



## **Corporate Governance, Dividend Policy And Performance. Special Reference To Banks Listed On Nairobi Security Exchange Kenya**

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***Abstract:***

*This paper captures aspects regarding relationships between corporate governance, dividend policy and performance of banks listed on Nairobi security exchange for 5 year period from 2007-2011. Apart from the available researches which mainly show relationships of two aspects, the present study focuses on the relationship of three aspects of banks which interlink from stakeholders perspective and can cause economic decline or success. This paper finds that dividend yield for banks listed on NSE as proxy of dividend policy is significant and positively correlated to business risk and growth opportunities GO thus tend to follow signaling hypothesis, also positively correlated to CEO duality but negative and significant to board independence as corporate governance proxies. Return on assets ROA as a performance indicator is positively correlated to board size (number of directors) and is significant.*

***Key words:*** corporate governance, dividend yield, signaling hypothesis.

## **1.Introduction**

Corporate governance has attracted great interest over the past decade. The widely held view that corporate governance practices has an impact on the firm's value and performance has led to increasing global attention. Kenya a developing economy is not immune to these developments.

Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. It provides the structure through which the objectives of the company are set, means of attaining those objectives and monitoring performance. It should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and facilitate effective monitoring. The presence of an effective corporate governance system helps to provide a degree of confidence that is necessary for the proper functioning of a market economy.(OECD principles 2004)

Commercial banks in Kenya are licensed and regulated in pursuant of the banking act cap 491. Much supervision is paid to them when conducting offsite and on site surveillance to ensure that they are in compliance with laws, regulations and ultra-vies acts are not done.

Firms registered on the Nairobi securities exchange are regulated by the companies act cap 486 of the laws of Kenya. Banks are unique as addition to the above the central bank of Kenya act cap 491 also oversees there licensing and licensing procedure. The central bank of Kenya gets involved in the activities of the commercial banks in order to protect the interest of the investors, clients' money and ensuring sanity in the industry e.g.regulation of interest rates, levels of credit of specified banks, setting monetary policies and foreign exchange dealings control. (Central bank of Kenya act cap 491)

Other pieces of legislation that guide banks are:the constitution of Kenya 2010, the banking act chapter 488 1<sup>st</sup>Jan 2013, the national payment system act 2011. As part of the CBK monitoring commercial banks its memorandum to banks requires that independent directors should constitute not less than one third (1/3) of the total members of the board, from the previous 50% or more with from 2013.The independent directors are expected to provide checks and balances in the boards. CBK defines an independent director as a board member who is not a direct or indirect representative of the principal shareholders, has not worked in the bank as an executive for the past five years, and has not had any business relationships with the institution in the same period.

The data used was from the following banks which were listed, Barclays bank of Kenya, CFC stanbic, Cooperative bank of Kenya, diamond trust bank, Equity bank, housing finance company limited, Kenya commercial bank, National bank of Kenya limited and Nic bank limited.

## **2. Research objective**

- To determine the impact of performance on dividend policy of banks listed on NSE.
- To determine the relationship between corporate governance and dividend policy for firms listed on NSE.
- To determine the impact of corporate governance practices on performance of banks listed on NSE.

## **3. Research Question**

- Does performance of banks listed on NSE have an impact dividend policy?
- Is there any relationship between corporate governance and dividend policy of banks listed on NSE?
- Do corporate governance practices for banks listed on NSE affect their performance?

### *3.1. Theoretical Framework -Dividend Theories*

#### 3.1.1. Dividend Irrelevant Policy

It was developed by Franco Modiglian and Merton Miller (MM) in their seminal paper in 1961. MM argued that the value of a firm is determined by its earning power and business risk and not by dividend payment. Thus dividend policy has no effect on the price of the firms stock or its cost of capital hence its value.

#### 3.1.2. Dividend Relevant Theory

Proponents Gordon and Walter argued that dividend policy affects value of a firm. Thus a change in dividend payout will bring about a change in market value of a firm. hence there must be an optimum payout ratio. ie one that gives maximum market price. (Pandey 2005)

### 3.1.3. Transaction Cost Theory

Transaction Cost' is an important theory which was initiated by Rozeff 1982 who assumed that if high dividend is paid then the agency cost incurred would be lowered. However, he added that if the company paid high dividends, then the transaction cost would be increased. Transaction cost theory indicates that firms incurring large transaction costs will be required to reduce dividend payouts to avoid the costs of external financing. (Al-Kuwari 2009)

### 3.1.4. Signaling Hypothesis

The hypothesis assumes that dividends function as a signal of expected cash flows. Despite the tax disadvantage of paying dividends, management still go ahead to pay dividends to send a positive signal about the firm's future prospects.

