INVESTOR PRESSURE, CEO COMPENSATION AND FINANCIAL FLEXIBILITY ON DIVIDEND PAYOUT POLICY AMONG LISTED FIRMS IN NAIROBI SECURITIES EXCHANGE, KENYA.

BY

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A THESIS SUBMITTED TO THE SCHOOL OF BUSINESS AND ECONOMICS IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF DOCTOR OF PHILOSOPHY IN BUSINESS MANAGEMENT (FINANCE OPTION)

MOI UNIVERSITY

2023

DECLARATION

Declaration by the Candidate

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DEDICATION

This work is dedicated to my parents Mr. and Mrs. K. S. Buigut. Thank you for your love, care and the gift of education. To my wife Neddy Soi and my two daughters Natasha and Natalie: thank you for always being there and for your compassion and encouragement when I was studying. Above all, I thank God for bringing me this far and for guiding me in all my endeavors.

ACKNOWLEDGEMENT

I am greatly indebted to my supervisors Prof Cheboi, Prof. Bonuke and Dr. Githaiga for their tireless efforts and willingness to support and guide me. I also acknowledge Moi University School of Business and Economics faculty and administration who gave valuable advice and assistance during the entire period of my research work.

ABSTRACT

Dividend payout policy is an important corporate decision that influences investors' reaction and share prices. Thus, the determinants of firms' dividend payout policy are an interesting area that most scholars and academics continue to explore. Although, indicators of investor pressure can influence dividend payout policies, extant literature shows mixed findings. Some studies suggest that investor pressure influence CEO compensation. Other studies indicate that CEO compensation determine dividend payout policy. Moreover, other studies demonstrate that financial flexibility affects of dividend payout policy. Therefore, the main purpose of this study was to determine the mediating effect of CEO compensation on relationship between investor pressure and dividend payout policy as moderated by financial flexibility. The study was guided by the following specific objectives; to establish the effect of*;* foreign institutional investors and domestic institutional investors on dividend payout policy. The study also determined the moderating effects of financial flexibility on the relationship between foreign institutional investors, domestic institutional investors on dividend payout policy. The study similarly examined whether CEO compensation mediates the relationship between foreign institutional investors, domestic institutional investors on dividend payout policy. Also, the study examined the mediating effect of CEO compensation on the relationship between foreign institutional investors, domestic institutional investors and dividend payout policy as moderated by financial flexibility. The study was informed by agency theory, stakeholder theory, signaling theory information asymmetry theory and theories of executive compensation. A positivism research paradigm was adopted in the study. This study used a combination of explanatory and longitudinal research design. The target population comprised of 67 listed firms in Nairobi Securities Exchange (NSE) which have been trading consistently from 2009-2019. After applying the inclusion/exclusion criteria the final sample consisted of 40 firms, resulting in a total of 440 firm year observations. The study used secondary data that was extracted from audited financial statements of individual firms, and the data was analyzed through descriptive and inferential statistics. The Hausman test informed the choice between fixed effect and random effect. The study's findings show that foreign institutional investors (β=0.597, ρ<0.05) and domestic institutional investors (β=0.439, ρ<0.05) had a positive and significant effect on the dividend payout policy. Financial flexibility had a buffering interaction effect on the relationship between foreign institutional investors (β= -0.10; ρ<0.05), domestic institutional investors (β= -0.17; ρ<0.05) and dividend payout policy. Further, the study found that CEO compensation mediated the relationship between foreign institutional investors (β=0.046, ρ<0.05), domestic institutional investors (β=0.05, ρ<0.05) and dividend payout policy. Finally, the study found that CEO compensation had a mediating effect on the relationship between foreign institutional investors (index for moderated mediation 0.298, $\rho<0.05$), domestic institutional investors (index for moderated mediation 0.149, ρ<0.05) and dividend payout policy as moderated by financial flexibility. Therefore, the study concludes that the CEO compensation mediates the relationship between investor pressure and dividend payout policy as moderated by financial flexibility. The study recommends that regulators create a conducive environment for institutional investors. Furthermore, managers may be informed on how to balance the association between financial flexibility and dividend payout policy in light of institutional pressure. Finally, policy makers may be informed on the importance of how CEO compensation influences the relationship between investors and dividend payout policy.

