

**BOARD STRUCTURE, CHIEF EXECUTIVE OFFICER ENTRENCHMENT AND
DIVIDEND PAYOUT AMONG SELECTED LISTED COMPANIES IN EAST AFRICA**

BY

HABIMANA OMAR

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DECLARATION

Declaration by the Candidate

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Date _____/_____/_____

Habimana Omar
Reg.No: SBE/DPHIL/BM/029/11

Declaration by Supervisors

This thesis has been submitted for examination with our approval as University Supervisors:

Signature _____ Date: _____/_____/_____

Prof. Daniel K.Tarus,
Department of Accounting and Finance,
Moi University,
ELDORET.

Signature _____ Date: _____/_____/_____

Dr. Joel Tenai,
Department of Accounting and Finance,
Moi University,
ELDORET.

DEDICATION

To my beloved wife Mukandengo Belinda, Thank you for the patience and perseverance during those days and nights of loneliness due to my absence.

My daughter Bilqees Kiana Habimana,

To you my beloved family, brothers, sister and cousins

For inspiration, Love and Support.

ABSTRACT

Dividend pay-out is widely studied in finance literature. Indeed, the decision on dividend payment rests with a company's board of directors and the power of the Chief Executive Officer (CEO). Dividend pay-out differ from one firm to another with wider variations seen in emerging economies where there are weaker rules and regulations. This study assessed the role of the board of directors and the CEOs in determining dividend pay-out. The general objective was to investigate the relationship between board structure and dividend pay-out and the moderating role of CEO entrenchment. The specific objectives were to determine the effect of CEO duality, board size, board tenure, non executive director on dividend pay-out. Further the study sought to establish the interaction effect of CEO entrenchment on dividend payout. The study was grounded by the agency theory, stewardship theory, upper echelons theory and the theory associated with dividend payout namely signaling theory to determine the relevance of dividend payout in East African countries. The study used exploratory research design. The study used panel data for a period of nine years from 2005 to 2013. Data was collected from all firms listed in the stock markets of Kenya, Uganda, Tanzania and Rwanda. The study used random effect regression model to analyze the data. The findings showed that board size ($\beta= 2.780, p=0.000$) and CEO duality ($\beta=36.219, p=0.001$) has positive and significant effect on dividend pay-out, non-executive director and board tenure has a negative and significant effect on dividend payout ($\beta= -46.120, p=0.000$) and ($\beta= -0.786, p=0.009$). Furthermore, CEO entrenchment was found to moderate the relationship between board structure and dividend payout, such that board tenure was found to have enhancing and significant interaction on dividend payout($\beta=0.105, p=0.000$) and CEO duality ($\beta=4.873, p=0.000$). Furthermore, CEO entrenchment does not moderate the relationship between board size, non executive director and dividend payout. From the findings of this study, effective monitoring of business is more crucial to reduce CEO entrenchment effect and agency cost. This will provide good signaling effect to the market price following the increases of earnings and thereafter dividend payout. It was also noted that as long as small board size are effective in decision making toward dividend payout, CEO entrenchment stewards the small board through increases of allowances or rewards to reduce or evade the dividend payout. This study recommends that younger stock market like Rwanda, Uganda and Tanzania to incorporate more local firms while strengthening dividend policy. It it therefore suggest to reinforce policies of the countries on selecting board members whereas the diversity and experimentation of non executive directors should behold. This study contributes to theory by linking upper echelons theory, Stewardship theory and signaling theory in relation to CEO entrenchment. The regulators would find this study useful in terms of developing a balance between the board of directors and set clear regulation on the interaction between non executive director and the use of board committees toward safeguard shareholder interest among other dividend payout.

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LIST OF ABBREVIATIONS

CEO	: Chief Executive Officer
CMA	: Capital Market Authority
DSE	: Dar-es-saalam Stock Exchange
DPS	: Dividend Per Share
EAC	: East Africa Community
FE	: Fixed effect
JSE	: Johannesburg Stock Exchange
LM	: Lagrange Multiplier
MOU	: Memorandum Of Understanding
NSE	: Nairobi Securities Exchange
NYSE	: New York Stock Exchange
OLS	: Ordinal Least Square
RE	: Random effect
RESET	: Regression Equation Specification Error Test
ROE	: Return on Equity
RSE	: Rwanda stock Exchange
SD	: Standard Deviation
SE	: Sum of Errors
UK	: United Kingdom
US	: United States
USD	: United Stated Dollar
USA	: United States of America
USE	: Uganda Securities Exchange
VIF	: Variance Inflation Factor

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OPERATIONAL DEFINITION OF TERMS

Board size refers to the number of all board members of any listed company in the stock exchange.

CEO duality obtains when the chairperson of the board of directors and the staff head of the management of the listed firms are one and the same person.

Board tenure is employed to mean the number of years a person in the board has served the listed firm as a director.

Non executive director are the directors who are not owners or managers are referred to as non-executive directors who do not perform any management related activities with the same firms to which he or she is part of directorate.

CEO Entrenchment occurs when a CEO is given power or empowers her/himself to make corporate decisions in certain matters of the company, on behalf of the respective company's board of directors, for the purpose of protecting the firm's interests including against hostile takeovers. The length CEO last the more empowers her/himself.

Dividend pay-out is based on firm profitability for the same year for a given year.

Corporate governance is base on the system of rules, practices and processes balancing the interests of a company's stakeholders, such as dividend payout which a company management in East Africa Countries decided on.

CHAPTER ONE INTRODUCTION

1.1. Overview

This chapter presents the background of the study, a statement of the problem, research objectives, and research hypotheses that guide the study. The significance and scope of the study are also presented.

1.2. Background of the Study

Dividend payout is one of the most important research issue in the finance literature. It concerns itself with how the company should distribute its profit. Dividends are declared out of the profit earned after other financial obligations have been paid. Miller and Modigliani (1961) ignited a debate on the relevance of dividend policy on the value of the firm. They stated that dividend policy is irrelevant to firm value, where the capital market is perfect with no market frictions such as tax, asymmetric information, agency cost, and bankruptcy regardless of the amount of debt owed.

It is arguably said that a company's overriding goal is to maximize shareholder wealth; this concept is not a simple task as management cannot directly influence the price of a share, but can only act in a manner consistent with the desires of investors for a return on their investment. Profits of a company can be declared as dividends, after the company has met its statutory and other essential financial obligations (Rosenstein & Wyat, 1997).

Dividend payouts mitigate agency conflicts by reducing the amount of free cash flow available to managers, who do not necessarily act in the best interest of shareholders (Grossman & Hart, 1980). Shleifer and Vishny (1997) and Allen *et al.*, (2000) argue that investors prefer shares of firms making regular dividend payments; particularly

among individual investors, a class of investor prevalent in developing countries. Indeed, the decision of payment of dividends rests with the board of directors. Corporate governance guidelines requires that the role of board is to approve the dividends to the shareholders and therefore the composition of the board is crucial.

Furthermore a CEO serving in a firm for a long time may become friendly with the board of directors. Entrenchment may result in poison pills such as discounting new shares at lower price or allowing contracts to board members or increasing allowances in order to compromise shareholder interests due to a CEO whose aims is adopting a dividend policy that is not value-maximizing for shareholders but maximizes their own private benefits (DeAngelo *et al.*, 2006; Murekefu, 2013; Muth & Donaldson, 1998).

Therefore, studying the effect of CEO entrenchment on the company's financial decision-making has become an important part of behavioral corporate finance research. In many developed countries among them China, USA and UK the board ultimately determines the company's dividend distribution and the chairperson of the board has great influence on the board to make financial decisions, whose psychological deviation would inevitably generate significant impacts on the company's dividend payout. La Porta *et al.*, (2000) stated that firms located in countries with strong legal protection pay higher dividends as compared to countries where legal protection is weak. Developing countries are characterized by weak legal and regulatory mechanisms and therefore there is need for better corporate governance. Investors are hesitant to lend money or buy shares in companies which do not subscribe to good corporate governance principles due to the need to protect their own investment (McGee, 2010).

Beside this, Some studies demonstrated divergence on the dividend payout method for example Fama & French (2001) and Denis & Igor (2008) showed that there is decline in the propensity to pay dividends for US, UK, Canada, France, Germany and Japan from mid 1980s to 2000 while Grullon & Michaely (2004) showed that dividend payout was resplaced with share repurchase favored by managers as a way of returning cash in the company compared to cash dividend. There are other studies which showed that the dividend decline was only in a number of firms in industrial sector while it increased in financial and utilities sectors (DeAngelo *et al.*, 2004; DeAngelo *et al.*, 2006). From 2001, all firms in developed countries preferred cash dividend compared to share repurchases (Julio & Ikenberry, 2005 and Von Eije & Megginson, 2008), thus no clear evidence that re-appearing of dividend payout method is permanent.

Corporate governance in companies and stock market development is relatively a promising system in East Africa countries. According to Davoodi (2012), the East Africa Community member countries have realized the importance of corporate governance and its impact on firm financial performance, and are requiring its regulatory organs, like Capital Markets Authorities, to enforce corporate governance standards.

Among the requirements for companies to fulfill to be listed in the Nairobi securities exchange, is that they should have a clear future dividend policy (Kenya Gazette Legal Notice No 60 May, 2002). This implied that the majority of listed firms on Nairobi securities exchanges used cash dividends method, therefore no evidence of other forms of dividend payout employed by board of directors who prefer not to pay or pay lower dividends when there was no cash (Murekefu, 2013).

Furthermore, governance tends to be dominated by CEOs who are shareholder such that the other board of directors are not able to exert much influence on dividend policy, and where the degree of non executive directors will often, therefore, not be of much significance. Large profitable and mature firms with low growth options tend to pay higher levels of dividend (Nnadi, Wogboroma & Kabel, 2013). Therefore, there is a need to evaluate the effect of corporate governance such as board structure on corporate management practices and its influence on dividend payment in East Africa.

Prior to 1989, there were just five stock markets in sub-Saharan Africa and three in North Africa. Today, there are more than 20 securities exchanges, (Benimadhu, 2003). The area of focus is the East Africa Stock Markets which include Rwanda Stock Exchange, Uganda Securities Exchange, Nairobi Securities Exchange and Dar-es-salaam Stock Exchange which are all members of African Securities Exchange Association. Thus, the average number of listed companies in East African Stock Market was 80 (Kazarwa, 2015). These companies were reduced to 67 after the NSE delisting companies due to different causes or breach of obligations.

The Nairobi Securities Exchange (NSE) is the oldest stock market in East Africa, because it has been officially recognized by London Stock Exchange as an overseas stock exchange since 1953 and by then registered under the Societies Act (1954) as a voluntary association of stockbrokers charged with the responsibility of developing the securities market and regulating trading activities. Its names became the Nairobi Securities Exchange Limited (NSE) later in 2011.

During 1968, the NSE operated as a regional market in East Africa with a number of the listed industrial shares and public sector securities included issues by the Governments of Tanzania and Uganda. The number of listed public sector securities

was 66 of which 45% were for Government of Kenya, 23% Government of Tanzania and 11% Government of Uganda. This crosslisted firms were delisted by then from Uganda due to the political regimes changes among East African Community members. The NSE account currently 48 listed companies (Norman, 2010).

From the years of 1975 to 1998, there have been changes in financial market in East Africa among other, the EAC collapse in 1975 where the Government of Uganda compulsorily nationalized companies which were either quoted or subsidiaries of listed companies on NSE. The CMA issued guidelines to promote good corporate governance practices by listed companies through the constitution of audit committees. In 2004, following the successful signing of an MOU between the Dar-es-Salaam Stock Exchange, the Uganda Securities Exchange and the Nairobi Securities Exchange, the East African Securities Exchanges Association was formed.

The Dar-es-Salaam Stock Exchange was established by the capital markets and security authority under the Capital Markets and Securities Act of 1994 in Dar-es-salaam, Tanzania. The stock exchange was incorporated as a private company limited by guarantee on 19 September 1996 (DSE, 2008a). Its names changed to Dar-es-salaam Stock Exchange Public Limited Company (DSE) in 2015. The DSE operates in close association with the Nairobi Securities Exchange in Kenya and the Uganda Securities Exchange in Uganda. The company began selling shares on 16 May 2016 and is the third exchange in Africa after Johannesburg Stock Exchange (2006) and Nairobi Securities Exchange (2014) to self list. As of March 2009, 14 companies listed their shares with the DSE. Out of which, three are from Kenya (DSE,2015).

In Rwanda, the idea of the capital market establishment started in 2005. The capital market started as Rwanda-Over-The- Counter (OTC) market in January 31, 2008, and

later grew to be a Rwanda Stock Exchange (RSE) in January 2011 operated under the jurisdiction of Rwanda's Capital Market Authority (CMA), previously known as Capital Markets Advisory Council (CMAC). The capital market in Rwanda comes at a time when the economy is growing fairly steady and there is need to raise capital both for firms and for economic growth. Among of the five listed companies three are from Kenya (Kazarwa, 2015).

The Uganda Securities Exchange (USE) is the principal stock exchange of Uganda which was founded in June 1997. it is operating under the jurisdiction of Uganda's Capital Markets Authority. The exchange opened to trading in January 1998. The USE as of July 2014, has 16 listed companies from which seven are Kenyans. The USE operates in close association with the Dar es Salaam Stock Exchange in Tanzania, the Rwanda Stock Exchange, and the Nairobi Securities Exchange in Kenya (Wanyama *et al.*, 2009).

There are plans established by East African countries to integrate the four exchanges to form a single East African bourse (Norman, 2010; IBtimes, 2013 and Masinga, & Machira, 2013). Most importantly, East Africa countries attain a certain maturity of democracy which tend to create an enabling environment for investment which a large number of population expect to benefit with the use of a significant underutilized resources their possess(KPMG, 2014). In this essence, a study on East Africa market would give a fair guidance on the dividend yield under good corporate governance.

1.3. Statement of the Problem

Previous studies have focused on dividend payment patterns and policies of developed and developing markets (Kumar & Singh, 2013; Nnadi *et al.*, 2013; Ramesh, 2012; Al-Shabibi & Ramesh, 2011; Gill *et al.*, 2010; Chay & Suh 2009; Von Eije and Megginson, 2008 and Al-Twajry, 2007).

There is evidence in the literature that supports the idea that the pattern of corporate dividend payout policies vary from developed to transition equity markets (Hashemijoo, Mahdavi & Younesi, 2012; Bhattacharyya, Mawani & Morrill, 2008 and Kowalewski, 2007). Glen *et al.*, (1995) and Ramcharan (2001) asserts that the payout ratio in developing countries is about two thirds that of developed countries, in addition to reports of lower dividend yields for the emerging markets.

The empirical evidence regarding the relationship between corporate governance and dividend payout is mixed (LaPorta *et al.*, 2000; Gugler & Yurtoglu, 2003; Kowalewski, 2007; Subramaniam & Susela, 2011; Francis *et al.*, 2011 and Abor & Fiador, 2013). The problem that arises when analyzing firms with higher dividend payouts may be due to stronger firm-level corporate governance because their managers may not have enough cash flow to make inefficient investments and opt to go through monitoring in capital markets to obtain external financing for viable reinvestment.

However, unlike developed markets such as the USA and the UK, the stakeholders maintain a close relationship between CEO and the board of directors toward a dividend payout decision. In developing markets, firms cannot be separated due to the central power of CEO and Board chairperson. Through the model established by Deshmukh *et al.*, (2008) and Cordeiro (2009) the entrenched CEO prefers a lower level of dividend payment while others like Hu and Kumar (2004) and Faccio *et al.*,

(2001) argued that entrenched managers tend to distribute high dividend ratio. These studies focused more on the role of CEO and did not show the link with board of directors decisions which the current study investigate its relevance.

Furthermore, few researchers have studied the role of boards of directors on dividend payout in East African Countries for three main reasons; First is the lack of overarching theoretical perspectives on the boards'role second, is the belief that managers dominate the board in decision-making on dividend payout and the board merely act as a "rubber stamp". Third, selection of board members is controlled by management, and given the rewards and prestige of a seat on the board, it is unlikely that boards would criticize management (Abor & Fiador, 2013 and Tarus & Aime, 2014). This rationale linger currently indecisive board decisions for listed frms in the East Africa securities exchange which this study investigate its due diligence.

Moreover, Black (2001) argues that in emerging economies there are substantial effects of board structure which often have weaker rules and wider variations among firms in corporate governance practices on dividend payout. Furthermore, the study of Gill & Obradovich (2013) postulates a significant impact of board size and CEO duality on dividend payout in the service sector with small sample. Thus these studies show the moderating effect but they remain inconclusive due to mixed findings. Although several studies have been conducted to establish the role of the board on dividend payout. There is also need to examine the moderating role of CEO entrenchment because it influences the decision making ability of the board.

1.4. Research Objectives

1.4.1. General objective

The foremost objective was to investigate the effect of board structure on dividend payout and whether CEO entrenchment moderates the relationship between board structure and dividend payout.

1.4.2. Specific research objectives

1. To investigate the effect of CEO duality on dividend pay-out
2. To investigate the effect of board size on dividend pay-out
3. To establish the effect on the relationship between board tenure and dividend pay-out
4. To determine the effect of non executive director on dividend pay-out
5. To find out the effect of CEO entrenchment on dividend payout
6. To establish the moderating effect of CEO entrenchment on the relationship between board structure and dividend pay-out

1.5. Hypotheses

H₀₁. There is no significant effect between CEO duality and dividend pay-out

H₀₂. There is no significant effect between board size and dividend pay-out

H₀₃. There is no significant effect between board tenure and dividend pay-out

H₀₄. There is no significant effect between non executive director and dividend pay-out

H₀₅. There is no significant effect between CEO entrenchment and dividend payout

H_{06a}. CEO entrenchment does not moderate the relationship between CEO duality and dividend pay-out

H_{06b}. CEO entrenchment does not moderate the relationship between board tenure and dividend pay-out

H_{06c}. CEO entrenchment does not moderate the relationship between board size and dividend pay-out

H_{06d}. CEO Entrenchment does not moderate the relationship between non executive director and dividend pay-out

1.6. Significance of the study

Foremost, an understanding of the role of CEO entrenchment as a moderating effect on Board of director decision making on dividend payout is essential in corporate governance for Finance scholars and stakeholder theory and provides useful data for future research from developing country perspectives.

The study contributes to the existing literature and theory on the relationship between board structure and dividend payout and the moderating role of CEO entrenchment. These concepts have been studied broadly but the CEO entrenchment and the relationship of board structure on dividend payout is still inconclusive.

The study covered policy on the dividend payout, CEO entrenchment and board structure in Kenya, Uganda, Tanzania and Rwanda as developing countries. The propensity of dividend payout show clear understanding for business to which the sustainability, fairness of financial position analysis and future earnings of listed firms in stock exchange in East Africa countries. This is because the bulk of literature available has focused on dividend payout in the developed countries for instance Europe, USA and Asia while few of them were addressed to Kenya while none of it addressed to Rwanda, Uganda and Tanzania.

The study proved to be useful to the East Africa firms for restructuring firm dividend policy keeping in view the analysis, results and thus shedding light on the strategic role of corporates' governance and management. The study contributes to the understanding of CEO entrenchment in particular as draw back while weighting the dividend payout as result of firm performance with existing or new shareholders which form the basis for appointing or removal of the CEO.

1.7. Scope of the study

The study was carried out in four East African countries with a total of 67 listed companies in Kenya, Uganda, Tanzania and Rwanda due to their intention of forming one securities exchange. The study period was nine years from 2005 to 2013. Apart from Nairobi securities exchange which produced and published financial statement, the upmentioned period was favored for getting firms data since Rwanda, Uganda and Dar-es-saalam securities exchanges are young. The study focused on analyzing boards structure of companies listed due to the availability of dividend information as per corporate governance best practices. See all listed companies on appendix 1.