Miller and Rock 1985 as sighted in (Elisabet 2005) developed the signaling theory classical model which indicated that dividend will act as a signal of the firm future prospects and expected cash flows under imperfect information. This creates a gap between managers and investors as per the information they access to. Hence they use dividend as a tool to convey private information to shareholders

### 3.1.5. Clientele Effect Theory

Different pattern of dividend payment will be preferred by different investors this can be referred to as Clientele effects. The old investors would prefer firms that pay cash dividend to those that retain the funds leading to capital appreciation. While high income stockholders would prefer stock dividend and capital appreciation of their investments to cash dividends so as to minimize tax effect (Ahmad H.& Carlos J. 2008)

### 3.1.6. Agency Theory

Managers view dividends as a tool to reduce agency costs In agency problem the shareholder is the principal while the manager is the agent whose duty is to maximize firm value and returns to the shareholders, agency problem arises when managers' and shareholders' interests are not harmonized It may arise due the manager not acting in the interest of the shareholders, for example, the manager may award themselves perks which the shareholders considers unreasonable or investing in projects which do not increase shareholders value. Hence the cost of monitoring the managers is referred to as the agency costs. (Al-Kuwari 2009)

### 3.1.7. Catering Theory

The theory was developed by Baker and Wurgler (2004) in their seminal work catering theory of dividends. (Chikashi 2010). This theory assumes relaxation of MM assumptions that market are inefficient and their exist imperfections. Thus the managers decide on amount and availability of dividend by catering to investors demand for dividends.

## **4. Empirical Studies**

### *4.1. Corporate Governance And Performance*

Rajendran K. (2012) researched on Corporate Governance Practices and Its Impact on firm Performance with special reference to listed banking institutions in Sri Lanka. The results showed that overall, the correlations were low. But there are a number of statistically significant relationships. There was a significant relationship between corporate governance dimensions as composition of board, board committee, board size, board meeting, and firm performance.

Velampy T.(2013) in his research on corporate Governance and firm performance based on SriLankan manufacturing companies the results of the correlation showed that the determinants of corporate governance were not significantly correlated with ROE and ROA as the measures of firm performance. It meant companies do not properly practice corporate governance. The coefficient for all four variables board size, board committee, board structure, and board meeting were not significant. Further t values for all four variables of corporate governance are insignificant at 5% level. It means that these variables are not contributing to the performance measures of ROA and ROE.

Ahmadu S, Aminu S. & Tukur G.(2005) in there research corporate governance mechanisms and firm financial performance in Nigeria The results showed that the coefficient estimate directors shareholding was significant (at 10%), although exhibiting a linear relationship; CEO duality had a negative and significant coefficient estimate; outside directors showed a significant and positive relationship with performance. Interestingly, debt turns out to be significant and positively associated with performance.

### *4.2. Dividend And Performance*

Samuel K.& Edward M.(2011) researched on dividend policy and bank performance in Ghana the results showed that dividend payout had a positive relationship with firm performance and this was significant at 2%. Banks that pay dividend increase their

profitability. This means that as management pay outdividend, they tend to send out good signals about the bank's performance and therefore attracting more customers to deal with. When available resources of banks are reduced by the payment of dividend, it can also reduce agency cost between managers and owners thereby increasing their performance. Risk increases the performance of banks in Ghana. Although the size of a bank was found to be positively related to bank performance, the results were not significant. Growth in bank assets did not only influence bank performance positively but also significantly. It appears strongly that as banks grow their asset base, they are able to use the resources to generate more economic benefits

#### *4.3. Corporate Governance And Dividend Policy*

Oskar K. & Ivan S. (2007). In their research corporate governance and dividend policy in Poland the results in all the regressions showed that the transparency disclosure index TDI and each individual TDI sub-index is statistically significant at the 1%, 5%, or 10% level. The strongest results are for the TDI sub-indices Board, Disclosure and Shareholder. The coefficient of 0.86 on sub-index TDI Disclosure, implying that the improvement in corporate governance practice concerning disclosure in the years 1998-2004 by 1 point predicts a 0.86 points increase of dividends-to-cash flow ratio