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ABBREVIATIONS

AMEX	American Stock Exchange
ASE	Athens Stock Exchange or Amman Stock Exchange
BG	Breusch-Godfrey
CC	CEO Compensation
CEO	Chief Executive Officer
CLRM	Classical Linear Regression Model
CMA	Capital Markets Authority
CMIE	Centre of Monitoring Indian Economy
DP	Dividend Payout Policy
DPR	Dividend Payout Ratio
DW	Durbin-Watson
FA	Firm Age
FCF	Free Cash Flow
FF	Financial Flexibility
FP	Firm Performance
FS	Firm Size
IAS	International Accounting Standards
ID	Domestic Institutional Investors
IF	Foreign Institutional Investors
IFRS	International Financial Reporting Standards
LEV	Leverage
LM	Lagrange multiplier
MENA	Middle East and North Africa
NASDAQ	National Association of Securities Dealers Automated Quotations
NPV	Net Present Value
NSE	Nairobi Securities Exchange
NYSE	New York Stock Exchange
OLS	Ordinary Least Squares
ROA	Return on Assets
VIF	Variance Inflation Factor

OPERATIONAL DEFINITION OF TERMS

CEO Compensation this is the total compensation paid to the Chief Executive Officer. For the purposes of this study CEO compensation comprises the total cash compensation i.e., salary plus bonus (Ozdemir & Upneja, 2012).

Dividend Payout Policy Dividend payout policy refers to the part of earnings distributed to shareholders to alleviate the agency problem as opposed to directing the cash for investment for future growth (Bouaddi *et al.,* , 2020; Wahjudi, 2019).

Financial Flexibility This is the cash available at the disposal of the CEO for purposes of distribution to shareholders i.e., paying dividends, investment and operations (Khan *et al.,* 2011).

Investor Pressure The pressure exerted by the investor on the firm or management assuming that the greater the ownership by each investor type, the greater the investors' influence over the company or management. (Jung & Mun, 2016). In this study, investor pressure is cotextualised in terms of domestic institutional investors and foreign institutional investors.

CHAPTER ONE

INTRODUCTION

1.0 Overview

This chapter discusses the study's background, problem statement, objective of the study, research hypothesis, significance of the study as well as the scope of the study.

1.1 Background of the Sudy

Dividend policy signifies the tradition that guides the execuive in determining dividend payout decisions. Specifically, dividend payout policy encompasses the magnanimity and pattern of cash payouts to investors progressively. According to Wahjudi (2018) dividend payout policy is a firm's management policy for determining the profit offered to shareholders, which is either paid to shareholders as dividends or is retained in order to finance future investments. Dividend payout policy is a key topic in financial management since it has been associated with firm value, shareholders' wealth, performance, stock price volatility, earnings management (Farrukh *et al.,* 2017; He, *et al.,* 2017; Zainudin *et al.,* 2018; Hauser & Thornton, 2017; Roy, 2015). Dividend payout policy is important in corporate finance since investors, scholars and policy makers are interested to know what determines the decision on whether to pay dividends or not and if it is paid, what determines that amount to be paid.

Studies have shown that dividends payment mitigate agency problems. According to Driver *et al.,* (2019), agency theory is the most prevalent and enduring explanation which bases itself on the mismatch of rewards between agents (the executive) and principals (investors) often as a result of agents having better information and/or engaging in insider-dealing. Smith *et al*., (2017) argues that investors consider

dividends payments as a result of effective governance. Furthermore, Ham *et al.,* (2020) noted that dividends can signal the potential of a company to effect positive cash flow. On the contrary, dividends can lead to expropriation by majority shareholders which can lead to shortage of funds that will negate a firm's overall growth strategy (Reyna, 2017). Thus, finding a dividend payout policy that optimises firm value remains the most debatable issue in corporate policy.

Agency theory is widely used to explain why firms pay dividends since dividends can mitigate the agent-principal conflict (Jensen, 1986; Meckling & Jensen, 1976). Mehdi *et al.,* (2017) notes that emerging markets have specific corporate governance characteristics. However, due to managerial opportunism, the focus has turned to owners' ability to put pressure on firms' dividend payout policy. Investor pressure is how the different forms of equity ownership influence a company's policies and strategic decisions (Sjöström, 2008). Although ownership structure is of different forms, prior studies indicate that institutional shareholding is more effective in mitigating agency conflicts and shaping corporate decisions (Chang *et al.,* 2016; Filatotchev & Wright, 2011; Hartzell & Starks, 2003). Kane and Velury (2004) claim that institutional investors have more influence than individual investors simply because they typically hold proportionately larger chunk of shares and command higher investment capital levels. Demsetz (1983) and Shleifer and Vishny (1986) contend that investors who control at least five percent at least of entity's stock have far greater incentives to monitor and control corporate policy than smaller shareholders. Reyna (2017) investigated the impact of a firm's ownership structure on dividend payout policy in the Mexican Stock Echange. According to the findings institutional investors had a favourable and significant effect on payment of dividends while individual investors had no influence. Moreover, institutional shareholders