CHAPTER TWO LITERATURE REVIEW

2.1. Introduction

This chapter presents theoretical review and literature on the dividend payout, CEO entrenchment and board structure variables such as board size, board tenure, non executive director and CEO duality and dividend payout ratio. A conceptual framework is presented at the end of the chapter.

2.2. Theoretical perspective

2.2.1. The Signaling Theory

The signaling theory of dividends states that managers use dividend policy to send signals about the firm's future earnings (Bhattacharya, 1979; Miller & Rock, 1985 and John & Williams, 1985). This theory is based on the assumption that information is not equally available to all parties at the same time, leading to information asymmetry rule. This theory is applied in the financial markets for instance a company increasing its dividends is signaling that its prospects are better.

According to the theory if a firm declares dividends more than that anticipated by the market, this will be interpreted that the future financial prospects of the firm will be good. Conversely, if a firm cuts its dividends the markets take this as a signal that the management expects poor earnings and does not believe that the current earnings will be maintained. The market price of a firm will drop when dividend falls because investors will sell their stocks in anticipation of difficult times for the firm (Miller & Rock, 1985).

According to Arnoland (2008) whether the cash dividend is paid or not is irrelevant in the context of shareholders wealth maximization by reason that dividend policy is a

matter of choice for boards of directors, since an unexpected change in dividend is regarded as a sign of how the directors view the future prospects of the firm.

A declining dividend often signals that the directors view the future with some pessimism, whereas an increase in dividend indicates an optimistic view about future probability. The shareholders, especially the wealthy middle-aged, who receive a large amount of dividends in cash, would probably reinvest in the stock market. This is regarded as the cycle of receiving dividends followed by reinvestment which is very inefficient.

Furthermore, Gitman (2009) argued that dividend reduces uncertainty about the future cash flows which leads to decrease in the cost of capital. As a result shareholders' wealth increases through increasing the market value of the shares. If any company's board of directors recommends a higher cash dividend for a certain period compared to the previous period, it's regarded as a good signal to the shareholders which indicates that the cash position of the given company has improved leading to increase in the share price of that company and dividend payout as well.

Therefore avoidance of dividend payment is treated as a negative signal about the future prospect of the company which has an unfavourable impact on the market price of share and thus leading to withdrawal of investment from a given company by existing shareholders which play a negative role in shareholders wealth maximization. In addition, the majority of shareholders in developed and developing economies among them East African ones are in the advanced age group, thus prefer dividend as a source of their continuous income.

2.2.2. Agency Theory

The agency concept started with the classic work by Berle & Means (1932) who described the agency problem in modern firms as the difficulties that shareholders have in ensuring that their funds are not confiscated or wasted on unprofitable projects; thus they want to be sure that they will not be left holding a worthless piece of paper issued by the CEO.

Jensen & Meckling (1976) proposed an agency theory of the firm 'agency relationship' as a contract under which one or more (principals) engage another person (the agent) to perform some service on their behalf. This relationship involves delegating some decision-making authority to the agent. It is hypothesized that the principal will assume that the agent will be driven by self-interest.

Furthermore, agency theory indicates that there is potential conflict between shareholders and CEOs with different interests in the same assets. This is where the respective companies' boards of directors who by virtue of their status in representing the interests of shareholders are concerned with ensuring that the business affairs of the respective companies are conducted properly. For which reason, the boards play a monitoring role which depends on the composition of the respective boards. Directors with more influence in decision-making will have the potential of having an upper hand in monitoring the affairs of the respective companies (Hillman & Dalziel, 2003).

The agency theory overcame the problem of individual interest, for instance CEOs maximize their self-interest rather than that of the shareholders. The study highlighted the question of whether a mutual agency relationship exists and the potential costs of the companies are minimized (Nordberg, 2008). It is therefore pointed out that dividend payouts have been argued to mitigate agency costs by distributing free cash

flows that otherwise would be spent on unprofitable projects by the CEO (Jensen,1986).

Thus, the board of directors are freely alienable and separable from roles in the decision process. The CEOs can circumvent them and make current boards to gain control over the decision process on dividend payout (Hossain *et al.*, 2013 and Alam & Hossain, 2012). Foremost, the decision on control systems of organizations is vested in the board of directors that ratifies and monitors important decisions and chooses, dismisses, and rewards important decision agents. Such multiple member boards make collusion between the boards of directors and CEOs more difficult on dividend payout decisions, and are mechanisms that allows separation of the management and control of the organization's most important decisions (Fama & Jensen, 1983). Therefore this theory holds for countries which applies separations of management and controle for instance in Kenya and not as much in Tanzania.

2.2.3. Stewardship Theory

This theory holds that the goal of governance is to find mechanisms and structures that facilitate the most effective coordination between the board of directors and the management team (Donaldson & Davis,1991). Cooperative behavior perceives greater utility gained from interest alignment with the board of directors and CEO than in self serving behaviors thereby maximizing shareholders' dividend payment.

Stewardship Theory has its roots from psychology and sociology and its origin is defined by Davis *et al.*, (1997) who indicate that cooperative behaviors perceive greater utility gained from interest alignment and collaborative behavior with the board of directors and CEO than in self-serving behaviors thereafter maximizing shareholders' wealth as well as dividend payment. Stewards are motivated and

focused by intrinsic rewards such as growth, achievement, duty, reciprocity and mission alignment, rather than solely extrinsic rewards.

According to Davis *et al.*,(1997), the process through which the parties decide to be stewards can be synthesized on one hand, as the relationship between the decision made by board of directors and the owners-CEOs and on the other hand, the expectation background of shareholders' predisposition to dividend payment. Hence, the relationship between CEO entrenchment and the board of directors is brought out in this study.

Using personal power compromises collectivism and management philosophy. The reverse is also true, collectivism and management philosophy will undermine personal power (Davis *et al.*, 1997). Thereafter, shareholder interests are maximized by sharing incumbency of these roles when a mutual stewardship relationship exists as long as dividend payments are made. Therefore the study linked CEO as stewards of the firm as proposed by the stewardship theory entails for the countries which favor collaboratism mechanisms between the management and the control whereby separation is less effective like in Rwanda and Uganda.

2.2.4 Upper Echelons Theory

The theoretical concept of upper echelons theory goes back to Hambrick & Mason (1984). The upper echelons theory postulates that outcomes are essentially shaped by the board of directors, both strategies and effectiveness are viewed as reflections of the values and cognitive bases of powerful actors in the organization. It argues that the individual features of key decision makers serve as surrogates for their cognitive orientations, perceptions, knowledge and skill for an explanation of their organization's behavior and performance. This leads the decision makers to filter the options based on their cognitive biases (Hambrick& Mason, 1984).

The impact of the CEO's personality is identified as the locus of control trait, a key determinant of the organization's competitive strategy and financial performance, which tends to develop clear preference for dividend payout (Boone *et al.*, 1996). Thus, personal characteristics or demographics of decision makers like tenure, financial position, as well as psychological factors play a significant role in corporate decision-making (Carpenter *et al.*, 2003).

The notion that the CEOs can influence the decisions made by the boards of directors and thereafter the dividend payout, that they lead is due to the demographic characteristics associated with their professional knowledge, values and perceptions. This study is essentially about the impact of board of directors decision on dividend payout and whether the presence of CEO entrenchment and tenure of board member can shape the nature of the decision.

2.3. The Concept of Dividend Payout

Dividends are a distribution of the companies' earnings to shareholders in cash payout or an additional stock issue (Broberg & Lindh, 2012). The U.S. corporations have overwhelmingly preferred to pay out cash in the form of dividends rather than share repurchases (Michaely & Grullon, 2002). Moreover in accordance with an agency perspective, strong evidence was produced that shareholder dispersion has a significant positive impact on dividend policy (Farinha, 2002).

Barker and Wurgler (2004), argued that managers tend to cater for investor demand on dividend payout. Investors have the option of choosing between the dividend paying and non paying firms. This choice emanates from the available information which should be asymmetrical. In a series of papers, La Porta *et al.*, (1997;1998;1999;2000a & 2000b) demonstrate that across countries, corporate governance is an important factor in dividend payout.

Rozeff (1982) is one of the first authors to propose a role for dividends in reducing agent-related losses, substituting for another bonding and auditing costs incurred by the firm. The author indicated that dividend is negatively related to payout, which is consistent with the argument that greater insider concentration results in better monitoring thus reducing the need to pay dividends.

Other agency related roles for dividends include visibility where firms subject themselves to the scrutiny of capital markets by paying dividends and increasing frequency of raising new capital; and committing free cash flows (Jensen, 1986; Easterbrook, 1984). Dividends payout forces managers operate more efficiently and avoid unprofitable projects.

In contrast to Bebczuk (2005), using public information on 65 non-financial companies, Polish data shows that corporate governance explains some of the motivation in dividend payout even after controlling for firms specific characteristics. A general consensus is that non executive directors are deemed to act as professional referees, to ensure all interests are given due consideration (Fama, 1980).

Lambrecht & Myers (2010) developed a model assuming that dividend payout decisions are made by managers who attempt to maximize the benefits they take from the firm. Nevertheless, the threat of intervention by executive board members or outside shareholders constrains benefits and forces dividends to move in lockstep. The results of Ramli (2010) suggest that the presence of other large shareholders in corporations encourages the largest shareholders to pay out higher dividends.

Carvalho & Leal (2007) using panel data for the construction of a broad firm specific corporate governance index for Brazilian listed companies found that less than 4% of Brazilian firms have good corporate governance practices, and that firms with better

corporate governance have significantly higher performance and thereafter dividend payout.

Zurigat and Gharaibeh (2011) test the partial adjustment model based on Linter (1956) using 38 Jordanian firms. The target adjustment is an asymmetrical process depending on whether the dividend payout is above or below target. Their findings support the asymmetric information of agency explanation of dividends' mooching.

Chou *et al.*, (2013) examined how dividend policy impacts the market value conditional on agency costs and they measure discretionary dividends using net income before tax and net income after tax methods. It shows that firms with greater principal-agent conflicts, dividends payout enhances value of stock, implying that dividend payments are a substitute for stronger governance. Their results are consistent although the dividends are measured in different ways. Given the pros and cons of paying dividends and the lack of a consensus on the effect of dividends on firm value (Fama & French, 2001), it is worth considering what managers factor when they make dividend decisions.

2.4. The link between board structure and Dividend payout

The payment of a dividend is not obligatory and shareholders have no right to interfere with the authority of the Board of directors once they have taken a decision on the dividend rate (Feng *et al.*, 2010). The board of directors have the power to determine whether and at what rate dividends shall be paid to the shareholders.

Therefore, corporate governance standards have improved in developed countries and it may have an impact on the protection of shareholders and the dividend payout of listed companies (Koladkiewicz, 2001).

Several studies have found a positive relationship between board structure and dividend policy (Michaely and Roberts, 2006; Farinha, 2003; Smith *et al.*, 2009; Aggarwal & Williamson, 2006, Jiraporn *et al.*, 2008). Through that, the agency problem arises by increase in the introduction of incentives or contractual constraints or uncertainty conditions to the board of directors' decisions (Ross, 1973). Jensen *et al.*, (1992) and Agrawal & Jayaraman (1994) found out that firms with higher managerial holdings have a lower dividend payout ratio whereas Setia-Atmaja (2009) found that the block holders might exacerbate the agency problems by paying lower dividends.

2.4.1. CEO Duality and Dividend Payout

CEO duality refers to the practice where one person serves both as a CEO and board chair (Moscu, 2013). CEO duality has been blamed for the governance failures in corporate giants such as Enron and WorldCom, which triggered governance reforms worldwide in the direction of splitting the chairperson and CEO roles. The argument for splitting these two roles arises from the fact that one of the roles of the board is to evaluate the CEO. In circumstances where the person who manages the firm also chairs the board meetings and controls the information given to the board, then it is questionable whether such a board is capable of seriously evaluating and challenging the CEO.

Gill & Obradovich (2013) studied the effect of corporate governance on the decision to pay dividends using 296 U.S. firms listed in the New York Stock Exchange during the years 2009-2011. The study found a positive and significant relationship between board size and duality of CEO with dividend policy.

According to Adams *et al.*, (2005) when the CEO is chair of a board of directors and also the top manager, this may affect the decision-making of the board of directors, which in turn can have a negative impact on performance and dividend payout in particular. This notion stems from the idea that other executives on the board could be rivals for the CEO's power and position and rude decision making together with the CEO therefore makes the CEO less powerful. All these contentious arguments make it imperative for this research to investigate the situation in East Africa.

According to the agency theory, the separation of the chairperson and CEO roles leads to greater scrutiny of managerial behavior and to higher dividend payout to avoid shareholder sanction (Lorsch & MacIver, 1989; Millstein, 1992; Hu & Kumar, 2004 and Feng *et al.*, 2006). Therefore, studies have found that there are inevitable conflicts between parties that delegate and those who execute (Jensen & Mechling, 1976). Therefore, from an agency perspective, the roles of CEO and chair of the board should be separated. This separation allows the board of directors to effectively monitor and control the actions of the executive.

Ali-Shah (2009) collected data from Pakistani firms and found positive relationships between CEO duality and dividend payout. Furthermore, empirical evidence of United Kingdom firms showed a weak positive association between the CEO duality and corporate performance, (Florackis & Ozkan, 2009 and Chen *et al.*, 2011).

However, the study done on Tehran stock exchange for a sample of 140 companies over the time span 2006-2010 found a non significant effect between CEO duality and dividend payout (Mansourinia *et al.*, 2013). In more comprehensive study, Chen *et al.*, (2005) analyzed a sample of 412 publicly listed Hong Kong firms during the period of 1995–1998 in order to answer the question whether CEO duality affects

dividend policy, and whether there is the impact of corporate governance on dividend payouts. They found a negative relationship between CEO duality and dividend policy. This revealed that even if there could be an influence of CEO on board of director, it can not be a factor for reducing the dividend payout.

There is no consensus in empirical research on the positions of the chair of the board and the CEO, although there is some rather limited evidence that CEO duality may create conflicts of interest as in the case of Japan and US firms (Coles *et al.*, 2001, Dewenter & Warther, 1998 and Feng *et al.*, 2007). This study aims at filling the existing gap by carrying out a research on the influence of CEO duality on dividend payout which may relate with CEO entrenchment with a special focus on decision making concerning dividend payout.

2.4.3. Board Size and Dividend Payout

Board size is the number of members comprising the board of directors. Normally the size of the board is differently determined according to countries legal framework for example in Rwanda the board size is determined in the bylaws of the organization while of other East Africa countries is due to corporate governance act.

The board can be large or small depending on a firm's functionality or effective work determined by firm specific variables (Lehn *et al.*, 2004; Boone *et al.*, 2007; Coles *et al.*, 2008; Guest, 2008; and Linck *et al.*, 2008). Scholars have argued that board size should be no greater than 8 or 9 members to reduce the incremental cost of decision-making associated with larger groups (Lipton & Lorsch, 1992 and Jensen, 1993).

Studies by Pettigrew (1992), Zahra & Pearce (1992), Wen *et al.*, (2002), Abor (2007) and Chen, Lin, & Yong-Cheol (2011) found evidence in support of a positive

relationship between board size and dividend payout. Hermalin & Weisbach (2003) argued the possibility that larger boards can be less effective than small boards.

Chen, Lin, and Yong-Cheol (2011) used 1056 A-share listed companies in Shanghai and Shenzhen stock market from 2001 to 2007 and found a positive relationship between the size of the board of directors and the propensity of companies to pay cash dividends. Thus the author showed the greater the size of board membership, the higher the dividends paid to shareholders due to experience of board members. Hence the studies did not control the diversity of board members in the board room and their coordination toward decision making which also is an issue in board effectiveness. When a board becomes too big, it often moves into a more symbolic role, rather than fulfilling its intended function among others shareholder rights such as dividend payment.

Vafeas (2000) and Mak & Kusnadi (2005) using Singapore and Malaysia small firms reported that firms with the minimum of five board members are better informed about the earnings of the firm and thus can be regarded as having better monitoring and ability for effective decision making by paying dividends. However, very small boards lack the advantage of having the spread of expert advice and opinion around the table that is found in larger boards.

Subramaniam and Susela (2011) in their study which tested the effect of corporate governance on dividend policy over 300 listed companies in the Malaysian Stock Exchange. Results from this theory support the view that high-growth of companies reduces dividend payment and that the relationship between investment opportunities and dividend policy is weaker for companies with larger board size. Thus, the results indicate that there is a negative and significant relationship between board size and dividend policy.

2.4.3. Board Tenure and Dividend Payout

Board tenure is a length of time a board members holds board position. Each firm will choose board tenure to maximize firm dividend payout. No mandatory restrictions are imposed on board tenure in some of the countries like USA, Canada, and those of latin America. However, the United Kingdom do impose restriction on the board member up to nine years and Spain up to 12-years limit (Pye, 2000, Daily *et al.*, 2003 and Del Brio, Miguel & Tobar, 2010).

According to East Africa capital market acts, the board are at all times operating in a co-ordinated and effective manner so as to best promote the interests of shareholders in order to revitalise the board. Through this, board member should not serve beyond three terms of three years unless the board requests them to do so because of a substantial reasons. (Kenya Capital Market Act, 2002).

Kaymak & Bektas (2008) study on governance practices surface in the characteristics of board of directors in Turkish banks, and to see if these characteristics influence firm performance and thus dividend payout. These relationships are examined for all 27 Turkish banks operating in the market between the years 2001–2004. The study found that the board tenure is negatively associated with performance. The theoretical implications of the study showed that Turkish banks follow a number of recommended governance practices, but the prevalence of some arrangements may exacerbate principal conflict. The presence of duality in the form both an empowered board of directors and CEO is problematic, leading to potential conflict. Strategic investors and portfolio managers should challenge this arrangement before making sizable outlays in the Turkish financial sector.

Therefore, the effectiveness of board of directors' long tenure have a dividend benefits in the firm in the form of allowances and are likely to pay more in dividends because it will guarantee them board position (Hu and Kumar, 2004).

Another set of studies highlights the effect of boards of directors specific characteristics where a long-term tenure improves the quality of the board and thus dividend payout because of greater experience, commitment and knowledge about the firm and its business environment. Furthermore, using dividend signaling hypothesis, whereby dividend change is positively associated with future earnings (Baker *et al.*, 2006; Stacescu, 2006; Vivian, 2006 and Vieira & Raposo, 2007); thereby non payment of dividend signals bleak future for the firm and therefore long tenure boards are likely to pay more.

2.4.4. Non Executive Directors and Dividend Payout

Directors are typically divided into two groups, being executive directors and non-executive directors. The director who is a full time employee of the company is deemed an executive director, whereas a director whose primary employment is not with the company is deemed to be a non-executive director (Adams & Ferreira, 2008, Kumar and Singh, 2013).

A key proposition is that a non executive director is very important for smooth functioning of the organization and mitigating agency cost and protect shareholder interests in dividend payout. Thus, Roberts *et al.*, (2005) argue that a non-executive directors who are less knowledgeable about a business than other top management tent to react as police who do not even know what to police. Thus the non executive director should have more knowledge of the businss vis-à-vis the executive board member in order to have an effect on dividend payout.

Therefore, Byrd & Hickman (1992), Rosenstein & Wyatt (1990) and Coles *et al.*, (2001), postulate that a greater representation of non-executive directors improve dividend payment decisions because of expertise influence provided toward firm performance and decision on dividend payout. This was also confirmed by Belden *et al.*, (2005) and when using a sample of 524 US firms in the sample period from 1998 to 2000. The author found that a great number of non executive directors had more meaningful on the board as they are better monitors and thus proposes reforms of US regulation on the latter.