Fariba M. (2013) In their empirical investigation on the effects of asymmetric information and growth opportunities on dividend policies: A case study of private Iranian banks The study used regression analysis to study the effects of various factors where dividend distribution policy was considered as a function of four independent variables namely spread, bank size, growth opportunity and cash flow. The results of the survey indicate that there are some positive and meaningful relationships between growth opportunity and dividend pay (0.003308), between bank size and dividend pay (0.019497) and between bank size and dividend pay (0.168821)

Norazlan A. Ruzita A. Fauzias M. & Mohd. H. (2012) in their research on board structure, capital structure and dividend per share the direct effect results reveal that increases in debt ratio, larger board size and the presence of duality role have significant negative effects on dividend payment while larger number of independent directors has significant positive effect on dividend payment. Meanwhile, the interaction between board structure and capital structure reveals that duality existence has weakened the negative effect of debt ratio on dividend payment while larger number independent directors has strengthened the negative effect of debt ratio on dividend payment. These findings imply that having the

same person as Chairman and CEO or duality allows a person to have greater understanding and knowledge of firm.

### 5. Research Frame Work

The graphic below illustrate the research frame work used in this research

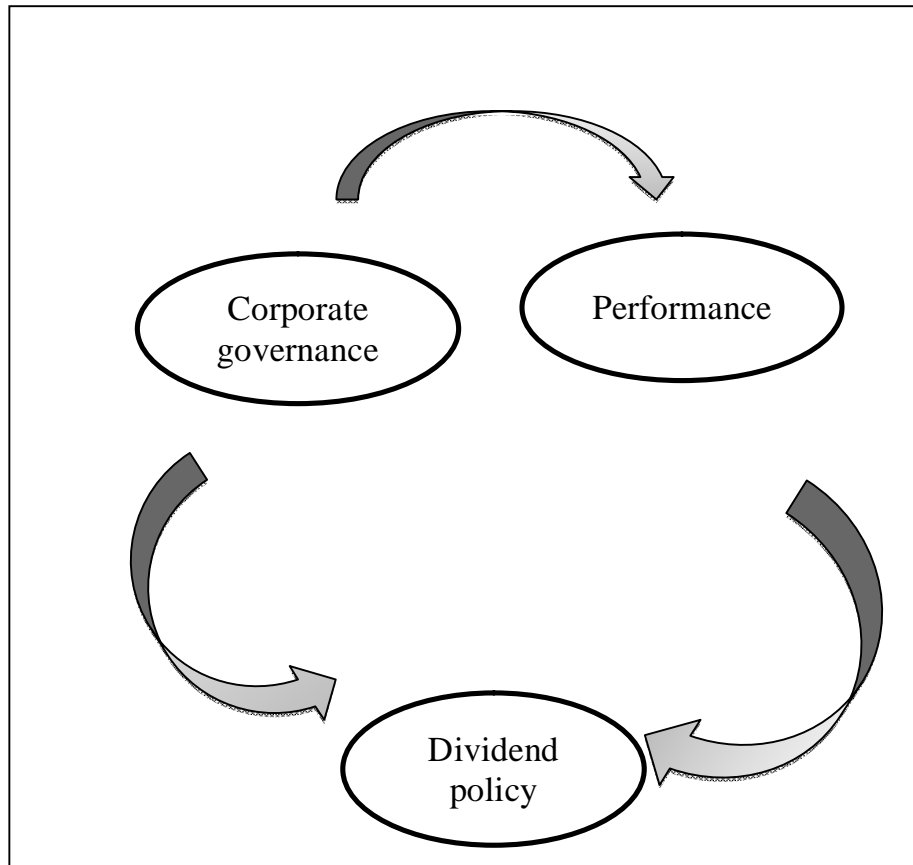


Figure 1

### 5. Research Methodology

#### 5.1. Introduction

This chapter highlights the research design that the researcher used, the population from which the sample was chosen thus banks listed on Nairobi Securities Exchange, sampling frame and technique applied, data collection and analysis method that was run on the data collected.

### 5.2. Research Design and sample selection

The study was empirical research where secondary data from Nairobi Securities Exchange website and companies' website where annual reports for banks listed on NSE was published. Audited financial statements, cash flow statement, and statement of change in equity for the companies selected was used; thus increasing the reliability and validity of the findings and conclusion. Annual reports from the chairman or chief executive officer for various banks were vital in relaying information about corporate governance issues.