typically maintain an arm's-length relationship with investee firms, in contrast to family, managerial, and state ownership. Governments have vested interests in allocating resources for their political objectives, such as employment, which makes state ownership inefficient and inferior (Shleifer & Vishny, 1994). Similarly, family and managerial-controlled firms may promote entrenchment and exploitation of firm resources for private gains and may lessen the effectiveness of internal monitoring measures (Denis & Denis, 1994). As such institutional shareholders are likely to have a favourable and significant influence within firms they own compared to that of other controlling owners. Based on empirical literature ownership by institutional investors is categorized into foreign and domestic ownership (Lin *et al.,* 2018).

Insurance firms and banks are examples of institutional shareholders that have an investment relationship as well as a commercial link and are less likely to contest management in decision making (Jara-Bertin *et al.,* 2012). They are known as pressure sensitive (passive) investors and this characteristic is exhibited in domestic institutional investors (Filatotchev & Wright, 2011). However, institutional investors with solely an investment relationship, notably investment and pension funds, are more inclined to influence management's actions. (Ruiz-Mallorquí & Santana-Martín, 2011). They are known as pressure resistant (active) investors and they are prominent with foreign institutional investors (El-Diftar *et al.,* 2017). Filatotchev & Wright (2011) argue that foreign institutional investors (pressure resistant investors) originate from developed and highly regulated countries thus have highly monitoring abilities with more commitment due to their foreign direct investments. Domestic institutional investors (pressure sensitive investors) on the other hand have business relationships with investee firms and thus suffer from conflict of interest. They are likely to side

with management even though management actions may not be in the shareholders' best interest (Aggarwal *et al.,* 2011).

Jory *et al.,* (2017) suggests that if the manifestation of dividend payments and institutional owners are alternative tools to restrain executives, then it is critical to understand the differences across the categories of institutional shareholders who can fulfill that supervisory role. This perspective on institutional investors has not been studied in retrospect to dividend policy but has focused on other areas such as disclosure (El-Diftar *et al.,* 2017), earnings management (Guthrie & Sokolowsky, 2010), firm value (Karim & Ilyas, 2020; Santos *et al.,* 2013; Ruiz-Mallorquí & Santana-Martin, 2011), risk (Panicker *et al.*, 2019), innovation (Sakaki & Jory, 2019) and performance (Muller-Kahle, 2015; Panda & Leepsa, 2019). Additionally, Cao, *et al.,* (2017) note that the association among institutional investors and dividends is mixed.

Recent studies suggest that both foreign and domestic institutional ownerships determine the dividend policy of a company. Jung and Mun (2016) demonstrate that the persistent demands from both domestic and foreign institutional investors significantly shape a firm's dividend payout. Further, the authors noted that foreign investors have both a direct and an indirect influence by extending the intellectual limits of organizational domains. On the other hand, domestic institutional investors are more confrontational and usually compare the firm's dividend policy with that of similar firms. A study by Thanatawee (2013) reveals that domestic institutional ownership significantly and positively influences a firm's payout policy, while foreign institutional holding is insignificant. Roy (2015) observed that foreign as well as domestic institutional ownership had no influence on the dividend policy of

publicly traded Indian enterprises when he investigated effects of structure of ownership on dividend payout policy. Jacob & PJ (2018), who studied the association between dividend policy and the shareholding of institutional investors among Indian listed firms, concluded that domestic institutional ownership influenced dividend policy significantly and favorably. The results further show that the impact of foreign institutional ownership on dividend policy is significant and negative. Given the mixed findings there is need to investigate factors that intermediate the relationship between investor pressure arising from institutional ownership on dividend policy.

Investor pressure may have an indirect effect on divided policy through Chief Exective Officer (CEO) compensation. According to the agency theory, investor pressure significantly determines CEO compensation structure. This holds true particularly for institutional investors who constitute the dominant shareholders; thus, having more monitoring incentives. Moreover, Shleifer and Vishny (1986) and Jensen (1986) argue that the presence of institutional shareholders acts as a mechanism for closer supervision to prevent the opportunistic behavior of managers. This stops managers from expending cash dividends unnecessarily thus institutional investors serves as a control and discipline over the CEOs. Hence, institutional investors conceive and oversee the Chief Executive Officer's compensation to ensure that the financial perquisites percolate to shareholders (Patnaik & Suar, 2020*;* Parthasarathy *et al.,* 2006).

