversity on firm performance, based on evidence from Netherlands and Denmark, they did not find an effect of board gender diversity on firm performance within both countries. Dividend policy is posited as an element of firm performance hence this study seeks to establish whether dividend policy would have any relationship with gender diversity of firms.

MATERIALS AND METHODS

Research Design

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 study purpose was to establish the moderating role of CEO power on the relationship between board diversity and dividend policy in Kenyan firms. 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. Longitudinal survey studies are carried out over a period of time. In this study all the entire population of firm listed on the Nairobi Securities Exchange were examined for data collection.

The Study Area

The Study was conducted in firms listed on the Nairobi Securities Exchange for the period ranging from 2007 to 2013. All firms 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 isexamined the entire population of sixty four (64) firms from all the sectors as categorized by the Nairobi Securities Exchange among the investment segments, that is, Agricultural, Automobile & Accessories, Commercial & Services, Construction & Allied, Energy & Petroleum, Insurance, Investments, 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 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. The researcher applied purposive sampling technique to determine the study sample since only firms listed on the NSE for the entire period between 2007 and 2013 were included in the study. Purposive sampling was employed in order to achieve consistency in the study (Mugenda and Mugenda, 1999). The list of Companies contained in the NSE market fact file – 2007 was used.

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. The researcher obtained an introductory letter to the Capital Market Authority library from Moi University School of Business and Economics and research certificate from the National Commission for Science, Technology and Innovation. This enabled the researcher to access information at CMA library since some firm's websites are not updated by all the annual reports. Document analysis guide was used to collect data on the indicators of gender diversity CEO power and dividend policy. This was for the period of study ranging from 2007 to 2013.

Board gender diversity have been measured by scholars in different ways; Adams & Ferreira (2009), Gul *et al*., (2011), Carter *et al*., (2003), Marinova *et al*., (2010), and Rose (2007) measured board gender diversity as a percentage of women in the board of directors by dividing the number of women in the board of directors by the total number of directors in the board.

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. An introductory letter was obtained from Moi University School of Business and

Economics to Capital Market Authority. This enabled accessibility of the study data.

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. The researcher coordinated, monitored and gave guidance to the research assistants during the data collection process. All the research instruments were returned and checked for completeness to ensure all the requisite data were collected before the data coding hence analysis.

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, gender diversity. This statistics are mean, median, and standard deviation. Correlations were also carried out between the study variables which are dividend policy and gender diversity in order to determine their degree of association. Regression analysis was also carried out to determine the effect of gender diversity on dividend policy. Fixed effect multiple regression analysis was performed using the following model:

$$Y_{ij} = a_0 + + \beta_3 X_{3ij} + \varepsilon$$

Where Y_{ij} =　　　Dividend policy

　　　X_{3ij} =　　　Gender

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

　　　ε =　　　The error term, normally distributed about a mean of 0.

Reliability and Validity of the Instruments
Reliability

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 Test

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
Sample characteristics

The study examined annual reports and financial statements of 64 firms listed on the NSE in all the sectors from 2007 to 2013. The study required that all the firms must have been listed for the entire period of the research and all the annual reports and financial statements must have been available for the seven year period of the study. This ensured that all the companies were accorded equal opportunity for inclusion in the study so as to achieve the objectives of the research. This procedure resulted to a sample of 49 firms being included in the study representing 77% of the companies listed on the NSE.

Descriptive Statistics

Table : Descriptive Statistics

Variables	Dividend Policy	Gender
Mean	1.200553	-1.763782
Median	1.321756	-1.802269
Maximum	3.295837	-0.693147
Minimum	-0.798508	-2.659260
Standard Deviation	0.728255	0.471288
Skewness	-0.367110	0.209814
Critical ratio Skewness	-2.538993	1.4022525
Kurtosis	2.910763	2.243910
Critical ratio Kurtosis	10.065658	7.49838
Jarque-Bera	6.541708	8.349997
Probability	0.037974	0.015375
Sum	344.5586	-472.6935
Sum Sq. Dev.	151.6818	59.30408
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. Gender had the highest and lowest score of -0.693 and -2.659 respectively resulting to a range of 1.966 with a mean of -1.76 and a standard deviation of .47 postulating a moderate variation in gender diversity among firm listed on the NSE.

Correlation Results

Pearson correlation analysis was carried out to determine the correlation among study variables.

The Pearson correlation between gender and dividend policy was positive (r = .254, p = .000) and significant. These implies gender was an important factor in influencing dividend policy among Kenyan firms listed on the NSE. The Pearson correlation between gender and corporate size (r = .122, p = .046) and ethnicity (r = .141, p = .021) were positive and significant. These indicate that gender and corporate size and ethnicity have common variability of .12 and .14 respectively. The Pearson correlation between gender and leverage (r = -.06, p = .327), professional expertise (r = -.048, p = .438) and CEO power (r = -.059, p = .339) were negative and insignificant. These implies that there was common negative variability between gender and leverage, professional expertise and CEO power of -.06, -.05 and -.06 respectively. The Pearson correlation between gender and age was negative (r = -.213, p = .000) and significant. These indicate that there was a negative common variability between the variables of -.213.