The population of banks listed on the NSE is 10 and all the banks were used in the study as the data for all the banks were available. The banks used in the study include: Barclays Bank of Kenya Limited, Cfc Stanbic Bank, Cooperative Bank Of Kenya , Diamond Trust Bank (Kenya) Limited, Equity Bank Limited, Housing Finance Company Limited, Kenya Commercial Bank Limited, National Bank Of Kenya Limited, Nic Bank Limited and Standard Chartered Bank Kenya Limited

#### Corporate governance measures

Variable	Measure	Symbol
Board independence	Ratio of number of non-executive directors to total number of directors	BI
Board size	Number of directors	BS
Ownership concentration	Ratio of stock held by large shareholding with more than 2%	OWC
CEO Duality	Dummy variable taking a value of 0 for firms with CEO as chairman otherwise 1	CEO
Board meetings	Number of board meetings per year	MT
Institutional share ratio	Ratio of stock held by institutions	ISR

#### Dividend policy proxy

Variable	Measure	Symbol
Dividend yield	<u>Dividend per share</u> Market price per share	DY



Performance measures

Variable	Measure	Symbol
Return on assets	<u>Earnings before interest and tax</u>	ROA
Growth	Total assets <u>Market price per share</u> Book price per share	GO
Control Variables		
Total debt to asset ratio	<u>Total debt</u> Total assets	TDA
Risk	Standard deviation of earnings before interest and tax EBIT	Risk
Age	The of age of the bank	AGE

Table 1: Variables

## 6. Regression Equations

### 6.1. Model 1 Dividend Policy And Performance

$$YDY = \alpha + \beta_1 GO + \beta_2 ROA + \beta_3 TDA + \beta_4 RISK + e$$

Where YDY Dividend yield taken as dependent variable, independent variables are GO growth and ROA return on assets while TDA total debts and risk as control variables.  $\beta_1 \beta_2 \beta_3 \beta_4$  are regression coefficient  $\alpha$  is a constant and e is the error term

### 6.2. Model 2 Corporate Governance And Dividends Policy

$$YDY = \alpha + \beta_1 BI + \beta_2 BS + \beta_3 OWC + \beta_4 CEO + \beta_5 RISK + \beta_6 MT + e$$

Where DY Dividend yield taken as dependent variable. Independent variables are BI board independence. BS board size, Risk is business risk OWC ownership concentration CEO duality and MT board meetings per year as independent variables.  $\beta_1 \beta_2 \beta_3 \beta_4 \beta_5 \beta_6 \beta_7$  are regression coefficient  $\alpha$  is a constant and e is the error term.

### 6.3. Model 3 Corporate Governance And Performance

$$YROA = \alpha + \beta_1 BI + \beta_2 BS + \beta_3 ISR + \beta_4 OWC + \beta_5 CEO + \beta_6 AGE + \beta_7 MT + e$$

Where ROA Return on assets taken as dependent variable. Independent variables are BI board independence. BS board size, ISR institutional share ratio, OWC ownership concentration, CEO duality, AGE the age of the bank and MT board meetings per year as independent variables  $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7$  are regression coefficient  $\alpha$  is a constant and  $e$  is the error term

## 7. Data Analysis And Discussions

In this research, the researcher applied both descriptive analysis and inferential analysis. Under descriptive the mean, mode, median, kurtosis and skewness were used to analyze the data. Data correlation technique was used and regression equation was used to run dependent variables capital structure proxies against independent variables corporate governance proxies.

Variable statistic	Min	Max	Mean	SD	Skewness		Kurtosis	
					Statistic error	Statistic error	Statistic error	Statistic error
Dividend yield	.00	11.49	2.9868	2.3176	.9296	.687	.5042	1.334
Return on assets	.06	.079	.0392	.0156	-.142	.687	.4422	1.334
Growth opportunity	.00	6.11	2.2116	1.0601	-.0532	.687	-6.6862	1.334
Total debts to asset	.72	6.81	1.3496	1.6248	3.158	.687	9.9794	1.334
Board size	7.0	14.0	10.9	2.0249	-.032	.687	1.088	1.334
Age	2.0	40	19.6	13.384	.210	.687	-.827	1.334
Institutional share ratio	25.23	82.25	58.00	18.1826	-.514	.687	-.669	1.334
Ownership concentration	31.46	82.25	59.059	16.1766	-.251	.687	1.334	1.334
Business risk	343735.3	12013000	2745357	3540094	2.372	.687	6.053	1.334
Board independence	.4	.93	.667	.1590	.364	.687	-1.004	1.334
Board meetings	4.0	23.0	8.3	6.3779	1.916	.687	2.7	1.334
CEO duality	.00	1.0	.30	.4831	1.035	.687	-1.224	1.334