Additionally, previous empirical studies show a significant relationship between CEOs compensation and investor pressure. Croci *et al.,* (2012) argue that institutional ownership affects CEO pay, but does so differently depending on whether those investors are domestic or foreign. Domestic institutional investors, in particular, put

an emphasis on pay-for-performance, but foreign institutional ownership raises CEO overall remuneration without tying pay to performance. Further, Jong and Ho (2018) contend that institutional ownership, both domestic and foreign, have a significantly adverse effect on CEO compensation, implying that these category of investors have more voice in determining executive remuneration. In addition, a study by Ning *et al.,* (2015) demonstrates that institutional shareholders are to a greater extent inclined to purchase shares of entities with superior managemement reward structures and to sell those shares when they become dismayed over the CEO pay package's incentive component. The investor pressure and CEO compensation association has also been established in other studies (Ozkan, 2007; Stathopoulos & Voulgaris 2016; Sanchez-Marin *et al*. 2017).

Although, CEO compensation informs the choice of various dividend payout policies extant literature shows an ongoing debate among researcher. According to Bhattacharyya's (2007), the CEOs compensation contract determines a firm's dividend policy. For instance, productive CEOs (managers who have greater access to NPV-positive projects) are encouraged to pay out dividends rather than invest the firm's cash while CEOs whose productivity is poor (managers with limited access to NPV-positive projects) are required to pay out higher dividends. In addition, Bhattacharyya *et al.,* (2008) report that, executive compensation is inversely associated with dividend payouts and positively related to earnings retention. Conversely, a study by Geiler and Renneboog, (2016) indicate that CEO's total compensation has a significantly favourable influence on dividend policy. Wu and Wu (2020) suggest that CEO total compensation has an insignificant influence on dividend policy. However, the authors note that the different CEO compensation structures may have varied effect on dividend policy preferences.

The dividend payout policy of a company is affected by its financial flexibility. Recent research show that a firm's ability to access financing to fund investment opportunities and unexpected expenses influences dividend payout policy (Khan *et al.*, 2011; du Jardin & Séverin, 2011). A study by Kumar and Vergara-Alert (2020) found that enhancing financial flexibility increases payout policies such as cash dividends, share repurchases among others. Baker & Weigand (2015) stated that excess cash balances gives CEOs increased investment flexibility; however, it has an adverse impact to shareholders. Therefore, financial flexibility affects the association between investor pressure and dividend payout policy.

Loncan (2020) argues that foreign institutional shareholders go for a high dividend payout policy to mitigate agency conflict. By pressuring firm to pay dividend, institutional investors ensure that firms maintain low levels of cash balances within the firm. Similarly, Hamao *et al.*, (2011) elaborate that the presence of foreign institutional investors is linked with a significant decrease in cash holdings due to initiatives of these investors to force more distributions hence restricting financial flexibility of firms. Besides, Stepanyan (2011) suggests that firms with financial strength attract foreign institutional investors. Ameer (2010) suggest that owing to business relationship with domestic institutional investors, such as banks, investee firms have access to cheaper debt financing; implying, less cash holding or investee firms are encouraged to over borrow and hoard cash arising from conflict of interest. Consequently, there is need to investigate whether financial flexibility moderates the investor pressure and dividend payout policy relationship.

According to Jameson *et al,.* (2021), compensation for chief executive officers should be linked to performance or decisions that enhance value for shareholders. They argue

that by providing greater financial flexibility, the CEO behaves in favor of shareholders' interest by preserving cash to prepare for imminent financial uncertainty. Financial flexibility enables a CEO invest in projects that maximizes shareholder wealth; particularly, if the compensation is linked to dividend payout policy (Blau & Fuller, 2008; Belghitar & Khan, 2013). Studies also show that firms, whose shareholders view financial flexibility as value creating prefer share repurchases, pay less dividends and are characterized by less financial leverage (Rapp *et al.*, 2014). In light of the aforementioned, the aim of the research is to assess if CEOs compensation mediates the association between investor pressure and dividend payout policy as moderated by financial flexibility.