The idea was also tested by Chen *et al.*, (2005) using 412 publicly listed Hong Kong firms during the period of 1995–1998 and the result indicated a significant effect of non executive directors on dividend payout. It weighs the presence of audit committees with little impact on dividend policy, although the domination of non executive director. However, Bathala and Rao (1995) using a sample of 261 U.S firms found a negative relationship between non executive directors and dividend payout. The study by Basil & Hussainey (2009) based on a sample of 400 non-financial firms listed on the London Stock Exchange for the period from 1991 to 2002 found that dividend payout is negatively associated with the number of non executive directors on the board of directors.

Borokhovich *et al.*, (2005) using a sample of 192 US firms in the period from 1992 to 1999 found that a high number of non executive directors led to lower dividend payout since it is a substitute for non executive directorships on the board. In their view, a large non executive board is a drain on the resource of the firm. Whereas this may be true, the substitution hypothesis, in a rather paradoxical manner posits that, in order to raise external funds on attractive terms, a firm must establish a reputation

either by dividends or by following a good governance mechanism (La Porta *et al.*, 2000).

Because of the mixed results in the above mentioned studies, using agency theory to mitigate conflict between CEO and board structure showed the weak impact of non executive director on dividend payout. The current study finds it important to examine the impact of the non executive director on dividend payout.

2.4.5. CEO Entrenchment and Dividend payout

CEO Entrenchment refers to the CEO's length of service in the firms. While its turnover increases with length the commitment to the status quo increases. This influence all level of management through gaining power to formulate and apply certain strategies which may extract private benefits, weakening shareholders interest like dividend payout (Walsh and Seward 1990 and Moussa, Rachdi & Ammeri, 2013).

A CEO is entrenched when the tenure lasts longer and dismissal decision become difficult for the board of directors (Antia *et al.*, 2010). Boards of directors who are elected to direct corporate policy typically delegate day-to-day management decisions to a CEOs, who may also operate as the board chairperson and are generally permitted a great deal of freedom in running and management of the corporation. But sometimes, CEOs, acting in concert and with the backing of dissident candidates for the board, can exert enough power to force a change in management (Shivdasani 1993 and Huimin *et al.*, 2012).

Prior literature acknowledges that the type of board leadership and the role of CEO can have influence on dividend payout. For instance, Adams *et al.*, (2005) argue that the ability of a CEO to impudence decisions can have an impact on the firm's

performance and dividend payment. This ability is considered to be contingent on the level of power of the CEO (Finkelstein, 1992).

In the existing literature, a number of different explanations have been given for CEO entrenchment. In Eisfeldt & Rampini (2004), the CEO is privately informed about the value of assets under his control and chooses an overtly ambitious strategy whose success depends largely on his own performance, with the aim of shutdown decision or makes irrelevant the dividend payment decision. Literature has revealed the dual role and tenure of the CEO as a sign of entrenchment of the CEO (Linck *et al.*, 2008). However, firms could deviate from their optimal tenure whereas, relationships between the board and the CEO established through repeated interactions can lead to distortions in board composition and director selection (Kuhnen & Niessen, 2009 and Hermalin & Weisbach, 1998), CEO retention decisions and CEO compensation decisions (Kim and Hwang, 2009).

Different literature views entrenchment as either ex-post costly or ex-ante suboptimal, Fisman, Khurana and Rhodes-Kropf (2004) argue that entrenchment is valuable because it prevents CEOs from being sub-optimally fired by misguided shareholders. This entrenchment result differs from existing literature because entrenchment is not a consequence of the CEO's own power, nor from collusion between board and CEO. Entrenchment is mitigated, but not eliminated, when the firm has more assets in place relative to investment opportunities (Dow, 2013).

The study weighs the importance of CEO entrenchment in the board because when entrenchment is attributable to the regulatory restriction with absence of hostile acquirers from outside it helps entrenched CEOs to remain insulated. The firms with entrenched CEOs have less cash available relative to total assets, and lower growth

rate of assets and thereafter likely consequences of higher dividend payout (Feng *et al.*, 2007 and Dow, 2013).

2.4.6. The Moderating Role of CEO Entrenchment

Moderating role of CEO entrenchment on CEO duality and dividend payout relationship

When the CEOs hold the chairpersonship of the board, they sets the agenda and can influence directors' voting decisions. Hence, companies with CEO duality are subject to high agency costs (Feng *et al.*, 2007 and Linck *et al.*, 2008). The agency theory argues that separating the two roles of CEO and board chairperson in a firm facilitates more effective monitoring and control of the CEO and such firms may outperform those with CEO duality (Daily and Johnson, 1997), while the stewardship theory favors the CEO duality, as one person serving both as a firm's CEO and board chairperson, because it establishes strong, unambiguous leadership and may make better and efficient decisions (Stiles, 2001).

Wen-Hsi *et al.*, (2012) explores the moderating roles of corporate governance on the relationship between CEO duality and firm performance using a sample of 1,974 publicly listed firms in Taiwan. The effect of CEO duality on dividend payout shrinks. The results do not, however, support the moderating role. However, Combs *et al.*, (2007) using 73 US firms CEOs find that when duality is conferred under an inside director dominated board, the opportunity for CEOs to take unchallenged self-serving actions increases.

Dunn (2004) found that dual CEO-chairs are more likely to publish fraudulent financial statements. Given the risks of duality under inside director dominated boards, shareholders should discount share prices and thereafter reduce dividend

payout as a result confirm the existence of moderating effect. Therefore, this study finds it relevant to investigate whether there exists a negative moderating effect of CEO entrenchment on the relationship between CEO duality and Dividend payout. The CEO entrenchment may serve as a moderator to the extent that it accounts for the relation between CEO duality and dividend payout.

Moderating role of CEO entrenchment on board size and dividend payout relationship

Prior work has found that board size relates to dividend payout where large board size reflects an organization's ability to secure needed resources and thereafter high dividend payout (Lehn *et al.*, 2004; Boone *et al.*, 2007). The previous discussion on board size suggests the besides its direct effect, CEO entrenchment may moderate the effect of board size on dividend payout.

The study done by Sulong and Nor (2008) using 406 listed firms on the Main Board of Bursa Malaysia from the period 2002-2005, examined the moderating effects of board governance on dividends and types of ownership structure, and found that the interaction term between dividends and board size showed significantly lower coefficient positive moderating effect for both years. Therefore, good board governance; particularly board size can enhance the monitoring role of dividends in reducing agency costs, thus increasing firm value. The result indicate the existence of moderating effect between board size and dividend policy.

However, Cheng *et al.*,(2008) examined the moderating effect of the market for corporate control on board size and firm performance using 350 US firms from the period 1984 – 1991 find that the number of board of directors members, is negatively correlated with firm performance and thereafter dividend payout. The justification of the negative junction by the difficulties of communication, coordination and

arrangement between the members of the large-sized board and thus argue that the problems are more pronounced with larger boards. Therefore, there is no moderation between board size and dividend payout.

The study done by Subramaniam and Susela (2011) on public listed firms on bursa Malaysia to examine board size and board composition in moderating the relationship between growth opportunities and dividend policies in an emerging economy indicate a negative relationship between high growth firms and dividend payout policy is weaker for firms with larger board size and more non executive directors representing the board, thus postulate non existence of moderation between board size and dividend payout.

Therefore, a larger board helps in effective oversight of management to facilitate improved monitoring role of the board to mitigate the agency costs, thereafter lower CEO power and increased investment. This evidence corroborates the earlier interpretation that dividend policy is designed mainly to mitigate the high agency costs caused by CEO entrenchment and thus affect negatively the moderation between board size and dividend payout (Feng *et al.*, 2007); Providing that larger boards have coordination problems, the negative sign on board size supports the notion that CEOs subject to weak monitoring pay lower dividends. Hence a negative coefficient for board size, is predicted in this study for a moderating effect of CEO entrenchment on the relationship between board size and dividend payout.

Moderating role of CEO entrenchment on board tenure and dividend payout relationship

Board tenure, measured as the number of years of all board members in the firm exhibit diversity with more heterogeneity in director (Wahid, 2012). However, the performance-diversity relationship is driven by average dispersion of tenure on the

board thus the friendliness between boards (Adams & Ferreira, 2007; Huang & Kim, 2009; Francis *et al.*, 2011 and Ovidiu *et al.*, 2012). The departure of a CEO should on one hand break existing relations with the board, as long as the newly appointed CEO is not equally acquainted with the board and the experienced board members who appointed the CEO should on another hand use the existing relations for job performance only, the reason is that for an additional year of tenure, learning effects prevail for younger's boards, while CEO entrenchment costs dominate for older boards. In this case the marginal cost of CEO entrenchment ought to be lower at least for the short term, thereafter expending where firm's dividend payout have to be high at a longer tenure.

Furthermore, as researchers acknowledge, there are still few studies conducted empirically on the moderating effect of CEO entrenchment on board tenure and other variables but none of them overlooked in the context of dividend payout. For example, Combs *et al.*, (2007) using a sample of UK and US 73 CEOs find that CEO entrenchment moderates the board tenure with negative effect and firm performance link. The study done by Tarus and Aime (2014) on public listed firms in Kenya for the period running from 2002-2010, find a marginally significant and negative moderating effects of firm performance on board tenure. Therefore the research concludes the existence of moderated effect on board tenure. This shows that when testing the moderation of CEO entrenchment and board tenure with other variables, the results provide a positive relationship.

According to agency theory, CEOs are self-interested, risk averse, and possess goals that diverge from those of board of directors thus shareholders were relieved by the demise of powerful CEOs when the board was not sufficiently independent to keep

CEOs from taking self-serving actions; moreover, the departure of entrenched CEOs provoke high dividend payout.

Moderating role of CEO entrenchment on non executive director and dividend payout relationship

The CEO entrenchment exists when a CEO last longer in the position and as board member is able to influence board of directors decisions through strategies/projects which are self interest serving (Combs & Skill, 2003 and Bozec & Dia 2007) whereas the role of the non-executive directors is to provide an outsider's contribution and oversight to the board of directors (Puan *et al.* 2006). Hence, when the non executive directors balance the power gained by CEO entrenchment, shareholders can have greater confidence that the CEO's power is being used to advance their interests thus, dividend payout should decline upon the departure of a long-tenured CEO who had been monitored by the non executive directors dominated board and rise in response to the unexpected removal of a long-tenured CEO who had not been similarly constrained.

Furthermore, practical implications that are particularly relevant in light of recent corporate governance scandals centred on powerful CEOs and regulatory trends towards imposing greater numbers of non executive directors on boards. Although agency theory acknowledges a role for mutual monitoring, power circulation helps explain when these alternative mechanisms are effective. Thus, the importance of non executive director dominated boards in agency theory appears circumscribed by situation variable such as CEO entrenchment.

Therefore, To the best of the researches knowledge, there is no comprehensive study investigating the moderating effect of CEO entrenchment on non executive directors

and dividend payout relationship apart from some highlights in few of studies which likely to show its effect on dividend payout, therefore, according to Sulong and Nor (2008) for firms listed in the main board of Bursa Malaysia for the year 2002 and 2005, there is a positive and significant moderated effect on non executive director though that the trend follows the same array. It means when non executive director increases, the dividend payout also increases. Therefore, the research finds that CEO entrenchment can moderate the relationship between non executive director and dividend payout.

2.5. The Conceptual Framework Model

Dividend payout is an endogenous variable which was measured using total dividend to total earnings. The exogenous variable was board structure grouping four variables as well as board tenure, non executive director, board size and CEO duality which coupled to become moderating variable. This study tested whether CEO entrenchment moderate the impact of the board structure on dividend payout. CEO entrenchment was measured using the number of years in service as board member. Firm size, firm age, free cash flow, industry, firm performance and country were controlled to normalize the results for better and more reliable inference. This relationship between variables is show in figure 2.1.

The following is the conceptual framework of this study:

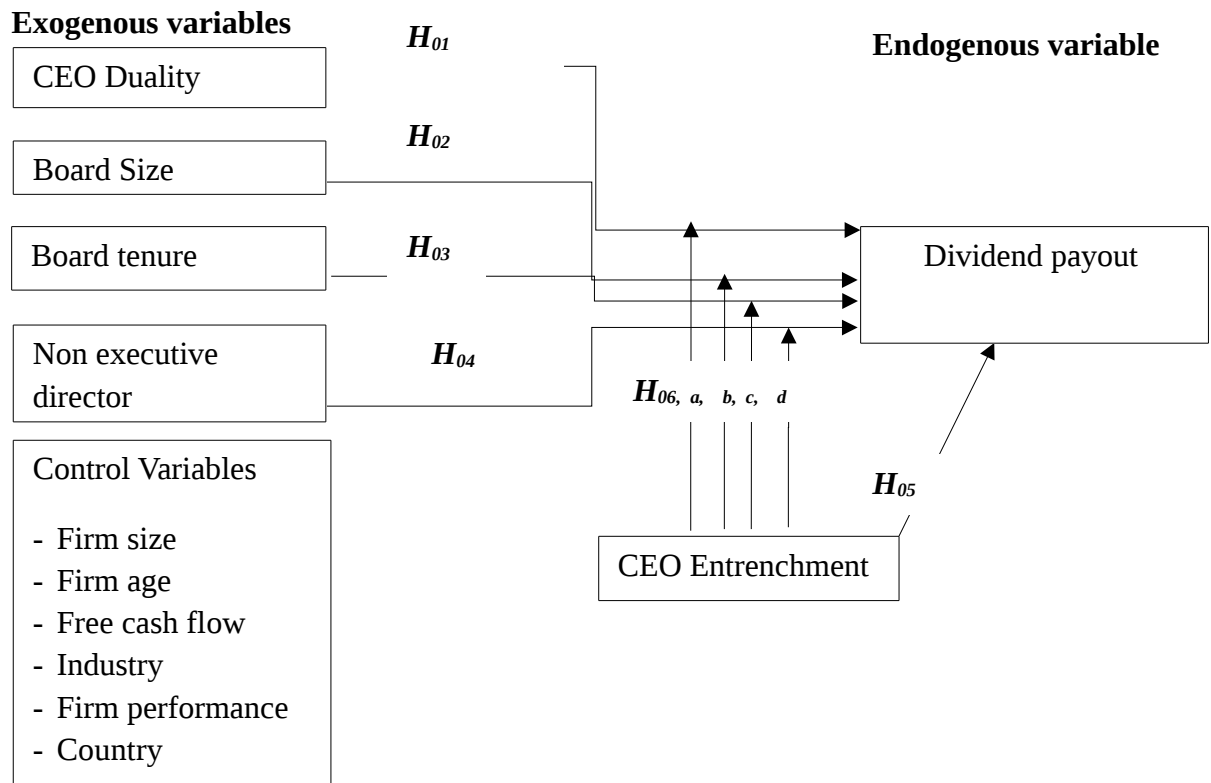


Figure 2.1 Conceptual Framework

Source: survey study, 2016

CHAPTER THREE RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research design, the target population used, the sampling design, data collection methods, measurement of variables, techniques and models. Models analysis, ethical considerations and limitations of the study are also presented.

3.2 Research Design

The study used panel regression approach covering 9 years from 2005-2013. To address research objectives explanatory research design was used because the variability allied with a construct such that the effect of board structure on dividend payout and its moderated variable such as CEO entrenchment can be understood well when it is observed over time (Brunninge, 2007).

3.3 Target Population

The study targeted all listed firms in securities exchanges of four East African countries. In total, 71 listed firms were drawn for the study. Kenya had forty eight, Tanzania twelve, Uganda nine and Rwanda two. Nine firms from Kenya that were cross-listed in more than one country, the study drop them in countries where they are subsidiaries and retained only data in the country of origin for instance Kenya commercial bank, equity bank, national media group, Kenya airways, uchumi supermarket limited, Umeme ltd, Centum investment company Ltd, East Africa breweries ltd and Jubilee holdings ltd.

Four companies in the above category three from Uganda and one from Tanzania were excluded for the lack of relevant information on dividend payout in the annual

report or financial statements. Cross listed firms were retained in the country of origin. The appendix I shows listed firms that were sampled and drawn in the study.

3.4 Sample Size and Sampling Techniques

The study used firms listed in the stock exchange for selected countries in East Africa among others Kenya, Uganda, Tanzania and Rwanda.

The distribution of data per country from table 3.1 shows that 71.64 percent are from Kenya followed by Tanzania with 16.42 percent, Uganda with 8.95 and lastly Rwanda in 2.99. This shows how the listed companies are few depending on each country. Rwanda Stock exchange started from 2008 (Kazarwa, 2015), Uganda Securities Exchange started from 1997 (Minier, 2009), Dar-es- Saalam Stock Exchange started from 1994 (DSE, 2015) and Nairobi Securities Exchange started from 1954 (Ngugi, 2003). This is the fact that Nairobi Securities Exchange is old while other are still young and thus provides the reliance of the study while employing more companies from Kenya. The following table provides details on the frequencies.

Table 13.1 Distribution of Companies per Country

Country	Frequencies	Percentage	Cumulative percentage.
Kenya	48	71.64	71.64
Rwanda	2	2.99	74.63
Tanzania	11	16.42	91.05
Uganda	6	8.95	100.00
Total	67		

Source: Survey data, 2016

Therefore, in this study the categories of companies were analyzed to get the full number of samples, whereas differentiating companies would not provide useful analysis since Rwanda had only two companies, Uganda 6 companies. As Dewenter and Warther (1998) and others used in their study.

The study used a survey of all firms listed in the stock markets of four countries excluding firms that are cross-listed. The study selected 67 listed firms for a period of 9 years which make 603 observations. Table 3.2 shows the disparity of different industry categories listed in four countries' securities exchange as well as Kenya, Tanzania, Uganda and Rwanda. The result shows that agriculture has 12.3 percent, production 25.0 percent, commercial and service 31.2 percent while financial services had 31.5 percent. This brings more accuracy in the study, whereas more companies used were finance and commercial services based. The following table provides details on frequencies description using categories of companies.

Table 3.2 Frequency Distribution of Categories of Companies

Companies	Frequency	Percent	Cumulative Percent
Financial services	190	31.5	31.5
Commercial and service	188	31.2	62.7
Production	151	25.0	87.7
Agriculture	74	12.3	100.0
Total observations	603	100.0	

Source: Survey data, 2016

3.5. Data Collection and Procedure

Secondary data were used through information gathered from firms' annual and financial reports. Data was collected from Nairobi securities exchange hand books and website, Uganda securities exchange website, Dar-es-Salaam securities exchange and Rwanda stock exchange website and companies' annual reports accessed through their offices, audit reports and websites of companies from four East African countries for relevant data.

Therefore, the data collection instruments related to content/document analysis on dividend policy and board structure of quantitative data presented in the annual

financial statements. Managers or other high ranked senior staff or the owners of the companies, were in a position to provide the report on the board structure and dividend payout as the positions they held in the firms placed them in full knowledge and capability to do so.

3.6.Measurement of Variables

3.6.1.Dependent Variable

The dependent variable in this study is the dividend payout. According to Mehrani *et al.*, (2011); Harada & Nguyen (2009); Karathanassis & Chrysanthopoulou(2005) and Short, *et al.*, (2002), the dividend is a sum of declared dividends for every ordinary share issued. It means the total amount of distributed dividends paid out over an entire year divided by the number of outstanding shares.

Boudry (2011) points out that Hardin & Hill's (2008) measurement of dividends payment based on before tax net income may create errors as taxable income may vary based on differences in financial and tax accounting.

Given the data availability and ease of calculation, consistent with Boudry (2011), the author's methodology is followed in this study. Specifically, we define dividends payment as the difference between total annual common dividends paid over net income after tax.