Table 2: Descriptive statistics  
Source spss

### 7.1. Analysis Of The Descriptive Statistics

From table 2 above it can be noted that growth opportunities for banks listed on Nairobi securities exchange have a minimum value of zero and a maximum of 6.11 and a mean value of 2.2116. indicates that Kenyan banks listed on the NSE by considering inflation rate have a good performance and the fact growth (2.2116) greater than 1. This indicates that the share prices of the banks on the NSE are overvalued. Board size has a minimum value of 7 directors on the board and a maximum of 14 directors and a mean of 10.9 directors. Board of independence shows that banks have a mean of 66.7% on non-executive directors on board this is as per directive from central bank of Kenya where they directs banks to not less than 50% of non-executive directors. 30% of banks on Nairobi securities exchange have the CEO also as the chairman of the board. Dividend yield has a mean of 2.98. while ROA has a mean of 0.0398

### 7.2. Results For Performance And Dividend Policy

	RISK	GO	ROA	TDA	DY
RISK	1				
GO	.831** (.003)	1			
ROA	.773 (.009)	.733* (.016)	1		
TDA	-.325 (.360)	-.255 (.477)	-.012 (.973)	1	
DY	.644* (.044)	.830* (.003)	.372 (.290)	-.384 (.324)	1

Correlation Table 3a: performance and dividend policy

Source spss

\*\* Correlation is significant at the 0.01 level (2 tailed)

\*correlation is significant at the 0.01 level( 2 tailed)

From the correlation table 3a above it and shows that dividend yield DY as a proxy of dividend policy is positively correlated with risk taken as standard deviation of earnings

before interest and tax (IBIT) 0.644\* and its significant at 95% confidence level p value < 0.05. This implies that when banks get involved in risky business stock holders higher dividends to hedge them from risk. Thus risk and dividend yield move in the same direction this is consistent with (Samuel K.& Edward M. 2011).

Dividend yield is also positively correlated with growth of banks GO listed on NSE test statistic 0.840\* p value <0.05. This is consistent with (Fariba M. 2013). When a bank pays higher dividend it relays information on the market of good future prospects. This leads to increase in stock prices as many outside investors would rush to purchase stock of the bank increasing their demand. This follows signaling hypothesis and dividend relevant theory as the value of the firm increases when higher dividend is paid.

Dividend yield is positively correlated with return on assets ROA as a proxy for performance though not significant but negatively correlated to total debts to asset ratio and insignificant. This implies that the higher returns on assets signifies higher dividend yield and if the total debts to assets ratio is high dividend yield will be low. This could be due to restrictive covenants given by lenders of loans and the central bank of Kenya CBK that limits increase in dividends making dividends yield and TDA to move in opposite direction.

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig	Collinearity Statistics	
	B	Std.ER	Beta			Tolerance	VIF
1	3.733	10.325	-	.362	.732		
(constant)	.321	.995	.133	.323	.760	.216	4.260
RISK	1.213	.388	1.116	3.129	.026	.287	3.487
GO	-.410	.254	-.550	-1.614	.167	.314	3.182
ROA	-.056	.446	-.028	-.126	.905	.748	1.337
TDA							

*Table 3b: performance and dividend policy*

*Source spss*

Model	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	Std error	F	Sig f	Durbin Watson
	.904	.817	.671	2.0964	5.599	.043	.510

*Table 3c: Model summary performance and dividend policy*

*Source spss*

From the regression table 3b and 3c model summary above multi-collinearity problem can be tested using two variables, the variance inflation factor VIF or tolerance test. Using tolerance test all the values are less than 1 showing that there is no multi-collinearity problem and also when it's based on VIF the rule of the thumb agreed by many researchers is multi-collinearity problem arises when VIF values are greater than 10. All the values are less than 10 then there is no multi-collinearity problem (Besley1980 ) as sighted in (Jingyu Li 2003 )Durbin Watson test the autocorrelation. If the value is less than 3 then there is no auto correlation problem. All values of Durbin Watson are less than 3.