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.

Hypothesis Testing

The study tested various hypotheses where the independent variables were regressed against the dependent variable (dividend policy). The study utilized the *F*– Statistic to test the significance of the regression models (Hair, *et al*., 2006). According to the study, the results indicate that all the *F* – Statistics were significant postulating that all the variables as a group in the each regression models significantly explained the changes in dividend policy (p-value < .1). The Durbin-Watson D statistics also indicated that the error terms for all the

models were independent since the statistics were between 1.5 and 2.5 (Aga and Safakli, 2007 & Vogt and Johnson, 2011).

The study utilized the t – statistics to test the hypotheses in determining the significance of the parameters at the ten percent level of significance using the following test mode; $H_0:\beta_j= 0$ and $H_{a \neq} 0$, H_0 being rejected if $\beta_{j \neq} 0$; p – value ≤ 0.1. In the study before the hypothesis testing was carried out, the control variables (corporate size and leverage) were regressed against the dependent variable (dividend policy). This was carried out in model 1 (one) and the results indicated that corporate size and leverage were both significant ($\beta = 0.518$, p – value = 0.0002 and $\beta = 0.369$, p – value = 0.0156) respectively. The results show that large firms make better dividend policy decision hence there are high chances of larger firms paying dividend to the shareholders than small firms. This is consistent with a study carried by Koch & McGrath (1996) which found out that large firms are expected to have a positive impact on the firm's board diversity and dividend policy decisions. Leverage on the other hand show that high risk firm are likely to pay low dividends or not able to pay any dividends since financial debt of the firm increases the costs of operations. The results were consistent with a study by Jared (2012) who established that companies suffering from high debts are not able increase profitability which leads to decrease in dividend per share.

There is no significant relationship between gender diversity and dividend policy in Kenya.
The results of the Ho$_3$: There is no significant relationship between gender diversity and dividend policy in Kenya are shown in Table 4.7. The results indicate that null hypotheses (Ho$_3$) is rejected, that is not supported by the results of the study. The outcomes of the relationship between gender diversity and dividend policy were significant in model 3 (three) and 4 (four) ($\beta = -.349$, $p = .0308$ and $\beta = -.339$, $p = .065$) respectively although the beta's were negative which implied that as gender imbalance reduces the dividend payout increases among firms in Kenya. This results are consistent with the prior studies by Yi and Bob (2009), Soku, *et al.* (2017), and Jie *et al.* (2017) who found that firms with diverse boards have significant impact on dividend payout policy. The studies further allude that diverse boards helps to mitigate greater agency problem of free cash flow. On the other hand Narosha and Stuart (2013) in their study on women on the board, firm financial performance and agency costs was found to have a significant negative relationship between the proportion of women on the boards and firm value along with an increase in agency cost.

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS
Summary of the findings
The third hypothesis that there is no significant relationship between gender diversity and dividend policy in Kenyan firms. The study posted a mean of -1.76 with minimum of -2.66 and maximum of -.69 among Kenyan firms. The study results indicates that there was a significant relationship between board gender diversity and dividend policy in Kenyan firms. The study outcome were consistent with prior studies by Yi and Bob (2009), Narosha and Stuart (2013), Soku, *et al.* (2017) and Jie *et al.* (2017) which found a significant relationship between board gender diversity and dividend payout policy of firms hence helping in mitigation of the agency problems of companies.
Conclusion
This study investigated the moderating role of chief executive officer power on the relationship between board diversity and dividend policy in Kenya. 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.

Ethnic diversity was found to decrease dividend payout decisions. These could be attributed to Kenyan firm's slowness in impressing adoption of inclusion of people from other ethnic backgrounds on the boards. 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. Chief executive officer power was found to affect the relationship between ethnic diversity, gender diversity and dividend policy of firms in Kenya positively. These implies that chief executive officers use their power and authority to influence the relationships on ethnic diversity and gender diversity which contributes to better returns to the stakeholders/shareholders of firms in Kenya. The outcomes therefore supported the power circulation and resource dependency theories as alluded to by Pareto (1968), Ocasio (1994), Ocasio & Kim (1999) and Agrawal & Knoeber (2001).
Recommendations for Practice and Policy
In view of the findings and conclusions of the study the following recommendations were made;
The study therefore, recommends that the policy makers needs to come up with regulations that will make

all firms listed on the Nairobi Securities Exchange ensure gender diversity in there board since this will contribute to enhancement of shareholder returns. The study further recommends that Capital Market Authority and Nairobi Securities Exchange comes up with regulations to fully enforce the Capital Market Authority Act which has a provision on appointment of board members with diverse professional expertise to enhance compliance with the law. The shareholders stand to benefit from diverse professional expertise due to contributions that would add value to the posterity of the firm hence high returns to the company owners.

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