3.6.2.Independent Variable

CEO Duality refer to the situation where CEO sits as a board chairperson and executive of management. In this study, CEO duality is measured as a dummy variable. If the CEO is the Chairperson of the board its value is 1 and otherwise the value is zero. This measurement was also used by many other authors (Lei & Song 2004; Lam & Lee, 2008; Mansourinia *et al.*, 2013 and Moscu, 2013).

Board size refers to the number of board members. Studies showed that the large boards composed of ten members is therefore functional, while those with few members were likely to be dysfunctional whereas it faced the lack of quorum for enabling board meetings occur or raised the unnecessary disagreements in deliberations/ discussions, caused by the disparity of interests including vested ones. Therefore, consistent with Lam & Lee (2008) and Gill & Obradovich (2013) the study used the total number of board members.

Board of directors tenure was measured based on the mean number of year's board of directors have spent as board members in the firm. Tarus & Aime (2014); Kaymak & Bektas, (2008) used the same measurement.

Non executive director was measured as the number of outside directors to total number of directors. Several studies used these measurements among others (Bhagat & Bolton, 2008; Che Haat *et al.*, 2008 and Basil & Hussainey, 2009).

3.6.3.Moderating Variable

According to Hayes (2013), three conditions are enforced to verify the existence of moderation. Firstly, variance of interaction should be significant compared to the variance without interaction. Secondly, the moderated variable coefficient should be different from zero and lastly, the overall model (R-squares) should be significant.

The study used CEO Entrenchment as moderator. It is therefore measured as the number of years CEOs has spent in the company as board member without being changed. Different studies used this measurement (Yermack 2004; Inderst & Mueller, 2005; Feng *et al.*, 2007 : 2010; Carmen *et al.*, 2009; Taylor, 2010 and Dow, 2013).

3.6.4.Control Variables

Consistent with Beiner *et al.*, (2006) and Chiang (2005) firm size is measured as the natural log of total assets. Smith & Watts (1992) assert that firms with more assets

have higher dividend payout. However, Deeptee & Roshan (2009) show that the signaling effect of dividends diminishes for the larger firms, since larger firms produce much more information than smaller ones.

The study examined and ascertained the assertion that big companies tend to have more resources and lasted for a long time. This is because literature indicates that the potential impact of firm age on corporate performance is not well settled. This study measures firm age as the total number of years firm was incorporated and operated. The same measurement was used by Coles *et al.*, (2008); Boone *et al.*, (2007); Guest (2008) and Linck *et al.*, (2008).

According to Jensen (1986), freecash-flow is measured as cash excess, it means cash from operating activities. This study uses the same measurement to get free cash flow by deducting from total sales all related operating expenses Rozeff (1982); Jensen *et al.*, (1992) and Mollah *et al.*, (2002) found evidence supporting this hypothesis whereby there is a positive relationship between free cash flow and dividend payout whereas dividend is paid in order to reduce managerial discretionary funds and, thus, avoid agency costs of free cash flow.

The industry is measured using dummy codes, whereas companies' working sector are grouped into the wider industry coded from 1 to 4 categories, finance, commercial and services, production and agriculture (Yurtoglu, 2000 and Irge & Meral, 2009). This variable is controlled because it is measured as a dummy variable for the effectiveness and enhancement of quality that dividend payment will vary depending on the industry for instance firms in sector are likely to pay less or more dividend because board structure and decision vary between industry to industry.

A dummy code was also introduced as control variable for the relevant countries, Tanzania, Kenya, Uganda, Tanzania and Rwanda. Though the number of companies listed on market securities exchange in these countries, Tanzania was taken as reference in coding with 0, Kenya 0 and 1 as dummy 1, Uganda 1 as country dummy 2, Rwanda 1 as country dummy 3. Each of the stated countries' companies has a peculiar economy, which differentiates it from others. To represent a variable with k categories, $k-1$ dummy variables are required. Hardy (1993); Doidge *et al.*, (2005) and Aggarwal, *et al.*, (2007) used the same measurement.

Table 3.3. Summary of measurement of variables

No	Variables	Measurement
1	Dividend payout	Total dividends to total earnings
2	CEO duality	Dummy variable 1 if the CEO and Chairman are the same Person; 0 if the CEO and Chairman are different persons
3	Board size	Total number of directors on the board
4	Non executive director	Outside directors to total number of directors
5	Board Tenure	The average board tenure of executive directors.
6	CEO entrenchment	Length of service as member of the board
7	Firm size	Natural logarithm of total assets
8	Firm age	Number of years since firm's incorporation
9	Free cash flow	Net income, depreciation, payable interest and expenses of the firm
10	Industry	Dummy variable 1 to 4 as industry stratum
11	Firm financial performance	Net income to total assets in USD currencies (ROA)
12	Country	Dummy1 = Tanzania 0, Rwanda, Uganda and Kenya 1 Dummy 2 = Tanzania 0, Kenya 0, Rwanda and Uganda 1 Dummy 3 = Tanzania 0, Uganda 0, Kenya and Rwanda 1

3.7. Data Analysis

After collecting data using annual financial reports, there was data entry into the econometric data analysis package E-views 7.0, each company has given a representative number of which was valued and labeled to make the analysis meaningful and allowed crosschecking. Different methods envisaged for this research.

The study used quantitative approach. Data analysis was compiled and analyzed using descriptive analysis as well as frequency distributions, percentages, mean and standard deviation, and correlation (Agresti, 2007; Carter *et al.*, 2011 and Field, 2005). Multiple regression analysis was used for applications involving the use of exogenous variables as well as CEO duality, Board tenure, board size, non executive director, CEO entrenchment to estimate the value of the endogenous variable (dividend payout).

Exogenous variables and its coefficients have been included in the regression equation to represent the slope of the regression line between the exogenous variable of interest and the endogenous variable given that the other exogenous variables was included in the model and statistically determined.

The panel regression model examines unobserved variables that maybe either of the fixed effects or between effects type (Bezem *et al.*, 2015). An important assumption to use random effect panel is that unobserved variables do not correlate with exogenous variables (Allison, 2005). Panel data require errors terms in each time period to be uncorrelated with the exogenous variables in the same time period, for the estimator to be unbiased (Green *et al.*, 2003; Baltagi, 2005 and Wansbeek & Kapteyn,1992).

3.7.1. Model Specification

In order to determine the effect of CEO entrenchment on the relationship between board structure and dividend payout. The following general random effect panel models was developed:

$$Y_{it} = \alpha_i + \beta_1 C_{it} + \beta_2 x_{it} + \beta_3 m_{it} + u_{it}$$

The model specification is as follows:

$$y_{it} = \alpha_0 + \beta_1 C_{it1} + \beta_2 C_{it2} + \beta_3 C_{it3} + \beta_4 C_{it4} + \beta_5 C_{it5} + \beta_6 C_{it6} + u_{it} \dots\dots\dots(1)$$

$$y_{it} = \alpha_0 + \beta_1 C_{it1} + \beta_2 C_{it2} + \beta_3 C_{it3} + \beta_4 C_{it4} + \beta_5 C_{it5} + \beta_6 C_{it6} + \beta_7 x_{it1} + \beta_8 x_{it2} + \beta_9 x_{it3} + \beta_{10} \text{Payed 13 nt result} \dots\dots\dots(2)$$

$$y_{it} = \alpha_0 + \beta_1 C_{it1} + \beta_2 C_{it2} + \beta_3 C_{it3} + \beta_4 C_{it4} + \beta_5 C_{it5} + \beta_6 C_{it6} + \beta_7 x_{it1} + \beta_8 x_{it2} + \beta_9 x_{it3} + \beta_{10} x_{it4} + \beta_{11} x m_{it1} + \beta_{12} x \dots\dots(3)$$

Where

$i = 1, \dots, N$ Firms; $t = 1, \dots, T$ time periods,

y_{it} is the value of dividend payout for company i^{th} ...t...time

C_{it1} is the value of firm age for company i^{th} ...t...time

C_{it2} , is the value of firm size for company i^{th} ...t...time

C_{it3} is the free cash flow for company i^{th} ...t...time

C_{it4} is the value of firm performance for company i^{th} ...t...time

C_{it5} is the dummy value variable of the industries for company i^{th} ...t...time

C_{it6} is the dummy value variable of countries for company i^{th} ...t...time

x_{it1} is the value of board size for company $i^{\text{th}} \dots t \dots \text{time}$

x_{it2} is the value of board tenure for company $i^{\text{th}} \dots t \dots \text{time}$

x_{it3} is the value of CEO duality, for company $i^{\text{th}} \dots t \dots \text{time}$

x_{it4} is the value of non executive director for company $i^{\text{th}} \dots t \dots \text{time}$

m_{it} is the value of moderator CEO entrenchment for company $i^{\text{th}} \dots t \dots \text{time}$

xm_{it1} is the board size interacting with CEO entrenchment for company $i^{\text{th}} \dots t \dots$
time

xm_{it2} is the board tenure interacting with CEO entrenchment for company $i^{\text{th}} \dots t \dots$
time

xm_{it3} is the CEO duality interacting with CEO entrenchment for company $i^{\text{th}} \dots t \dots$
time

xm_{it4} is the non executive director interacting with CEO entrenchment for
company $i^{\text{th}} \dots t \dots \text{time}$ and

u_{it} is the error term for company $i^{\text{th}} \dots t \dots \text{time}$

3.8. Assumptions for the Regression Model

To test the regression model, a mathematical equation is presented where exogenous and endogenous variables are mentioned. It has therefore assumptions and violation can result in parameter estimates that may be biased, inconsistency and inefficient. The following assumptions underlie the multiple regression model of analysis:

Normality using jarquebera test. The calculation of p-values for hypothesis testing typically is based on the assumption that the population distribution is normal. About

the mean (Tharenou *et al.*, 2007). The Jarque-bera test for normality consider the null hypothesis as normal distribution whereby skewness is zero and excess kurtosis is zero against the alternative hypothesis (non-normal distribution). Using chi-square distribution with 2 degrees of freedom, the null hypothesis of normality is rejected if the calculated test statistic exceeds a critical value from the distribution or kurtosis value exceeds 3.

Lineality refers to the degree to which the change in the endogenous variable is related to the change in the exogenous variables (Hair *et al.*, 2006). The degree of change should be consistent across all data points, meaning a line of best fit should be a best linear unbiased estimator. The Ramsey RESET test was used for this regression to check whether the relationship between the CEO entrenchment, board structure and dividend payout variables is linear or not.

Independence of error terms occurs to where observation should be independent of one another. The regression assumes that the errors from the prediction line are independent which is very difficult in statistic test to be accurate. Durbin-Watson was used to test this. The ranges is from zero to four. A value within the threshold between 1.5 and 2.5 indicates independent of errors (Montgomery, 2001 and Hair *et al.*, 2006).

Homoskedasticity refers to where dependent variable has the same variability around the regression line through them. The uproar appears in the regression function where dependent variables have all the same variances regardless the values taken by the independent variables. homoscedasticity errors is used to move from the second line of independent of error to the third line. It is the independence assumption which is often violated in panel data assuming homoskedasticity residuals is not necessary since the

Rogers standard errors it means firm/time effect are robust to heteroskedasticity. According to Holly and Gardiol (2000) LM test indicates that when variance is greater than zero is more likely to be the case in panel data where heterogeneity across the individuals is likely to be present even if heteroskedasticity is not.

Therefore, according to Baltagi *et al.*, (2005b) derived a joint Lagrange multiplier test for homoscedasticity where under the null hypothesis, the model is a homoscedastic one-way error component regression model and thus they derived an LM test for the null hypothesis of homoscedasticity of the remainder error term assuming homoskedasticity of the individual effects for threshold variance equal to zero. The study used this process for homoscedasticity.

Multicollinearity refers to when two independent variables are highly correlated which cause the hindrance to determine the separate effects of individual variables and thereafter its computation and interpretation (Saunders *et al.*, 2009 and Field, 2005). Therefore the study followed the procedure set out in Hair *et al.* (2006) due to the combined effect of two or more other independent variables thus variance inflation factor (VIF) was used. The threshold for VIF is 10 for multicollinearity. According to Hair *et al.*, (2006) an examination of the correlation matrix for the independent variables. The presence of high correlations of 0.9 and above is an indication of substantial collinearity whereas the bellow result indicate no problem of collinearity. The results are shown in table 4.5.

LM-test by Breusch and Pagan tests for random effects in a linear model is based on pooled OLS residuals, while estimation of the alternative model involves generalized least squares either based on a two step procedure or maximum likelihood. LM test can be interpreted as a Wald test of the distance from zero of the first derivative vector

of the log likelihood function (the score vector) of the unrestricted model evaluated at the restricted maximum likelihood estimates (Breusch & Pagan, 1980 and Hossain *et al.*, 2013).

Hausman and F-test is referred for testing either fixed effect model is appropriate or random effect model. In e-view two options are envisaged whether using fixed effect or random for the cross sectional (Green & McKenzie, 2012). Random effect (RE) is preferred under the null hypothesis due to higher efficiency, while under the alternative Fixed effects (FE) is at least consistent and thus preferred (Gardiner *et al.*, 2009; Mohanty, 1999 & Mahakud, 2005). The F-test is to advise whether to use fixed effects or pooled OLS, if fixed effects are non-zero, therefore pooled OLS and random effects will be biased. Hausman test prevailed because that the fixed effects are non-zero and variables are yet uncorrelated. Between random and pooled effects the regression has the explanatory power over interact within a simultaneous regression as indicated by Collins *et al.*, (2009), the CEO entrenchment as moderator to board structure and dividend payout.

3.9. Robustness Test

The study examined how corporate dividend payout suffers from endogeneity problems. Nevertheless, The causal relationship between board structure and dividend payout runs in both directions the estimation by the ordinary least squares (OLS) would yield biased and inconsistent estimates of the structural parameters. Contrasting the results obtained using OLS estimation the study carried out the Hausman test to check the existence of endogeneity and afterwards use instrumental variables to estimate the effect of board structure on dividend payout. Results

demonstrate the causal effect of board structure on dividend payout (Hermalin & Wisbach 1991 and McKnight & Weir, 2009).

Furthermore, robustness checks was also conducted to address the issue related to reliability and validity of the results that obtained from the study. The robustness checkers was concerned with the cross-country currency differences which posed a challenge of the value of the dividend payout. To mitigated solution for this instrumental variables was used where the values in the study were converted to one currency such as US dollars. The exchange rate is presented in the appendix two.

3.10. Ethical Considerations

Privacy and confidentiality of the researcher in the process of data collection and analysis were provided to anyone. Names of firms and individual directors were treated anonymously, i.e. no name of the individual board member or even the company was highlighted in the study to ensure anonymity of the study.

The researcher took into account ethical standards and the integrity of the research process. Specifically, the researcher ensured protection and privacy of all people/ respondents involved in the research as a way of maintaining trust with study respondents. For which reason, the researcher ensured that respondents were explained to the purpose of the study and the importance of the earmarked respondents being the right people to provide the right information for the exercise.

Prior to doing so, the researcher ensured to make convenient appointments with data providers, to ensure no trespass on their time, they accordingly expected him, and the researcher did not become a bother to them.

Furthermore, the researcher kept internal confidential with data providers by making sure that there were no identifiers such as names, addresses, telephone numbers that can make research subjects identifiable in the study report. Therefore, the study followed the informed consent rules, throughout the exercise, to ensure the needed or concerned individuals participate voluntarily in the study. Always, request for information was addressed to senior managers who assigned the responsibility to others or handled the issue themselves.

3.11. Limitation to the Study

The researcher had to get the right sample size, the researcher used all listed firms on securities exchange in East africa. The companies was difficult to determine because some of these firms were in the process of being delisted from the securities exchange for example from Nairobi Securities Exchange . The researcher had to choose among all listed firms from the securities exchange the period of the study. Some financial statements of sampled firms were not available and it was not possible for the researcher to get financial reports for all years. The researcher did not include these companies from the sample.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1. Introduction

The current chapter presents the empirical findings of the study and their interpretation. This includes sample characteristics, descriptive statistics, test of assumptions of the regression analysis, the results of the regression models as well as their interpretation and finally the discussion of the results.

4.2. Data Preparation and Screening

Collected data was first entered into excel format and screened for observed variables before importing into e-views format. This is because it was necessary to establish that the dependent and independent variables met the threshold adequate for generalizations of the study findings.

4.3. Exploratory Data analysis

Before examining, the relationship between dividend payout and direct, indirect and moderated effects, the study explored the amount of dividend pay, there were variations in dividend payout across various companies. From the findings, it can be inferred that all listed companies had different intercept.

4.4. Descriptive Statistics

The results in Table 4.1 show the descriptive statistics for both dependent and independent variables. The mean was used as measure of central tendency while standard deviation was used as a measure of dispersion. Logarithmic transformation was carried out as such to convert heteroskedastic error into the homoscedastic error model and reduce the scale in which the variables are measured (Carter, Griffiths & Lim, 2011). Therefore, the standard deviation denoted as SD or std deviation tells

how data is concentrated around the mean, or scattered far & wide, an SD close to 0 and 1 indicates that the data has the expected value of the set, while a high standard deviation indicates that the data point is far to be close to the mean (Agresti, 2007).

The average dividend payout was USD 17 with a maximum of USD 750 and minimum of USD 0 and overall standard deviation 61.685 as indicated for the dividend to be far scattered between companies. The average board size was 9 with a maximum of 21 members between groups and a minimum of 2. Most of the companies' board have non-executives ranging between 2 and 8 with a standard deviation of approximately 3, thus the variance of board members is not scattered. The average board tenure was 9,781 with maximum of 34 and a minimum of 2 and standard deviation of 5.930 that indicate the values are far scattered. The Non-executive director's average is 0.740 with maximum of 1 and a minimum of 0.0 and standard deviation of 0.184. This means that there are existing companies which all board members are non-executive directors like Tanzania those which have no member of non-executive director like Kenya and thereafter indicate that the variables are not scattered. The descriptive statistic shows that the chief executive officer entrenchment average was 10.474 with maximum of 35 and a minimum of 0 and standard deviation approximately of 6.383 This shows that there were chief executives' whose power went more than 35 years while being in the board and the company's values were less to be zero, neither one and though being scattered far out of the set and not well distributed. Normality test results in Table 4.2 confirmed so. The non-executive directors and country dummies' value was under one and came close to zero, this means that their values are homogeneous and tend to be in the expected value of the set "normal distribution.

Control variables which were firm age, firm size, free cash flow and firm performance and interaction variables with board structure and moderated variable chief executive officer entrenchment were also summarised. Result shows that firm age average was approximated 53 with maximum 113 and minimum 6 and standard deviation of 26.837 which are scattered far to set the range. This was the same as the interaction of board size to chief executive officer entrenchment and board tenure to chief executive officer, which had a high standard deviation far to be one, this means that their values were not homogeneous and had spread out over a wider range of values. Besides that, the standard deviation for firm size, firm performance, free cash flow were homogeneous and their values fit the condition in the expected set.