The F value is 5.599\*( p value < 0.05) is significant at 95% confidence level , showing the applicability of the overall model. The value of R square is .817 this implies that the independent variables in this model can explain 81.7% of variance in the dependent variable dividend yield DY while the remaining 18.3% can be attributed by other factors which are not studied, because they are outside the scope of the study.

The final equation will be

$$YDY = 3.733 + 1.213GO - .410ROA - .056TDA + .321RISK$$

## 7.3.Results For Corporate Governance And Dividend Policy

	BI	BS	OWC	MTRISK	CEODY	
BI	1					
BS	.329	1				
	(.353)					
OWC	.226	-.084	1			
	(.530)	(.818)				
MT	.023	.201	-.096	1		
	(.951)	(.577)	(.791)			
RISK	-.172	.627	-.140	-.056	1	
	(.634)	(.052)	(.700)	(.878)		
CEO	-.464	.235	-.321	.070	.686	1
	(.196)	(.513)	(.366)	(.848)	(.021)	
DY	-.695*	-.140	-.146	.111	.644*	.679*1
	(.026)	(.700)	(.687)	(.687)	(.044)	(.031)

Table 4a: corporate governance and dividends policy

\*\* Correlation is significant at the 0.01 level (2 tailed)

\*correlation is significant at the 0.01 level( 2 tailed)

From the correlation table 4a Dividend yield is negatively correlated to board independence (-0.695\* p value <0.05) and significant at 95% confidence level. Thus as the proportion of non-executive directors increase dividend yield will have to decrease. Dividend yield is positively correlated to CEO duality test statistic 0.679\* p value is < 0.05 which indicate that it is significant at 95% confidence level. Thus as the CEO takes up doubles up as the chairman of the bank then the dividend yield of the bank will increase this could be due to the consolidation of authority giving the chairman to push for higher dividend yield and allows a person to have greater understanding and knowledge of firm

.Risk taken as a control variable is positively correlated to dividend yield test statistic 0.644\*( p value is< 0.05) it is significant at 95% confidence level. Banks listed on Nairobi securities exchange dividend yield rises as the bank engage in risky business this could be to hedge the shareholders against the risk.

Dividend yield is negatively correlated with board size and ownership concentration but its weak and not significant. Thus these two variables of corporate governance and dividend yield move in opposite direction. The number of meetings MT as corporate governance proxy is positively correlated to dividend yield though not significant.

Model	Unstandardized Coefficient		Standardized Coefficients	T	Sig	Collinearity Statistics	
	B	Std. E	Beta			Tolerance	VIF
1 (constant)	12.094	1.738	-	6.957	.006		
BI	-.671	.337	-.274	-1.994	.140	.558	1.793
BS	-2.321	.554	-.745	-4.189	.025	.334	2.998
OWC	.024	.258	.010	.094	.931	.853	1.173
MT	.299	.315	.108	.950	.412	.820	1.220
RISK	2.619	.508	1.081	5.153	.014	.240	4.167
CEO	-.102	1.290	-.017	.079	.942	.364	2.746

Table 4b: Corporate governance and dividend policy

Model	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	Std error	F	Sig f	Durbin Watson
	.984	.968	.905	1.12749	15.285	.024	2.413

Table 4c: Model summary corporate governance and dividends policy

From the table 4b and 4c above there is no mult-collinearity problem as all the VIF values are less than 10 which is acceptable by many researchers as a rule of rule of the thumb. Also there is no auto-correlation problem in the regression model used as the Durbin Watson rule of value 2.413 is less than 3 which is thumb for many researchers if auto –correlation problem exist.

The F value is 15.285\*( p value < 0.05) is significant at 95% confidence level , showing the applicability of the overall model.The value of R square is .968 this implies that the independent variables in this model can explain 96.8% of variance in the dependent variable dividend yield DY while the remaining 3.2% can be attributed by other factors which are not studied, because they are outside the scope of the study

The regression equation will be

$$YDY = 12.094 - .671BI - 2.321BS + .024OWC - .102CEO + 2.619RISK + .299MT$$

#### 7.4.Results For Corporate Governance And Performance

	BI	BS	ISR	OWC	CEO	MTAGES	ROA	
BI	1							
BS	.329	1						
	(.353)							
ISR	.106	-.279	1					
	(.772)	(.404)						
OWC	.226	-.084	.853**	1				
	(.530)	(.818)	(.002)					
CEO	-.446	.235	-.533	-.321	1			
	(.051)	(.513)	(.113)	(.366)				
MT	.023	.201	-.278	-.096	.070	1		
	(.951)	(.577)	(.437)	(.791)	(.848)			
AGES	-.592	-.367	-.173	-.386	.015	.023	1	
	(.071)	(.296)	(.634)	(.270)	(.966)	(.951)		
ROA	.083	.637*	-.263	-.029	.446	.115	.463	1
	(.519)	(.048)	(.464)	(.937)	(.197)	(.669)	(.177)	

Table 5a: Corporate governance and Performance

\*\* Correlation is significant at the 0.01 level (2 tailed)

\*correlation is significant at the 0.01 level( 2 tailed)



From the table 5a above return on assets ROA as a proxy of performance is positively correlated with board size (0.637\* p value <0.05) which is significant at 95% confidence level. This implies that for banks listed on NSE a large board with varied specializations tends to be keen with all activities of the bank which ensures higher returns on assets compared to when the board size is small. This is consistent with (Rajendran K. 2012) researched on Corporate Governance Practices and Its Impact on firm Performance with special reference to listed banking institutions in Sri Lanka and inconsistent with (Velnampy T 2013) (Norazlan A.Ruzita A. Fauzias M.&Mohd. H. 2012)Return on assets ROA is also positively correlated to CEO duality, number of board committees and number of meetings in a year held by the board though not significant and weak. But ROA was found to be negatively correlated to institutional share ratio and ownership concentration which is not significant.

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (constant)	19.405	4.526	-	-4.287	.050	-	-
BI	2.282	.483	.695	4.729	.042	.334	2.997
BS	2.734	.437	.654	6.259	.025	.660	1.514
OWC	1.572	.663	.506	2.370	.141	.159	6.306
CEO	7.600	1.506	.749	5.047	.037	.328	3.048
MT	-.075	.358	-.020	-.209	.854	.779	1.283
ISR	-.010	.906	.003	-.011	.993	.118	8.454
AGE	3.366	.418	1.025	8.061	.015	.446	2.243

Table 5b : corporate governance and performance

Model	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	Std error	F	Sig f	Durbin Watson
	.993	.986	.935	1.24991	19.511	.05	2.671

Table 5c: Model summary corporate governance and performance

From the table 5b and 5c above there is no mult-collinearity problem as all the VIF values are less than 10 which is acceptable by many researchers as a rule of thumb. Also there is no auto-correlation problem in the regression model used as the Durbin Watson rule of value is less than 3 which is thumb for many researchers if auto – correlation problem exist.

The F value is 19.511\*( p value = 0.05) is significant at 95% confidence level, showing the applicability of the overall model.. The value of R square is .986 this implies that the independent variables in this model can explain 98.6% of variance in the dependent variable dividend yield DY while the remaining 1.4 % can be attributed by other factors which are not studied, because they are outside the scope of the study.

The regression equation will be

$$YROA = 19.405 + 2.282BI + 2.734BS - 0.10ISR + 1.572OWC + 7.6CEO + 3.366AGES - .075MT + e$$

## 8. Conclusion

The research aims to explore the relationship between dividend policy, corporate governance and performance of banks listed on Nairobi securities exchange. The whole sample of 10 banks that are listed were used for the period 2007-2011. Analysis was performed using both descriptive statistics and inferential by applying multiple linear regression analysis

Banks listed on Nairobi securities exchange have adopted signaling hypothesis where banks with high dividend yield tend to signal good future prospects leading to high growth of the firms. This explains the positive correlation of dividend yield and growth which is taken as market price to book ratio of stock

Dividend yield was positively correlated to business risk this could be due to the shareholders demand to be hedged against the high risk which the bank might to be exposing them to by undertaking risk ventures. Dividend yield showed a positive correlation with CEO duality implying that banks listed on NSE where the CEO is also the chairman he/she has power to push for high dividend and allows a person to have greater understanding and knowledge of firm.

Banks listed on NSE board independence is negatively correlated to dividend yield. The higher proportion of non-executive directors leads to lower dividend yield. This implies

that a large proportion of non-executive directors tend to take a neutral position of not pleasing any clienteles.

Performance of banks listed to NSE is positively correlated to board size this implies that banks that have large number of directors are more profitable than the once with small boards. Large boards tend to act as watch dog to companies assets and investments thus only allowing those with positive net present value NPV thus not overwhelmed

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