Table 4.1 Descriptive Analysis

Variables	Kenya		Rwanda				Tanzania				Uganda				Overall					
	Mean	Std.De	Min	Max	Mea	Std.De	Min	Max	Mea	Std.De	Min	Max	Mea	Std.De	Min	Max	Mea	Std.De	Min	Max
Dividend payout	4,71	18,12	0,00	248,4	0,18	0,18	0,00	0,50	94,9	137,34	0,00	750,0	15,2	26,59	0,00	140,0	17,6	61,69	0,00	750,0
CEO Duality	0,00	0,31	0,00	1,00	0,00	0,49	0,00	1,00	0,00	0,29	0,00	1,00	0,00	0,00	0,00	0,00	0,00	0,30	0,00	1,00
Bord size	9,00	2,99	2,00	19,00	8,00	1,62	5,00	10,0	8,00	3,84	5,00	21,00	8,00	1,23	7,00	10,00	9,00	3,02	2,00	21,00
Board tenure	10,17	6,29	2,00	34,00	6,00	2,06	4,00	8,00	9,90	4,63	3,00	20,00	6,71	3,23	4,00	18,00	9,78	5,93	2,00	34,00
Non executive director	0,73	0,19	0,00	1,00	0,81	0,12	0,60	1,00	0,80	0,16	0,50	1,20	0,75	0,11	0,57	0,89	0,74	0,18	0,00	1,20
CEO entrenchment	10,83	6,45	0,00	35,00	8,50	0,51	8,00	9,00	9,04	4,88	0,00	20,00	10,0	8,55	4,00	28,00	10,4	6,38	0,00	35,00
Firm age	57,74	26,31	6,00	113,0	44,0	4,12	40,0	48,0	33,4	15,97	13,0	63,00	46,0	33,75	10,0	107,0	53,2	26,84	6,00	113,0
Firm size	12,00	2,39	4,00	21,00	12,0	0,84	11,0	13,0	11,0	2,53	3,00	15,00	11,0	1,74	8,00	14,00	11,0	2,37	3,00	21,00
Firm Performance	0,10	0,44	-0,79	9,54	0,12	0,09	0,03	0,29	1,52	5,39	-	26,19	0,43	1,99	-	13,26	0,32	2,14	-0,79	26,19
Free Cash flow	2,58	3,15	-6,04	7,70	3,42	2,91	-	5,04	3,10	2,53	0,26	5,25	2,47	2,83	0,07	5,17	2,66	3,05	-6,04	7,70
							4,63				5,05				4,93					

Source: survey data, 2016

4.5. Statistical Tests of Assumptions

In the current section the study reports panel data diagnostics tests which include normality, serial correlation, heteroskedasticity, independence of errors and time fixed effects tests.

First goodness of fit test for normal distribution was done using Kruskal-Wallis Jarque-Bera (Tharenou *et al.*, 2007). The assumption is that, Kurtosis greater than three, sharper than a normal distribution, with values concentrated around the mean and thicker tails. This means high probability for extreme values; for Kurtosis less than three, flatter than a normal distribution with a wider peak. The probability for extreme values is less than 1 for a normal distribution, and the values are wider spread around the mean; for Kurtosis equal to three- normal distribution. The result of the Table 4.2 shows that the distributions become positive skewed which means fitting in the study.

Table 4.2. Test of Normality Variables

	Mean	Skewness	Kurtosis	Jarque-Bera	Max	Min
Dividend payout	3.5	0.626	3.66	72	5.540	-4.706

Source: survey data, 2016

Breusch Pagan LM test, was used to test the most appropriate model between pooled effects regression and random effects regression model. Since the P-value was less than 0.05, there was a significant difference on dividend payout among listed companies, thus pooled effects regression modeling was not appropriate for the study (Breusch & Pagan, 1980 and Hossain *et al.*, 2013).

Table 4.3 Chi-square values for the Breusch-Pagan LM test

Model	Dependent variable	χ^2 -value	p-value
1	Dividend payout	1039.35	.0000

Source: survey data, 2016

The results in Table 4.4 shows the test results for time fixed effects. The findings showed no significant time effects, thus, there was no need to introduce dummy variables or carry out two-way analysis.

Table 4.4 Test Results for time fixed effects

Model	Dependent variable	F- value	p-value
1	Dividend payout	15.55	0.0000

Source: survey data, 2016

The study also assessed multicollinearity. According to Field (2005) strongest correlation between two or more independent variables is the sign of multicollinearity. Gujarati (2009) also added that the standard error is infinite when there is a perfect collinearity and large a standard error when there is less than perfect collinearity. There are different method to detect it such as when there is a higher R-square with few significant t ratios. Two ways of correcting multicollinearity prevail, one is the use of pairwise which is more popular though not fit for panel least square, although zero order or simple correlation are comparatively and another one is the lagging to reduce residuals used where variables are not significant and low R-square which is not favored when testing only collinearity. The Table 4.5 indicate that all values for variables are less than 0.9 for level of tolerance which indicate no multicollinearity. The otherway around to test multicollinellity is the use of variance inflation factor, where the variable indicate the range from (1.165 – 2.927), suggesting that there was no problem of multicollinearity (Hair *et al.*, 2006).

Table 4.5 collinearity statistics

Variables	Collinearity Statistics	
	Tolerance	VIF
CEO Duality	.858	1.165
Board size	.823	1.215
Board tenure	.821	1.218
Non Executive Director independence	.762	1.313
Firm Age	.732	1.366
Firm Size	.657	1.522
Firm Performance	.833	1.201
Free Cash Flow	.779	1.283
Country dummy 1	.342	2.927
Country dummy 2	.418	2.390
Country dummy 3	.641	1.559
Industries	.786	1.272
CEO entrenchment	.827	1.209

Source: survey data, 2016

The independence of the error term was detected using the celebrated Durbin-Watson D statistic which is the ratio of the sum of squared differences in successive residuals to the regression sum of squares (Durbin & Watson, 1950 and Saunders *et al.*, 2009). A great advantage of the Durbin-Watson is that it is based on the estimated prediction error, which are routinely computed in the regression analysis. Gujarati (2004) indicate that if D is found to be 2, it indicate that there is no first order autocorrelation, either positive or negative. The results were found to be 1.1098 which is approaching the acceptable threshold of 1.5-2.5 (Hair *et al.*, 2006) for regression analysis.

Furthermore, the test of homoscedasticity to whether the dependent variable has the same variability around the regression line and following Baltagi *et al.*, (2005b) method, the result under the tables 4.7, 4.8 and 4.9 indicate that the squared variance for all independent variable are more than zero thus the null hypothesis is rejected, and though no homoscedasticity among the dependent variable. Endogeneity which is a

common problem with panel data was controlled using lags and tested using Hausman test. The results from Hausman test did not indicate endogeneity problem.

The secondary data collected had both cross sectional and time series characteristics, Breusch Pagan LM test showed a pooled effects model was not appropriate for the study. Because of this, it either was appropriate to fit random effects or fixed effects regression model. FE regression modeling is used if the study aims at examining effect of independent variables over time, on the other hand random effects modeling assume that there is no relationship between independent entities. To resolve the dilemma between random and fixed effects regression modeling Hausman test is applied where the null hypothesis states that the most appropriate model is random effects, if the p value is less than 0.05 we fit fixed effects regression modeling otherwise we fit random effects regression modeling. The most appropriate model for the relationship between dividend pay and CEO duality, board size, board tenure and board non-executive directors are fixed effects since the p value was less than 0.05.

Table 4.6 Hausman Test Results for Direct Effects Regression Model

Variable	Fixed	Random	Variable (Diff.)	SE
CEO duality	.9029915	13.59397	-12.69098	8.493112
Board size	-.7249587	-.0201236	-.704835	.5756558
Board Tenure	1.525187	.8227148	.7024726	.2836161
Non-executive directors	4.637453	.1364559	4.500997	4.29692
Chi square =9.73 P value = 0.0453				

Source: survey data, 2016

The results in Table 4.7 shows that the most appropriate model for both the direct and moderating effects was random effects since the p values was greater than 0.05.

Table 4.7 Hausman Test Results for Direct and Moderating Effects Regression Model

Variable	Fixed	Random	Variable (Diff.)	SE
CEO duality	1.314889	13.91307	-12.59818	8.514553
Board size	-.76324	-.0646781	-.6985619	.5775125
Board Tenure	.5660051	.2593219	.3066832	1.405997
Non-executive directors	5.147036	.8351123	4.311924	4.320951
CEO Entrenchment	1.065613	.7757945	.2898182	1.448385
Chi square = 10.04 P value = 0.0741				

Source: Survey data, 2016

According to Mohanty (1999) and Mahakud (2005), the high values of Hausman statistics probability, indicate the use of fixed effect (FE) models over Random Effect (RE) models and the low value induces to use the Random effect models. The Table 4.8 provides a less value of probability which indicate the use of random effect.

Table 4.8 Hausman Test Results for Direct and Controlling Effects Regression Model

Variable	Fixed	Random	Variable (Diff.)	SE
CEO duality	.9447758	18.1255	-17.18072	9.152049
Board size	-.8850823	.1411524	-1.026235	.7169364
Board Tenure	1.539207	.9866299	.5525773	.3083519
Non-executive directors	1.879524	-7.65401	9.533534	6.217683
Firm size	.3150758	.6988339	-.3837582	.9192791
Firm age	.2400136	-.029302	.2693159	3.25006
Free Cash flow (FCF)	.4004961	.7984525	-.3979565	.1561624
Financial performance (FP)	-.3525579	-.413934	.0613768	.392643
Chi square =6 P value = 0.8154				

Source: Survey data, 2016

The Heteroskedasticity was tested using modified Wald test while serial correlation was tested using Wooldridge Drukker test. Results in Table 4.9 revealed that there was no heteroskedasticity since the p value was greater than 0.05. In addition, there was no evidence for serial correlation among the panels since the (p value > 0.05)

Table 4.9 Result for Heteroskedasticity and Serial Correlation Tests

Model	Test for heteroskedasticity			Serial Correlation	
	Dependent variable	χ^2 -value	p-value	F-value	p-value
1	Dividend payout ratio	0.24	0.5542	1.926	0.6172

Source: Survey data, 2016

4.6. Correlation Analysis

Bivariate correlation is the measure of linear association between endogenous variable such as dividend payout and exogenous variables for instance board structure and chief executive officer entrenchment as well. Wong & Mulili (2011) state that the correlation coefficient value (r) ranges from 0.10 to 0.29 is considered weak; from 0.30 to 0.49 is considered medium, and from 0.50 to 1.0 is considered strong. Field (2005) observed that correlation coefficient should not go beyond 0.8 to avoid collinearity among independent variables.

Table 4.10 shows that free cash flow had a positive and significant correlation to dividend payout ($p < 0.00$), implying that the link of firms' sales and expenses to generate free cash flow affect positively the dividend payout. Countries had a positive and significant correlation to dividend payout ($p < 0.000$) the country's economic sphere pressure business growing throughout amplify investment (Li, 1994), differences in corporate governance across countries appear to be the result of variation in dividend payout through policy (Jenkinson & Mayer, 1992). The industry had a positive and significant correlation to dividend payout ($p < 0.000$) meaning that given the diversity in corporate objectives and environments, it is conceivable to have dividend policies that are favoring firms' industry performance, through that dividend payout can be set. However, the CEO entrenchment had a negative and significant correlation with dividend payout ($p < 0.05$) hence according to Feng *et al.*, (2005; 2006) the relationship between CEO entrenchment and dividend policy is detrimental

to shareholder interest, thus requires board of director control for enabling CEO provide accurate data toward effective decision among other dividend payout.

The firm size and dividend payout had a positive and non significant correlation. Although not significant listed firms are engaged for dividend payout. Amidu (2007) find a positive and significant correlation, his result revealed that dividend policy affects firm performance as measured by its profitability.

Although the correlation of firm size is positive and non significant while firm age is negative and significant to dividend policy, the latter are key variables to explain the firm's decision to pay dividends as long as large firms are more likely to be mature and thus have easier access to capital markets, and should be able to pay more dividends (Ho, 2003 & Aivazian *et al.*, 2003).

CEO duality had a positive and significant correlation to dividend payout. This result contradicts the one of Mansourinia *et al.*, (2013) and Gill & Obradovich (2013) who found a non significant and positive correlation between CEO duality, board size and dividend policy of companies. The result from the Table 4.10 shows that non executive director and board size had a negative/positive and non significant correlation to dividend payout. Although, non executive director are vital to assess the efficacy of the board in the area of corporate governance from corporate board position whose responsible for the care and monitoring of business executives is more important (Esmailzadeh, 2010 and Basir & Hussainey, 2009). However, the study done by Borokhovich *et al.*, (2005) also found the same result negative relationship between non executive director and dividend payout.

Board tenure has a negative and significant correlation to dividend payout. Whereas board tenure is the average tenure of all outside board members (Tarus & Aime,

2014), according to Huang (2013) it can exhibit an inverted shaped relation with firm performance and various corporate decisions among in dividend payout any changes in board composition alter the average tenure holding board composition constant. The findings of this study are confirmed by Wahid (2012) who finds that there is a negative correlation between board tenure and firm performance and after the shareholder compensation (dividend payout).

In relation to firm age, the study found a negative and positive significant correlation to firm size, countries, industries and non executive director with $p < 0.01$, This finding is consistent with the findings of Coles *et al.*, (2008); and Linck *et al.*, (2008) who found a positive and significant association between size and firm age. Firm performance, board size and board tenure are negative and significant correlates to firm age ($p < 0.05$). Normally firm with a deep-seated advice perform better on its earnings generated by the company in terms of profitability. This is one of the reason that push the firm to stay longer.

In the relation to firm size, the study findings reveal that, free cash flow had a positive and significant correlation with $p < 0.01$ whereas countries, industry, and firm performance had a negative and significant effect with $p < 0.01$. Although, that is the case, CEO duality correlates negatively with firm size due to the compensation that is granted on his/her interest.

In the relation of firm performance, it had positive and non-significant effect to free cash flow with $p > 0.05$. This result implies that the power of CEO influence performance of firm for the first 10 years and tends to be decline as long as S/he stays longer (Ryan *et al.*, 2009).

In the relation of countries, the firm performance is positive and significant with $p < 0.01$, the result showed also a negative and non-significant to free cash flow while the interaction between board size, board tenure and CEO duality and CEO entrenchment provide a negative and significant effect in a country where a business is settled.

In the relation of industries, the study result shows a positive and significant effect on country and interaction between board size and CEO entrenchment with $p < 0.05$, a negative and non-significant correlation for firm performance, interaction between board tenure and CEO entrenchment and thus a positive and non-significant correlation on free cash flow and interaction between CEO duality and CEO entrenchment.

In the relation of firm age, the study result showed a positive and significant correlation to firm size, a negative and significant to industry, country, firm performance with ranging between 0.01–0.05; and thereafter a negative and non-significant to free cash flow.

In the relation of CEO entrenchment, the study showed a positive and significant correlation with firm performance and a negative and significant with industry and free cash flow with $p < 0.01$, a negative and non-significant to firm age and firm size.

The study findings reveal that the non executive directors had a positive and significant correlation to firm size, free cash flow and interaction between board size, board tenure and CEO duality and CEO entrenchment with ($p < 0.01$); a negative and significant correlation on firm age and industry with $p < 0.01$; a positive and non-significant correlation to country, firm performance and thereafter a negative and non-significant correlation to CEO entrenchment. This is because the non-executive directors are elected according to their past experience and expertise in the area of

operation of the firm and thus firm count much on their contribution through their knowledge of such industrial area.

The study findings reveal again that board size and board tenure, non executive director, CEO entrenchment and firm size had a negative and significant correlation to CEO duality ($p<0.05$) while firm age had a positive and significant correlation with $p<0.01$. There are also a negative and non-significant correlation between CEO duality and country, firm performance, free cash flow and a positive and non-significant effect to the industry.

In the relation to board tenure, the study reveals that non executive director, CEO entrenchment had a positive and significant correlation to board tenure with $p<0.01$. This is due to the extent that outside directors are located inside and outside the country which is contract the citizenship policy of the politicians. On another side, the country governments pursue that when the CEO and board of director last longer in the firm and thus the implementation of country policy become easier due to the strong relationship between CEO and senior government manager and thereafter the company maintains performance. The study also reveals a negative and significant correlation between board tenure to firm age and country with $p<0.05$ while provide a positive and non-significant correlation to firm size, firm performance and free cash flow. It also witnessed a negative and non-significant correlation to the industries.

In the relation of board size, the study also revealed a positive and significant correlation to non-executive director, firm size, firm performance. free cash flow with $p<0.01$; a negative and significant correlation to firm age and country with $p<0.05$; a positive and non-significant correlation to board tenure, CEO entrenchment, industry, due to the functions and presence of board member in the meeting and decisions kept ongoing because of effective and majority of number of board members.

Table 4.10 Correlation analysis

	Dividend payout	CEO duality	Board Size	Board tenure	Non Executive director	CEO entrenchment	Firm Size	Firm Age	Industry	Country	Free Cash flow	Firm Performance
Dividend payout	1											
CEO duality	0.160*** (0.000)	1 ---										
Board size	0.031 (0.401)	-0.272*** (0.000)	1 ---									
Board tenure	-0.091** (0.015)	-0.083** (0.026)	0.062* (0.094)	1 ---								
Non-executive Director	-0.058 (0.123)	- 0.169*** (0.000)	0.223*** (0.000)	0.146*** (0.000)	1 ---							
Ceo entrenchment	-0.073** (0.049)	- 0.122*** (0.001)	0.031 (0.405)	0.294*** (0.000)	0.094*** (0.012)	1 ---						
Firm size	0.023 (0.541)	- 0.107*** (0.004)	0.221*** (0.000)	0.064* (0.087)	0.287*** (0.000)	0.040 (0.289)	1 ---					
Firm age	-0.108*** (0.004)	0.137*** (0.000)	-0.076** (0.041)	-0.085** (0.022)	-0.141*** (0.000)	-0.111*** (0.003)	0.132*** (0.000)	1 ---				
Industry	0.130*** (0.00)	0.070* (0.070)	0.020 (0.530)	-0.030 (0.360)	-0.100*** (0.010)	-0.210*** (0.000)	-0.080** (0.030)	-0.070* (0.060)	1.00 ---			
Country	0.330*** (0.000)	-0.070* (0.070)	-0.110*** (0.000)	- 0.230*** (0.000)	0.050 (0.150)	-0.14*** (0.00)	-0.280*** (0.000)	- 0.150*** (0.000)	0.080** (0.020)	1.00 ---		
Free cash flow	0.128*** (0.001)	-0.054 (0.146)	0.228*** (0.000)	0.063* (0.091)	0.219*** (0.000)	0.006 (0.881)	0.385*** (0.000)	-0.030 (0.426)	0.010 (0.850)	-0.010 (0.840)	1 ---	
Firm performance	0.002 (0.964)	-0.032 (0.388)	0.103*** (0.005)	0.041 (0.277)	0.046 (0.223)	0.0730** (0.049)	-0.280*** (0.000)	-0.090** (0.016)	-0.020 (0.640)	0.160** * (0.000)	0.007 (0.856)	1 ---

*(**) (***) , 10%, 5%, 1% level of significance respectively.

Source: Survey data, 2016

4.7 Multiple Regression Analysis

The effect of dependent variable such as dividend payout was regressed on controls, exogeneous variables and interaction terms. Hierarchical regression method was used by entering variables in lump of variables for control variables and exogeneous variables including the moderator as well as each of the interaction terms and observing their results.

The findings were analyzed and interpreted in order to evaluate whether the board structure had any effect on the dividend payout and thus the model 1 presented the dependent and controls, model 2 presented the dependent, controls and independent variables to test hypothesis H_{01} , H_{02} , H_{03} , H_{04} , H_{05} while the dependent, controls, independent and moderated variable and Interaction terms of board size, board tenure, CEO duality and non-executive director are also shown in the model 3 to test hypothesis H_{06a} , H_{06b} , H_{06c} , H_{06d} in Table 4.11.

Hypothesis describes moderated relationship wherein the relation between two variables depends on third captured using moderator variable as causal relationship to those variable (Aiken & West, 1991). Therefore, its effect is buffered when decreasing effect of exogenous on endogenous and or antagonistic when produce reverse effect of exogenous on the endogenous.

4.7.1. Regression Results for the main Effects

The Results in Model 1 encompasses the control variables, firm age, firm size, firm performance, free cash flow, country and industry. In model 1 the result were accounted for significant variance in dividend payout ($R\text{-square}=0.28$, $F(9,67)=34.52$, $p=0.000$) , the control variables as well as firm age, firm size, free cash flow and financial performance were entered.

The results from the Table 4.11 showed that firm performance had a negative and significant effect on dividend payout ($\beta=-2.543$; $p<0.01$). The firm performance has implications on dividend payout. This result is consistent with Cooley & Quadrini (2001); Jiraporn *et al.*, (2011) and Murekefu,(2013) whose findings were that the firm age decrease firm growth and performance by inducing dividend. This is explained by the fact that firms with good capacity and good reputation do not innovate their products and operate in routine businesses with physically powerful investment age.

Firm size was found to have a positive and significant relationship with dividend payout ($\beta=1.425$; $p<0.01$). This result is consistent with previous findings of Barker & Mueller, (2002); Gill & Obradovic (2013); Fairchild, (2010); Bopkin (2011); Rafique, (2012); Cheng *et al.*, (2014) and Mohamed *et al.*, (2014) who supported the arguments such that when firm size held constant a dividend payout is a positive function of CEO duality and board size.

Free cash flow was found to have a positive and significant relationship with dividend payout ($\beta = 2.983$; $p< 0.01$). This result is consistent with previous studies that free cash flow are related to the propensity to pay dividend Fama & French, (2001); Heaton, (2002); Malmendier & Tate (2005a;2005b); Naceur *et al.*, (2006); Huang *et al.*, (2011); Mohamed *et al.*, (2014) whose findings revealed that in order to overcome the issue of free cash flow is to pay out more of the free cash flow as dividends.

The industry had a positive and significant effect to dividend ($\beta= 5.707$, $p<0.01$). Most studies conducted on the corporate governance showed that the results vary from industry to industry (Yurtoglu,2000; Irge & Meral, 2009 and Saeed *et al.*,2014). This result is consistent with the findings of other authors as well as (Kent & Powell, 2000; Combs, 2007; Tarus & Masumali, 2013 and Tarus & Aime, 2014).

The country was represented by dummy variable and in this study the reference country was Tanzania. The first dummy variable represented firms in Uganda, where the results showed that there was a negative and significant relationship with dividend payout ($\beta=-41.357$, $p<0.01$), consequently the Uganda firms pay about 41.357 of a dividend category less than Tanzania. The second dummy variable represented firms from the country of Rwanda where the result showed a negative and significant relationship with dividend payout ($\beta=-56.381$, $p<0.01$), nonetheless the Rwanda firms pay 56.381 dividend category less than Tanzania firms. The third dummy variable represented firms from the country of Kenya where the result showed a negative and significant relationship with dividend payout ($\beta=-36.191$, $p<0.01$), hence Kenya firms pay 36.191 dividend category less than Tanzania firms. The study found that Tanzania pay high dividend followed by Kenya , Uganda and the last is Rwanda. The overall model was found to be significant and explained 28 percent change in dividend payout out.

Model 2 presents the results of the main effects and control variables in order to investigate the effect between board structure and dividend payout. The results accounted for a significant amount of variance in dividend payout (R-square =0.33, $F(9,67)=29.91$, $p=0.000$), board size, board tenure, non executive director and CEO duality were entered as predictor variables.

Model 2 tested hypothesis 1 which proposes that there is no significant effect between CEO duality and dividend payout. The results from Table 4.11 showed that CEO duality had a positive and significant effect on the level of dividend payout ($\beta = 36.216$, $p<0.01$). Since the p-value is less than 0.05, the null hypothesis is rejected. This confirms the hypothesis that dual CEO pays high dividend in the firms in East Africa Countries.

The Hypothesis 2 predicted that board size had no significant effect on the level of dividend payout. The result from the Table 4.11 showed that board size had a positive and significant effect on dividend payout ($\beta = 2.7803$; $p < 0.01$). The result indicates that large board pays higher dividends.

The third hypothesis postulates that there is no significant effect between board tenure and dividend payout. The results from Table 4.11 found a negative and non-significant effect on the dividend payout ($\beta = -0.064$; $p > 0.1$). This result is consistent with Vafeas (2003) and Kaymak and Bektas (2008) that board tenure increases do not result in more interlocking directorships or does not have effect with firm performance and thus dividend payout. The result reject the expected results.

The fourth hypothesis proposed that there is no significant effect between non-executive director and dividend payout. The result from Table 4.11 showed that there is a negative and significant effect of non-executive director on dividend payout ($\beta = -46.124$; $p < 0.01$). This result is consistent with Hu & Kumar (2004) who found that monitoring by non-executive director prevents wastage of cash flow by forcing dividend payment.

The fifth hypothesis proposed that there is no significant effect between CEO entrenchment and dividend payout. The result from Table 4.11 showed that there is a negative and significant effect of CEO entrenchment on dividend payout ($\beta = -2.680$, $p < 0.01$). The results fail to reject the fifth hypothesis. The overall model with control variables and the exogenous variables explained 33.7 percent of the changes in dividend payout.

4.7.2 Moderated Regression Analysis

The CEO entrenchment is used as a moderating variable in the study drawing on agency and power circulation theories to advance understanding about this relationship with dividend payout by investigating one potential moderating effect with exogenous. The study used blocked loading of variables for interaction terms; this process is consistent with other studies (Tarus & Aime, 2014; Tarus & Omandi, 2013; Combs *et al.*, 2007 and Skinner, 2007). The variables were mean-centered before calculating the interaction terms to minimize the effect of multicollinearity.

Therefore, Model 3 presented moderated regression results. The potential effect of CEO entrenchment on dividend payout is particularly relevant due to lower growth rate of assets in essence; the high growth rate or performance are in the firm, has the potential to make the CEO more powerful and entrenched by insulating him or her from hostile control endeavor (Campbell *et al.*, 2001).

In the Model 3 the result were accounted for a significant amount of variance in dividend payout (R-square = 0.51, $F(9,67) = 21.756$, $p = 0.000$) the interaction between the four variables board size, board tenure, non-executive director, CEO duality and CEO entrenchment were entered. The result with the interaction accounting for a significant more variance (R-square change = 0.17), while change $F(9,67) = 21.756$, $p = 0.000$) indicate that there was no moderation at some variance between board structure and CEO entrenchment. Thus the results from the main effect of the moderator variable (CEO entrenchment) showed a positive and significant effect ($\beta = 0.979$, $p > 0.0383$), on dividend payout. This result is consistent with Gosh and Sirmans (2006) that dividend payout levels reflect the quality of motivation for managerial decision making and are a function of corporate performance and

monitoring effectiveness of board structure and CEO entrenchment. This results indicate the existence of moderation of CEO entrenchment on the relationship between board structure and dividend payout. Though model 3 R-squared is significant with 51.5 percent.

Hypothesis 6 postulated that CEO entrenchment does not moderate the relationship between board structure and dividend payout. This hypothesis was therefore split into four sub-hypotheses (H_{06a} , H_{06b} , H_{06c} , H_{06d}).

Hypothesis 6a stated that the CEO entrenchment does not moderate the relationship between the CEO duality and dividend payout. The examination of the interaction plots showed that there was buffering effects at lower level and enhancing effect at higher level of the moderator indicating an overall cross over enhancing effect as high CEO entrenchment enhance the effect of dividend payout as shown in figure 4.1, the determined effects postulate an increase level of positive and significant relationship on CEO duality and CEO entrenchment toward dividend payout ($\beta= 4.873$, $p=0.0121$). This is consistent with the results of Feng *et al.*, (2007) who find positive impact of CEO entrenchment to dividend payout contribute to the idea that CEO as chairperson of the board and chief of firm management influence the board of director in the decision making process in the presence of entrenched CEO such as in determination of high dividend payments. Therefore, hypothesis 6a was rejected.

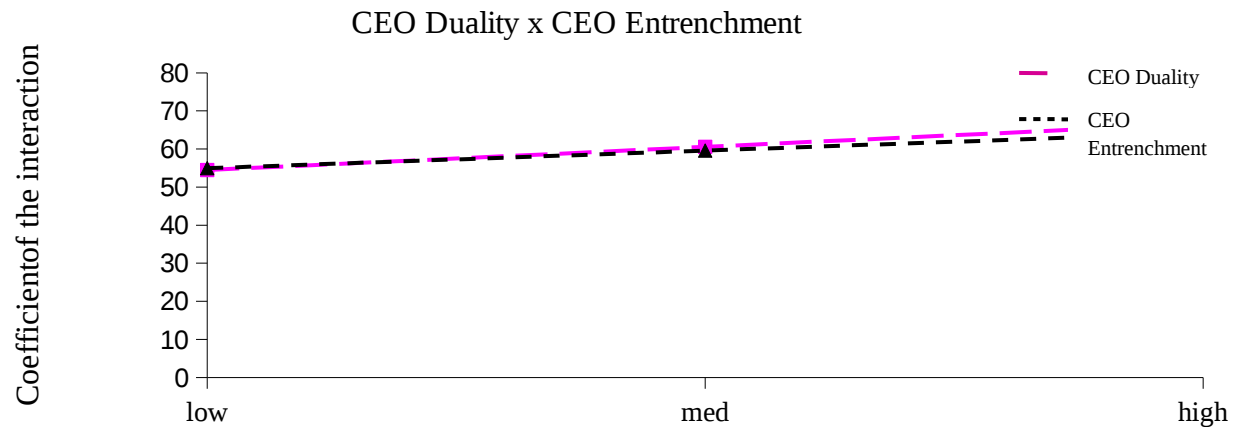
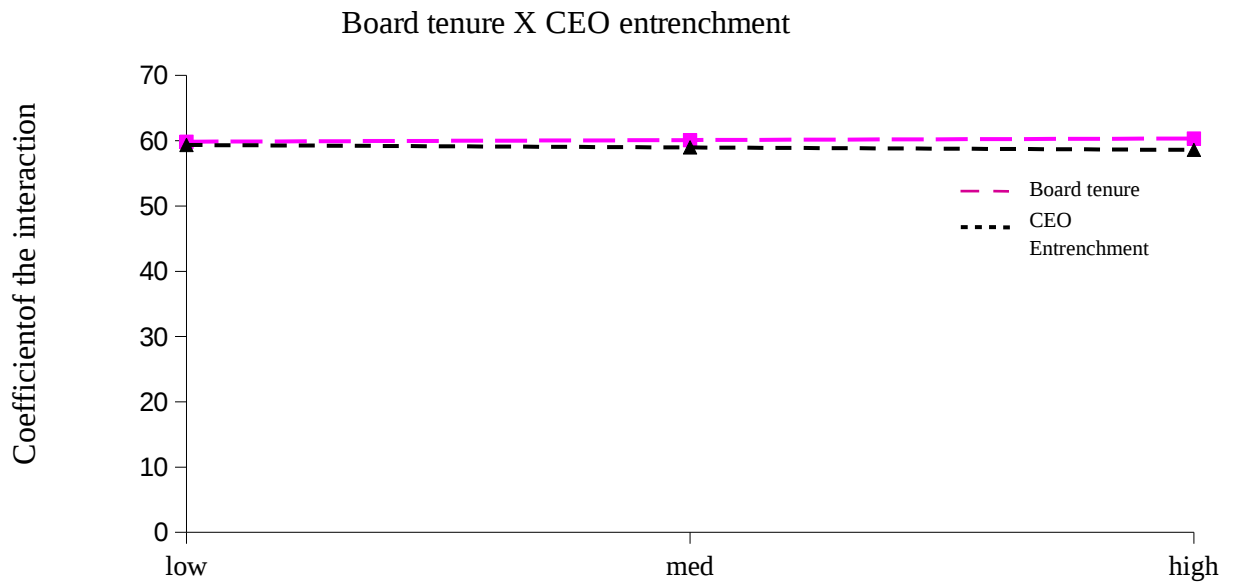


Figure 4.1. Simple I Measurement level of interaction to Dividend payout **CEO entrenchment.**

Source: survey data, 2016

Hypothesis 6_b postulate that CEO entrenchment does not moderate the relation between board tenure and dividend payout. The examination of the interaction plots showed that there was crossover enhancing interaction effect as higher CEO entrenchment enhance the long tenure of the board and dividend payout as shown in figure 4.2. The determined effect showed an increases level of significance on dividend payout ($\beta = 0.105$ $p < 0.0015$). This result, therefore reject hypothesis H_{6b} suggesting that CEO entrenchment, indeed has a negative and non-significant interaction between board tenure and dividend payout.



Measurement level of interaction to Dividend payout

Figure 4.2. Simple plots for two way interaction board tenure and CEO entrenchment.

Source: Survey data, 2016

Hypothesis 6c indicate that the CEO entrenchment does not moderate the relationship between board size and dividend payout. The examination of the interaction plots showed that there was no cross-over although there is enhancing at lower level of moderation indicating that large board size is not fevoring CEO entrenchment as shown in the figure 4.3. The result showed a positive and non-significant relation ($\beta = 0.120$, $p > 0.249$). The results indicate that hypothesis is accepted and thus CEO entrenchment does not moderates the relationship between board size and dividend payout.

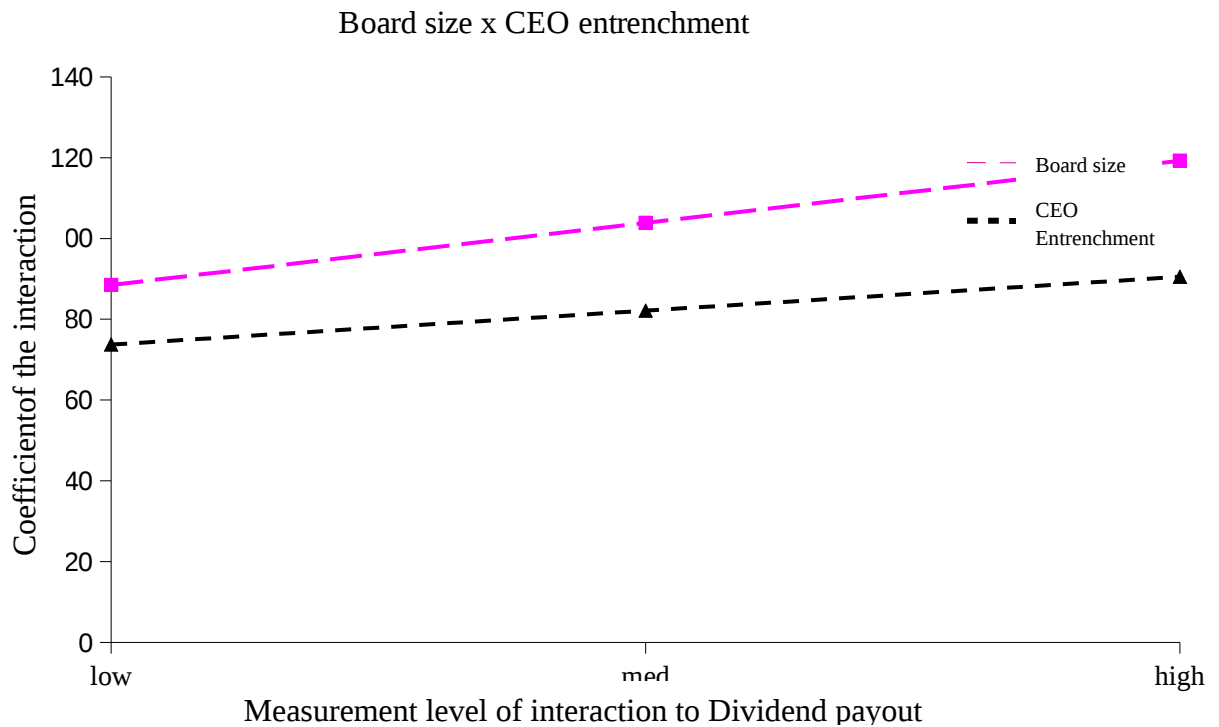
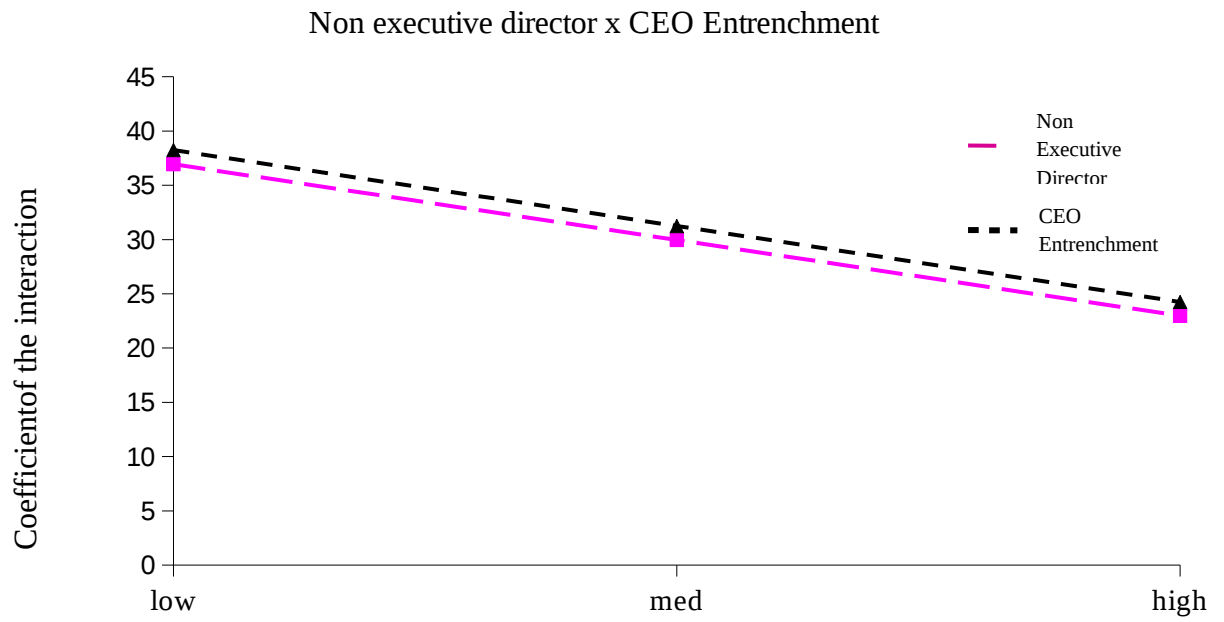


Figure 4.3. Simple plots for two way interaction board size and CEO entrenchment.

Source: Survey data, 2016

Hypothesis 6d, indicates that CEO entrenchment does not moderate the relationship between non executive director and dividend payout. The examination of the interaction plots showed that there was enhancing effect at high level as non executive director reduce the level of CEO entrenchment and enhancing effect of CEO entrenchment to negatively influence the board of director on dividend payout as shown in the figure 4.4. The result showed a negative and non-significant relation on dividend payout ($\beta = -1.368$, $p > 0.103$). This results indicate that hypothesis is accepted and thus CEO entrenchment does not moderate the relationship between non-executive director and dividend payout.



Measurement level of interaction to Dividend payout

Figure 4.4. Simple plots for two way interaction non executive director and CEO entrenchment.

Source: Survey data, 2016

Table 4.11 Regression Model Results

Variable	Model 1 Controls	Model 2 Main effect	Model 3 Interactions
Parameters	Parameters	Parameters	Parameters
Intercept	57.097(7.84)***	59.598(11.9)***	60.04(14.05)***
Controls			
Firm age	0.025(0.026)	-0.050(0.026)*	-0.036(0.0262)
Firm size	1.425(0.37)***	2.426(0.61)***	2.684(0.709)***
Free cash flow	2.983 (1.09)***	2.751(1.12)***	2.609(1.152)**
Firm performance	-2.543(0.45)***	-2.467(0.46)***	-2.481(0.505)***
Industries	5.707(0.52)***	5.835(0.78)***	6.371(0.689)***
Country Dummy 1	-41.357(7.47)***	-41.96(9.73)***	-44.377(10.05)***
Country Dummy 2	-56.381(5.53)***	-62.605(8.25)***	-65.50(8.95)***
Country Dummy 3	-36.191(7.06)***	-33.856(4.65)***	-31.77(4.80)***
Predictors			
Board size		2.7803(0.40)***	2.308(0.68)***
Board tenure		-0.064(0.19)	-0.786(0.30)***
CEO duality		36.219(11.07)***	15.46(6.76)**
Non Exec director independence		-46.12(10.01)***	-38.90(10.4)***
CEO entrenchment		-2.680(0.010)***	0.979(1.122)**
Interactions			
Board size x CEO entrenchment			0.120(0.104)
Board tenure x CEO entrenchment			0.105(0.03)***
CEO duality x CEO entrenchment			4.873(1.93)***
Non exec director x CEO entrenchment			-1.368(0.83)
Random effects Specification			
F-statistic	34.526***	29.914***	21.756***
R-squared	0.280	0.3370	0.5153
Adjusted R-squared	0.271	0.3258	0.4995
R-squared change	0.280	0.057	0.178
Durbin-Watson statistic	0.376	0.4346	1.1098
Firm year observations	603	603	603
<i>Values of standardized regression coefficients, with standard errors in parenthesis</i>			
*p<0.1; **p<0.05; ***p<0.01			

Source: Survey data, 2016

Table 4.12 provide the summarized result of the study whereby only two hypothesis have been supported while others were rejected.

Table 4.12 Summary of the Results of Multiple Regression Analyses

Hypothesis	Statement	P Values	Results
H ₀₁	There is no significant effect between	P<0.0225	rejected

CEO duality and dividend payout.			
H ₀₂	There is no significant effect between board size and dividend payout.	P<0.0008	rejected
H ₀₃	There is no significant effect between board tenure and dividend payout.	P<0.0091	rejected
H ₀₄	There is no significant effect between non executive director and dividend payout	P< 0.0002	rejected
H ₀₅	There is no significant effect between CEO entrenchment and dividend payout	P< 0.0065	rejected
H _{06a}	CEO entrenchment does not moderate the relationship between CEO duality and dividend payout	P< 0.0121	rejected
H _{06b}	CEO entrenchment does not moderate the relationship between board tenure and dividend payout.	P<0.0015	rejected
H _{06c}	CEO entrenchment does not moderate the relationship between board size and dividend payout.	P> 0.2492	Fail to reject
H _{06d}	CEO Entrenchment does not moderate the relationship between non executive director and dividend payout	P> 0.2492	Fail to reject

Source: Survey data, 2016

4.8. Discussion of Results

The results of random effect method regression reveals a positive and significant effect between board size and CEO duality while it is negative and significant to non executive director, board tenure and dividend payout. This underlying principle adopted by Mansourinia *et al.*, (2013) who uses 140 firms listed on Tehran exchange over the period running from 2006 to 2010 and finds that board size have significantly effect on dividend payout while non executive director and CEO duality were not. This suggests the increase of firms' board of director for reducing CEO power of influence on it. However, there are no studies which have used CEO entrenchment in determining the effect of board structure and dividend payout.

The random effect estimation indicate a positive and significant effect of CEO Duality on dividend payout. Different authors found the same results among others Gill & Obradovich (2013) whose idea was when firm size is held constant the decision to pay dividend is a positive function of CEO duality and its impact differ between manufacturing and service. This study used four categories of firms namely financial services, commercial services, production or manufacturing and agriculture and the result revealed positive and significant effect of dividend payout and thus the study find that all kind of service in different firms are affected with CEO duality on dividend payout.

According to Adms *et al.*,(2005) who associated CEO duality with firm performance and board members decision when it is collegially adopted. This statement assumes that CEO duality decision does not affect dividend payout their results are not in consistent with the current findings idea which support Abor & Fiador (2013) whose finding is that the CEO chair pays high dividend payout to avoid takeover his/her

position. The study data showed that few CEO were at the sametime chair and manager of firms and instead are participating in board of director meetings and provide seating allowances to board members, this grant the CEO power to influence decisions as chief of executive and also board member thus supporting untakeover theory, agency cost and stewardship theory as proposed by (Davis *et al.*, 1997 and Schulze & Gedajlovic, 2010) whose theory strives to optimize the utility of co-dependent parties it means board of directors and CEO.

The random effect estimation indicate that board size had a positive and significant effect on dividend payout. Studies revealed that effective board size vary between 6 to 8. Hermalin & Weisbach (2003) revealed a positive effect on dividend payout by differentiating effect with large and small board of director on dividend payout; he argued that when a board become too big, it often move to symbolic action and pay high dividend while small board of director lacked expertise and pay low dividend. The current result revealed that the smallest board member was 2 while the large board member was 21. Since the study find the same result as Hermalin & Weisbach (2003), while it did not differentiate the large and small, it informed a theoretical contribution, whereas small board members *ceteris paribus* positively affect dividend payout and reveal that many firms under the study had small number of board members.

Studies done in developed and developing economy had found that there is a positive and significant effect on dividend payout, for example Abor & Fiador (2013) who state that board size leads to high dividend payout due to easy access to and low cost of external finances. The study had shown that Tanzania firms pay high dividend and Kenya follows, Uganda and Rwanda. The access to finance in these countries differ while board size is positive and significant as a result good corporate governance

mechanisms is the factor supporting this hypothesis for East Africa countries. This embraces the concept that small board is effectively coordinated and actively participate in the decision making and thereafter pay high dividend.

The board tenure was defined as the length of time of board member serving the firm governance, in the face of the fact that random effect estimation indicate that board tenure had a negative and significant effect on dividend payout. Therefore the insight of Vafea (2003) where long tenure of board members has effect on dividend payout due to more experience gained on management as a result instigate effective decision on dividend payout.

The study revealed that the board tenure range from 2 to 34 years which abide to Vafea (2003) argument that board tenure grants to a firm's board of director the experience on corporate governance and thereafter increase firm performance toward dividend payout.

Furthermore, in developed and developing economy, countries enacted regulation limited the term of board members for example in Kenya and Uganda limit to three years which can not exceed three terms reelections, Rwanda has 2 years renewable due its importance but Tanzania does not have any term limit for board members, while in Uk it become nine years.

The study finds that where the board has term limit, the propensity for dividend payout is negatively influenced for listed firms in East Africa countries. Other studies done on UK and US listed firms have come up with this result although their interpretations were explorative for example the study done by Alam & Hossain (2012) on dividend policy for the period ranging between 2001 to 2010 finds that dividend is not affecting performance of the firm and embrace Miller and Modigliani (1961) dividend irrelevance theory which indicates that the value of the firm is

unaffected by dividend policy in a perfect world. The firm's value is determined exclusively by the earning power and the risk of its investment; this is contrary to signaling effect theory as per Gitman, (2009) that value of the firm is influenced by the dividend policy, because dividend decreases the shareholders uncertainty which causing the shareholders to discount the company's earnings at a lower rate by increases company's stock value thus high cash dividend payout reflect positively the market value of shares for the reasons of certainty, thereafter higher future dividend. Therefore, as per signaling theory, the study findings indicate that board member serving a firm for long term increase board tenure and dividend payout at the same time.

The random effect estimation indicate that non executive director has a negative and significant effect on dividend payout. A number of studies approved that non executive directors are key in operations of firms towards performance and dividend payout because are able for conditioning CEO and other executive directors to react on shareholder interest. The study abide for this insight because the firms in East Africa had executive and non executive director who operated in one board perform better. Other studies like Byrd & Hikman (1992); Rosenstein & Wyatt (1990); Cole's *et al.*, (2001) and Belden *et al.*, (2005) postulated that the great number of non executive directors in the board improve dividend payout decision by influencing other board members for the benefit of the shareholders while other studies used sample from developed countries like US and England contradicted the idea whereas they postulated that high number of non executive directors lead to lower dividend payout.

The current study find that most of board member in the firm are non executive director and the result reveal a negative and significant effect which not supporting

the idea of having a great number in board lead to positive and significant effect between non executive director and dividend payout though follows a good corporate governance mechanism. This is consistent with (La porta *et al.*, 2000; Borokhovich *et al.*, 2005 and Basil & Khaled 2009).

CEO entrenchment positively and significantly moderates the relationship between board tenure and dividend payout ($\beta = 0.105$; $p < 0.05$). entrenched CEO has a lot of influence on the boards particularly a board that has a long tenure. Drawing from management friendliness hypothesis (Travlos *et al.*, 2001), a long tenure board is likely to befriend management and therefore firms decisions reflects that of the CEO. In this regards, the payment of dividends, a critical board decision will be influenced by entrenched board, particularly because long tenured CEO would always like to appease the shareholders.

Payment of dividend to shareholders signal good performance and therefore an entrenched CEO working with a long tenure board would always pay higher dividends to derive shareholder acceptance and also derive the bonuses that come with good performance.

CEO entrenchment positively and significantly moderate the relationship between CEO duality and dividend payout ($\beta = 4.873$; $p < 0.05$). this moderating effect for East African listed firm is presented in two ways. Firstly, the dual role of CEO chair and top management striving for demonstrate to the shareholder that firm's growing and increases of earnings depend on his or her performance therefore is likely to pay high dividend (Gill & Obradovich, 2013) in order to make him/her unreplacable or more important as such loosing him the firm would not last longer, firm earnings decreasing very much or even its image should be devastated or decline and thus

retaining CEO should be the best decision for the board of director. Secondly, an entrenched CEO when is the chairperson of the board of directors hide the real status of firm performance and pays high dividends when firm is underperforming for the purpose of providing to shareholder good image as strategy for increasing market value of the firm (Hu & Kumar, 2004 and Feng *et al.*, 2006) and thereafter influence other board member to pay high dividend.

When CEOs entrench themselves and are board chairs and at the same time top managers of firms, decision making is sometimes not shared with board members bringing forth the agency problem (Feng *et al.*, 2007) which lower the positive association between CEO duality and dividend payout. Thus entrenched CEO and duality situation does not last longer when firm is underperforming or market react contrary thus lead to firm financial distress.

However , the study reveal a non significant moderation of CEO entrenchment on the relationship between board size and dividend payout ($\beta= 0.120$; $p<0.1$). large board size smooth the progress of monitoring role and thus helped in oversight of management to alleviate the agency cost caused by CEO entrenchment. In order CEO to be entrenched it requires to have last longer due to different strategies used which retain him or gaining more power, thus CEO need to convince the board for their decisions on dividend payout even if firm has low earning (Boone *et al.*,2007) thus coordination by large board would be inflexible for the CEO who need to be entrenched. The study revealed that few firms has lower number of board with 2 members while other has the large number with 21 members. Thus large board member can't easier CEO function and thus entrenchment will not moderate the relationship between board size and dividend payout.

CEO entrenchment has negative and non significant effect on the relationship between non executive director and dividend payout ($\beta = -1.38$; $p > 0.1$). Non executive director provide outside contribution to the board of director expertise which aiming at increasing earnings and thereafter dividend payout. Though non executive director strengthen control with other board member over entrenched CEO (Puan *et al.*, 2006) will provide confidence to shareholder whereby entrenched CEO might take action on their interest among other dividend payout, the reason of this is that CEO who may not always adopt a dividend policy that is value-maximizing for shareholders but would choose a dividend policy that maximizes their own private benefits (DeAngelo *et al.*, 2006 and Murekefu, 2013). Therefore CEO entrenchment under effective control of non executive director can not moderate its relationship with dividend payout.

CHAPTER FIVE

SUMMARY OF FINDINGS , CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

This chapter closes the study by describing the summary of major findings, drawing conclusion from the findings, propose recommendations on the implication of the research on policy and practices and provide suggestion for further research.

5.2. Summary of Findings

This study was carried out to investigate the moderating role of CEO entrenchment on the relationship between board size, board tenure, non-executive director, CEO duality and dividend payout. The hypothesis were examined by regressing dividend payout over again board size, board tenure, non-executive director , CEO duality and CEO entrenchment and their interaction term. The study was conducted using all firms listed for the period 2005 to 2013 in NSE, USE, RSE and DSE. Country cross-listed firms were analyzed at their main head office by dropping out their subsidiaries. Hypotheses were designed in accordance to address the problem at hand, which was the less or no payout of dividend of the companies' members. To assess dividend payout process four theories underpinned the study; agency theory, stewardship theory, upper echelon theory and signaling effect theory.

The first objective of the study was to investigate the effect of CEO duality on dividend pay-out. The results indicated that there exists a positive and significant effect of CEO duality on dividend payout ($\beta= 36.219; p<0.01$). This is consistent with other studies (Latif *et al.*, 2013 and Gill & Obradovich, 2013), show that CEO duality has positive significant effect on the decision of dividend payout. However, according to the agency theory, it is important in the firms to reduce the cash flow on CEO discretion in order to establish an effective and efficient decision and thus high

dividend payout. The results were in disagreement with Mansourinia *et al.*, (2013); Abor & Fiador (2013) and Shehu (2015), who found that CEO duality does not influence dividend payout. This implies that the dual role of CEO provides a positive signal for East African firms because he or she will always strive for firm performance which by the end increases the dividend payout. It is acknowledged however, that stewardship theory adopts a contrasting view of the duality performance debate in this study.

The second objective of the study was to investigate the effect of board size on dividend pay-out, which tested hypothesis two. It was tested using random effect. The result indicated a positive and significant effect on dividend payout ($\beta = 2.7803$; $p < 0.01$). The results were consistent with the findings of Chen *et al.*, (2011); Gill & Obradovich, (2013); Bokpin, (2011) and Subramaniam & Susela (2011) who found a significant and positive effect on the relationship between board size and dividend policy of companies at error level less than 5% for occurrence Tehran stock exchange. The study embraces the concept highlighted by Dalton *et al.*, (1999) and Tarus & Omandi (2013), whereby a small number of board members for East African firms can be effectively organized and thus actively participate in decisions making on dividend payout.

The third objective and hypothesis established the effect of board tenure on dividend pay-out. The findings indicated a negative and significant effect on dividend payout ($\beta = -0.064$; $p < 0.01$) the result is consistent with Vafea (2003) which findings was that board member who last longer in board service, are likely to provide core management professionalism contrary to the young board member who are still learning on firms main area for improving, also more likely to provide valuable guidance to the management. Senior director participation in the compensation

committee is associated with higher dividend pay for the shareholder, especially when the length of board member is more compared to the CEO length which in turn reduce CEO power in the firm. This reject the third hypothesis, whereas board tenure was not expected to influence Dividend payout as it is from the table 4.11 and table 4.12.

The fourth objective and hypothesis determined the effect of non executive director on dividend pay-out. The findings indicated that non executive director has a negative and significant effect on dividend payout with $\beta = -46.124$ and $p < 0.01$. This result is consistent with Sharma (2011) and Abor & Fiador (2013) which indicate that the dominance of non executive directors in the board of directors affect the propensity to pay dividends. Boards with a large number of non-executive in the board of directors ought to be able to put forth stronger monitoring on the firm management and though performing better as result the dividend payout increase. Thus, non executive directors are more capable of influencing powerful CEO acts (Hu & Kumar, 2004), thereafter enforced internal monitoring lead to higher payout. The nul hypothesis is then rejected.

The fifth objective and hypothesis found out the effect on the relationship between CEO entrenchment and dividend payout. The findings indicated that CEO entrenchment has a negative and significant effect on dividend payout with $\beta = -2.680$ and $p < 0.01$. the nul hypothesis is then rejected. This result is in consistent with (Feng *et al.*, 2007 and Dow, 2013) who found that directors align themselves with the CEO to enhance their careers, performance measures are manipulated so that an entrenched CEOs pay high dividends to avoid shareholder sanction and thwart hostile takeover attempts.

5.2.1. Moderating effect of CEO entrenchment on Dividend payout

The sixth objective and hypothesis established the moderating effect of CEO entrenchment on the relationship between board structure and dividend pay-out. The study of interaction effects was made after the determination of the influence of the moderator variable as main effect. In this study, the moderator is CEO entrenchment. The results of the study showed a negative and significant effect of interaction between CEO entrenchment and CEO duality on dividend payout ($\beta = -4.873$, $p = 0.0121$). The reason behind firm performance is in the hand of CEO chairperson and firm top manager who can manipulate it on his own way by paying high or lower dividend for shareholder appraisals or market expectation, this can be the main fact for financial distress in East Africa listed firms. Given its level of significance and the beta (β) value being non zero. This model showed that CEO entrenchment moderates the relation between CEO duality and dividend payout.

The results showed that the interaction between board tenure and CEO entrenchment had a positive and significant relationship with dividend payout ($\beta = 0.105$, $p < 0.0015$). The finding is consistent to the Travlos *et al.*, (2001) findings, whereby through friendliness hypothesis between long tenure of board member bring friendly management and firms decisions reflects that of the CEO. Thus dividend payout decision is influenced by CEO entrenchment who would like to appease shareholder. Thus, CEO entrenchment working with long board tenure will derive shareholder acceptance by paying high dividend and this substantiate that CEO entrenchment moderates the relationship between board tenure and dividend payout.

The result showed that the interaction between non executive director and CEO entrenchment on dividend payout is negative and non significant ($\beta = -1.168$, $p > 0.103$). entrenched CEOs employ dividends as a device to discourage monitoring from board

of director. A CEO whose power remains unchecked by non executive directors is more likely to take self-serving actions that decrease shareholder wealth (Dunn, 2004 and Frankforter *et al.*, 2000). Thus non executive directors dominate board member strengthen tough control over management whereby CEO would not influence the decision of paying dividend which turned back to board of director. Since many listed firms on Nairobi securities exchange, Dar-ess-Saalam securities exchange, Uganda securities exchange and Rwanda stock exchange have a large number of non executive directors, entrenched CEO does not moderate the relationship between non executive director as it from Table 4.12 and 4.13.

The results showed that the interaction between board size and CEO entrenchment had a positive and non significant relationship on dividend payout ($\beta = 0.120$, $p > 0.249$). The small board participate actively in decision making on firm performance, since the entrenched CEO would like to retaining cashflow for use in his self interest. Therefore, it is evidence that an entrenched CEO would influence the small board on the use of fund under allowances increase and make the decisions on dividend payout irrelevant. Due to the non significant level, the null hypothesis was accepted and though it is accepting the hypotheses which stated that CEO entrenchment does not moderate the relationship between board size and dividend payout.

Therefore the findings resulting from this study show a positive significant relationship for the board structure on dividend payout. Interaction between board tenure and CEO entrenchment creates a friendly management and makes it possible for CEOs to influence decisions such as acceptance by shareholders. On the interaction between CEO duality and CEO entrenchment, the CEO chairperson uses performance as an antitakeover measure to positively influence dividend payout even

if current firm earnings are low. In such case retained earnings are used to pay the dividend. On the interaction between board size and CEO entrenchment, small boards are effective in decision making but are susceptible to the influence of an entrenched CEO such as through increased board members allowances to avoid dividend payout. Finally, the interaction between non executive directors and CEO entrenchment through tough control over CEO reduces the influence that CEO entrenchment could have on board of directors decisions on dividend payout.

5.3. Conclusion

Dividend payout is one of the critical decisions taken by management. Through that, this study successfully extended knowledge by studying and testing whether CEO entrenchment could moderate the relationships between board structure and dividend payout among selected firms on East Africa securities exchanges. The investigation is conducted using a panel data of 67 firms from 4 countries over the period of 2005 to 2013. After controlling for a wide set of variables such as firm performance, firm size, firm age, free cash flow, industries and countries. Widening the main objective of the study, the results tested and contrasted six specific objectives to find out that, CEO duality, board size, board tenure, non executive director, CEO duality and The CEO entrenchment are with meaning towards dividend payout.

The descriptive analysis showed different standard deviation to assess how board structure variables are scattered for being important to explain the dividend payout while performing tests of variance on board size, board tenure, non executive director and CEO duality, CEO entrenchment and dividend payout. Result indicate that Tanzania top up in countries for dividend payout followed by Kenya.

The findings revealed a positive and significant effect of CEO duality on dividend payout. CEO duality role of listed firms has two perspectives; firstly, basing on performance or increased earnings, a CEO is likely to pay dividends to appease shareholders and to retain his position; secondly, provide signaling effect on market prediction to keep up earnings which influences dividend payout and reduce thereafter the agency conflict because it reduces free cash flow at CEO's disposal and thereafter forces CEO to access the capital market to raise funds for investment. The study revealed that small board size influences the dividend payout. The obtained results contributed to the findings of (Setayesh & Ebrahimi, 2012) whereby small boards due to the lack of communication problems and also more coordination of members, are able to exercise more effective control than large board. But they are contrary to the research results of (Subramaniam & Susela, 2011). This tested the first and the second objective and hypothesis which rejected hypothesis one and two respectively.

The longer the experience of board members, the more clued-up they become, as a result they provide effective decision and thus more likely to be entrenched with CEO and thus indicated that board tenure negatively and significantly affect dividend payout. The third objective was achieved and hypothesis rejected. The findings revealed again a negative and significant effect of non executive director and CEO entrenchment on dividend payout consequently, when non executive director merely dominate the board composition the dividend payout increases. The result indicate thus monitoring of business is more important to influence the dividend payout policies. Thus the fourth and fifth objective was achieved and hypothesis rejected.

Using moderator CEO entrenchment, on one hand dividend payout were positive and significant vis a vis board tenure and CEO duality which indicate that friendliness hypothesis between the long tenured board of director and CEO entrenchment

increase dividend payout while dual role of CEO with CEO entrenchment increase firm performance and thereafter dividend payout to deliver shareholder acceptance and derive the bonus that comes with firm performance. On the other hand CEO entrenchment does not moderate the relationship between board size and dividend payout, and negative and non significant effect of CEO entrenchment on the relationship between non executive director and dividend payout indicate that a CEO who lasts longer in the firm influences a small number of board member on their decision by increasing allowances allocated to them which lower dividend payout, thus non executive directors using tough control on management do not allow an entrenched CEO to influence non executive directors on dividend payout. Concludes that the sixth objective was achieved.

However, the weaknesses found is some firms which present financial statement without following international financial reporting standards which makes harder the process to achieve the data in the research. Out of this, there are still improvements necessarily toward board structure and dividend payout thus the following recommendations were drawn.

5.4. Recommendation

From the findings of this study, several recommendations which can be broadly grouped into theoretical contribution, policy implication and finally for further research were drawn:

5.4.1. Theoretical Perspective

The study findings suggested that CEO entrenchment moderates the board tenure and CEO duality on high dividend payout where CEOs under performance concept deliver shareholder acceptance and gain bonuses that come with good performance.

This is critical since the CEO has a wide information on the firm earnings more than board of directors in East Africa countries, which could cause the CEOs to hide performance information in order to maintain the level of entrenchment and related allowances. This increases agency conflict.

Therefore, two hypotheses are envisaged for entrenched CEO. Firstly, firm should not open for board tenure by closely fixing terms limit. For example in Uganda, board of director term are 3 years and open for renewal but also allow the reelection beyond of 3 terms when general assembly deem necessary. Though many boards of directors in these firms serve the board beyond the 3 terms to clasp the experience of the member, this is also the case for Tanzania. Secondly, when firms allow tenures of boards for more than one term, firms should stop the bonuses delivered with good performance to control CEO and dividend payout when there is no earnings.

5.4.2. Policy Recommendations

Practical implication

The culture of dividend payments by firms is very different from the developed countries such as UK and US and also in developing countries including East African countries for example, Kenya, Tanzania, Uganda and Rwanda. According to these hypotheses, the number of firms distributing cash has been almost constant over time, this evidence suggests that repurchases have been displacing dividends. However, reference to the growing nature of securities exchange in East Africa, a part from the Nairobi Securities Exchange which started in 1954 and has 64 Kenya listed firms, other securities exchange are young and need to incorporate other local firms mostly owned by large shareholders. This indicates the importance of dividend in these countries for example the Dar-es-Salaam Stock Exchange started in 1996 and has 12 Tanzania listed firms, The Uganda securities exchange started in 1997 and has 8

Uganda listed firms while Rwanda Stock Exchange started in 2005 and has 2 Rwanda listed firms.

Therefore, following the concept that the relationship between current earnings and future earnings for listed firms are stronger for dividend paying firms than for non-paying firms, the large dividend payers can improve the performance of the East Africa firms in Tanzania, Uganda and Rwanda securities exchanges and being an enforced condition for remaining listed on security exchange otherwise adopt other measure of temporary delisting underperformed firms.

The study revealed that the CEO entrenchment can influence dividend payout for the purpose of self interest otherwise there is a low or non dividend payout as when the expertise of non executive director does not dominate the number of board members. Firms are often criticized for being overly cautious in selecting board members, ignoring the benefits of diversity and experimentation in selecting board members, especially when individual are part of the whole board so that whenever any individual board member has gaps in knowledge, the other members can fill it, for example listed firms in Rwanda where board are selected because of relationship between executive board members and listed firms in Uganda which have a lower number of non executive director. For example in Kenya corporate governance best practices highlighted that boards should ensure that no person or a block of persons has unfettered power and that there is an appropriate balance of power and authority on the board which is, inter alia, usually reflected by separating the roles of the chief executive officer and chairperson, and by having a balance between executive and non-executive directors; through this, the statement is not at all clear there is a need of highlighting expertise for non executive directors to enable them fill the gaps of other board members and thereafter lower the CEO entrenchment through tough control.

Policy implication

The study findings revealed that the small board of director are effective for decision making and influence dividend payout while when CEO become entrenched, the payout is lower or not even paid. Studies have come up to highlight the number of directors which range from 8 to 9. These study did not consider the economics and culture of country, this implies that policy should use these to highlight fair number due to economic growth and nature of the country, for example in Kenya, Tanzania, Uganda and Rwanda highlight board member size by differentiating between small and large boards which could enable the firms to align their regulation. This will reduce the CEO entrenchment effect on board size and enable firms to pay dividend since many of these firm do no favor share repurchase as way of investment and their knowledge on financial market are at lower level for example, Rwanda or Tanzania.

Generally non-executive directors (NED) showed a negative effect on dividend payout in the presence of CEO entrenchment because they typically do not engage in the day-to-day management of the organization though the information shared with them depends on CEO direction. Thus two ways can be envisaged for this. Firstly, the regulation should highlight the clear function and interaction of non executive director with the CEO to enable control and monitoring of the CEO in order to uphold shareholders' interest in dividend payout. Secondly, the regulation should be clear on the size of board committees indicating the number of non executive directors in these committees depending on their expertise on the function of committees .

5.4.3. Suggestions for Further Research

This study has analyzed the moderating role of CEO entrenchment, board structure on dividend payout using panel data from Rwanda, Uganda, Kenya and Tanzania. The

study hold onward suggestion for further research in two outlook; the methodology related issues and study variables.

The study propose further interrogation of the control as moderated variables to establish the assumption on the controls such as firm age, firm size, free cash flow, firm performance, country and industries interacting for the relationship between board structure and dividend payout. The study found controls that were significant and those which were not, thus the results would differ either at a high level or lower level neither in the level of the direction of the findings. Further interrogation is suggested to investigate the reasons.

Furthermore, the study found the main effect that small and large board differ and influence the dividend payout differently, using this as moderator and maintaining CEO entrenchment as exogenous with board structure could provide a different result of board structure to dividend payout, this would make available another angle of result to future researcher.

Generally, Fama & French (2001) have attempted to show that dividend is displaced with share repurchase while ApGwilym *et al.*, (2004) showed that these decline differ according to culture and economies of countries, the results from this study indicated that in East Africa dividend is important which disagrees with Fama & French (2001) since securities exchange are an evolving culture in these countries while corporate governance still remain a key issue in these company. Future research would extend the study by making a comparative study having the board structure and CEO entrenchment while adding to the dividend payout share repurchase as new dependent variable. The weight of the result should be different.

The study sample were based in East Africa countries where the only old stock market is Nairobi securities exchange and others are young securities exchanges, a

reproduction of this study is recommended in the other developing countries where old stocks emerged like Johannesburg, Nairobi, Egyptian, Casablanca, Tunisian, Ghana and so forth to establish the relationship between moderator, exogeneous and endogenous variables while controls should be changed. The weight of the result should be different.

Finally, the inquisition may also be replicated from another angle. Form the financial services, banks and insurances were find more regulated in many countries include those of East Africa. In the study it had found that Nairobi securities exchange had more listed financial firms which is evident that they had an impact in the sample. thus when the sample is split into financial and non financial services the result should be different.

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APPENDICES**Appendix I. listed companies in all security market**

a) Listed companies on NSE

Agricultural

Eaagads Ltd Ord 1.25
 Kapchorua Tea Co. Ltd Ord 5.00
 Kakuzi Ord.5.00
 Limuru Tea Co. Ltd Ord 20.00
 Rea Vipingo Plantations Ltd Ord 5.00
 Sasini Ltd Ord 1.00
 Williamson Tea Kenya Ltd Ord 5.00

Commercial And Services

Express Ltd Ord 5.00
 Kenya Airways Ltd Ord 5.00
 Nation Media Group Ord. 2.50
 Standard Group Ltd Ord 5.00
 TPS Eastern Africa (Serena) Ltd Ord 1.00
 Scangroup Ltd Ord 1.00
 Uchumi Supermarket Ltd Ord 5.00
 Hutchings Biemer Ltd Ord 5.00
 Longhorn Kenya Ltd

Telecommunication And Technology

Safaricom Ltd Ord 0.05

Automobiles And Accessories

Car and General (K) Ltd Ord 5.00
 CMC Holdings Ltd Ord 0.50
 Sameer Africa Ltd Ord 5.00
 Marshalls (E.A.) Ltd Ord 5.00

Banking

Barclays Bank Ltd Ord 0.50
 CFC Stanbic Holdings Ltd ord.5.00
 I&M Holdings Ltd Ord 1.00
 Diamond Trust Bank Kenya Ltd Ord 4.00
 Housing Finance Co Ltd Ord 5.00
 Kenya Commercial Bank Ltd Ord 1.00
 National Bank of Kenya Ltd Ord 5.00
 NIC Bank Ltd Ord 5.00
 Standard Chartered Bank Ltd Ord 5.00
 Equity Bank Ltd Ord 0.50
 The Co-operative Bank of Kenya Ltd Ord 1.00

Insurance

Jubilee Holdings Ltd Ord 5.00
 Pan Africa Insurance Holdings Ltd Ord 5.00
 Kenya Re-Insurance Corporation Ltd Ord 2.50
 Liberty Kenya Holdings Ltd
 British-American Investments Company (Kenya) Ltd Ord 0.10
 CIC Insurance Group Ltd Ord 1.00

Investment

Olympia Capital Holdings ltd Ord 5.00

Centum Investment Co Ltd Ord 0.50
 Trans-Century Ltd
Manufacturing And Allied
 B.O.C Kenya Ltd Ord 5.00
 British American Tobacco Kenya Ltd Ord 10.00
 Carbacid Investments Ltd Ord 5.00
 East African Breweries Ltd Ord 2.00
 Mumias Sugar Co. Ltd Ord 2.00
 Unga Group Ltd Ord 5.00
 Eveready East Africa Ltd Ord.1.00
 Kenya Orchards Ltd Ord 5.00
 A.Baumann CO Ltd Ord 5.00
Construction And Allied
 Athi River Mining Ord 5.00
 Bamburi Cement Ltd Ord 5.00
 Crown Berger Ltd Ord 5.00
 E.A.Cables Ltd Ord 0.50
 E.A.Portland Cement Ltd Ord 5.00
Energy And Petroleum
 KenolKobil Ltd Ord 0.05
 Total Kenya Ltd Ord 5.00
 KenGen Ltd Ord. 2.50
 Kenya Power & Lighting Co Ltd
 Umeme Ltd Ord 0.50

growth enterprise market segment

Home Afrika Ltd Ord 1.00

b)Listed Companies on TSE

Company	NatureofBusiness
TOL Gases Ltd.(TOL)	Production and distribution of industrial gases, welding equipments, medical gases,etc.
Tanzania Breweries Ltd.	Production,marketing and distribution of malt beerin Tanzania
TanzaniaTea Packers Ltd.	Growing, processing, blending, marketing and distribution of tea and instant.
Tanzania Cigarette Co. Ltd.	Manufacturing, marketing, distribution and sale of cigarettes.
Tanga Cement Co. Ltd.	Production, sale and marketing of cement.
Swissport Tanzania Ltd.	Airports handling of passengers and cargo.
Tanzania Portland Cement Co. Ltd	Production, sale and marketing of cement.

Dar es Salaam Community BankLtd(DCB)	Commercial bank
National Microfinance Bank(NMB)	Commercial bank
CRDB Bank(CRDB)	Commercial bank
Precision Air Services Plc (PAL)	Air transport services
Maendeleo BankPlc (Maendeleo)	Commercial bank

c) Listed Companies USE

ISIN	FULLNAME
UG0000000071	USE All Share Index (100@31.12.2001)
UG0000000022	British American Tobacco Uganda
UG0000000055	Bank of Baroda Uganda
UG0000000147	Development Finance Company of Uganda Ltd
KE0009081092	East African Breweries Limited
KE0000000273	Jubilee Holdings Limited
KE0009081084	Kenya Airways
UG0000000162	New Vision Printing and Publishing Company Ltd
UG0000000386	Stanbic Bank Uganda
UG0000000014	Uganda Clays Limited
KE0000000554	Equity Bank Limited
KE0000000315	KCB Group
UG0000000758	National Insurance Corporation
KE0000000380	Nation Media Group
KE0000000265	Centum Investment Company Ltd
UG0000000881	Use local company index
UG0000001145	Umeme limited
KE0000000489	Uchumi

d) Listed Companies on RSE

Uchumi super market ltd
 Nation media group
 Kenya commercial bank ltd
 Bralirwa
 Bank of kigali

Appendix 2 : Exchange rate per countries using 31st December rate

Year	Rwanda	Tanzania	Kenya	Auganda
2005	553.7187	117,716.51	11.3844	1,816.13

2006	548.6524	127,425.64	69.3967	1,775.33
2007	544.2203	114,341.09	62.5411	1,711.61
2008	558.8975	129,310.30	77.7111	1,956.19
2009	571.2375	132,656.00	75.8200	1,896.64
2010	594.4500	146,822.00	80.7519	2,303.93
2011	609.7900	158,248.00	85.0681	2,446.91
2012	631.4066	157,944.00	86.0286	2,673.48
2013	670.0773	158,184.00	86.3097	2,512.94

Appendix 3: Regression models

Regression Modeling controls

Variables	Coefficient	Std. Error	t-Statistic	Prob.
Constant	57.09731	7.844292	7.278836	0.0000
Firm age	0.025353	0.026769	0.947099	0.3439
Firm performance	-2.543014	0.453620	-5.606044	0.0000
Firm size	1.425092	0.379237	3.757789	0.0002
Free cash flow	2.983305	1.096619	2.720457	0.0067
Industry	5.707178	0.524972	10.87140	0.0000
Country dummy1	-41.35713	7.475070	-5.532675	0.0000
Country dummy2	-56.38231	5.535135	-10.18626	0.0000
Country dummy3	-36.19177	7.064694	-5.122907	0.0000
Effects Specification				
			S.D.	Rho
Cross-section random			0.000000	0.0000
Idiosyncratic random			37.57869	1.0000
Weighted Statistics				
R-squared	0.280072	Mean dependent var		17.47101
Adjusted R-squared	0.271961	S.D. dependent var		61.36851
S.E. of regression	52.36282	Sum squared resid		1946724.
F-statistic	34.52629	Durbin-Watson stat		0.376636
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.280072	Mean dependent var		17.47101
Sum squared resid	1946724.	Durbin-Watson stat		0.376636

Regression Model for main effects

Variables	Coefficient	Std. Error	t-Statistic	Prob.
Constant	59.59882	11.90755	5.005129	0.0000
Board size	2.780312	0.404283	6.877145	0.0000
Board tenure	-0.064549	0.198398	-0.325353	0.7450
Ceo duality	36.21999	11.07222	3.271250	0.0011
Nonexecutive director independence	-46.12408	10.01424	-4.605848	0.0000
CEO entrenchment	2.680457	0.010937	0.245035	0.0065
Country dummy1	-41.96093	9.739482	-4.308333	0.0000
Country dummy2	-62.60540	8.257169	-7.581945	0.0000
Country dummy3	-33.85693	4.650459	-7.280343	0.0000
Firm age	-0.050078	0.027783	-1.802479	0.0719
Firm performance	-2.467291	0.461571	-5.345424	0.0000
Firm size	2.426650	0.616983	3.933089	0.0001
Free cash flow	2.751255	1.125587	2.444285	0.0148
Industry	5.835828	0.784773	7.436330	0.0000
Effects Specification			S.D.	Rho
Cross-section random			0.000000	0.0000
Idiosyncratic random			37.48360	1.0000
Weighted Statistics				
R-squared	0.337071	Mean dependent var		17.47101
Adjusted R-squared	0.325803	S.D. dependent var		61.36851
S.E. of regression	50.38937	Sum squared resid		1792597.
F-statistic	29.91422	Durbin-Watson stat		0.434607
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.337071	Mean dependent var		17.47101
Sum squared resid	1792597.	Durbin-Watson stat		0.434607

Regression of Full model

Variables	Coefficient	Std. Error	t-Statistic	Prob.
Constant	60.04044	14.05832	4.270813	0.0000
Board size	2.308423	0.688167	3.354450	0.0008
Board tenure	-0.786563	0.300529	-2.617266	0.0091
Ceo duality	15.46128	6.760002	2.287171	0.0225
Non-executive director independent	-38.90236	10.43321	-3.728706	0.0002
Ceo entrenchment	0.979963	1.122766	-0.872812	0.0383
Ceo entrenchment x board size	0.120328	0.104327	1.153370	0.2492
Ceo entrenchment x board tenure	0.105488	0.033156	3.181526	0.0015
Ceo entrenchment x Ceo duality	4.873191	1.937141	2.515662	0.0121
Ceo entrenchment x nonexecutive director independent	-1.368882	0.838522	-1.632493	0.1030
Country dummy1	-44.37728	10.05135	-4.415056	0.0000
Country dummy2	-65.50406	8.958434	-7.311999	0.0000
Country dummy3	-31.77299	4.806082	-6.610997	0.0000
Firm age	-0.036720	0.026239	-1.399437	0.1621
Firm performance	-2.481135	0.505673	-4.906602	0.0000
Firm size	2.684160	0.709775	3.781708	0.0002
Free cash flow	2.609011	1.152132	2.264507	0.0238
Industry	6.371228	0.689013	9.246892	0.0000
Effects Specification				
R-squared	0.515382	Mean dependent var		17.47101
Adjusted R-squared	0.499507	S.D. dependent var		61.36851
S.E. of regression	50.25078	Sum squared resid		1770124.
F-statistic	21.75607	Durbin-Watson stat		1.141098
Prob(F-statistic)	0.000000			

Appendix 4 : Map of East Africa Countries under study