1.1.1 Nairobi Securities Exchange

Established in 1954, the Nairobi Securities Exchange (NSE) was launched by colonial businessmen to hedge against risks for their own businesses (Yenkey, 2015). After independence, trading in the Nairobi Securities Exchange was restricted exclusively to wealthy individuals and companies (Ngugi, 2003). However, the government has gradually implemented policies to include small retailers as well as broaden the base of investors. The Capital Markets Authority (CMA) has granted the NSE the only license in Kenya to discharge all tasks of a securities exchange (Nairobi Securities Exchange, 2020). The CMA has the dual responsibility for developing and regulating of market operations by ensuring fairness and efficiency, encouraging innovation and guaranteeing integrity (Ndiritu, 2020). The NSE cash market was divided into three segments in 2001: the Fixed Income Securities Market Segment (FISMS), the Alternate Investment Market Segment (AIMS), and the Main Investment Market Segment (MIMS). In 2013, the Growth Enterprises Market Segment (GEMS) was launched for medium sized companies. Companies are categorized into thirteen

sectors by the Nairobi Securities Exchange, namely; investment services, exchange traded funds, real estate investment trust, energy and petroleum, construction and allied, manufacturing and allied, investment, insurance, banking, automobiles and accessories, telecommunication and technology, commercial and services and agricultural. ((Nairobi Securities Exchange, 2020). Currently the Market has 67 listed firms *(*Capital Markets Authority, 2020).

The Nairobi Securities Exchange, which promotes savings and investment and aids local and foreign businesses in accessing affordable capital, is a key factor in the expansion of Kenya's economy. Nairobi Securities Exchange is governed by the Capital Markets Authority of Kenya and currently has 67 listed firms which meet the set criteria for listing (NSE, 2015). Despite fulfilling the specified listing standards, companies are nonetheless subject to market dynamics, which can have either a favorable or adverse effect on their dividends. Government regulations, risk perceptions, management choices, and investment choices could all contribute to these dynamics (NSE, 2014). The number of firms that frequently encounter financial difficulties has risen due to the capital market's rapid transformation and the economy's general diversity (Geng et al., 2015).

1.2 Statement of the Problem

Dividend payout policy is at the heart of corporate policy since it performs a vital part in a firm’s value as it serves as a mechanism for control of agency conflicts (Booth & Zhou, 2017; Rajput & Jhunjhunwala, 2019; Reyna, 2017). The determining factors of dividends payout policy among publicly entities in developing countries remains a puzzle owing to the limited number of research studies. However, Arko et al., (2014)

suggest that dividend payout policy is largely depends on risk, institutional shareholders, leverage, tax payment, investment opportunities, and profitability,

Studies show that countries with sophisticated capital markets follow stable payout policies (Chateau, 1979; Shevlin, 1982; McDonald *et al.*, 1975; Leithner & Zimmermann, 1993; Lasfer, 1996). However, Glen *et al.* (1995) note that emerging countries have target but not stable payout policies. Abor and Fiador (2013) specifically state that Kenya appears to have a rather inconsistent dividend payout policy pattern. For example, information sourced from NSE listed firms' annual reports, dividend payout policies vary from the actual dividend paid to investors as evidenced by, for intance Safaricom, 80% against 79.8%, KenGen's, 33.3% against 20%, KCB's 50% against 43%, Equity Bank Ltd is 30-50% against 42%

In Kenya there seems to be an association between investor pressure and dividend payout policy that necessitate research. For instance, Safaricom Ltd has a 80% dividend payout policy; 40% foreign institutional, 39% domestic institutional ownership; KenGen's dividend payout ratio is 33.3%, 13% foreign institutional, 78% domestic institutional ownership; KCB's dividend payout policy is 50%, 27% foreign institutional and 30% domestic institutional ownership; while Equity Bank Ltd has a 30-50% payout ratio, 12% foreign institutional and 38% domestic institutional ownership.

The association that exists between dividend payout policy and investor pressure has been studied in emerging and developed countries but prevailing literature shows inconsistent findings. While some studies show that investors' pressure increases dividend payout (Jung & Mun, 2016; Thanatawee, 2013), there exist studies suggesting an adverse link between investor pressure and dividend payout policy

(Balachandran, et al., 2019; Moin *et al.,* 2020), others report no relationship (Roy, 201; Jory et al., 2017). Yet another stream of studies argues that pressure to increase dividend payout varies between foreign institution and domestic institutional investors (Jacob & PJ, 2018).

Therefore, there is need to empirically examine the variables influencing the link between investor pressure and dividend payout. Prior studies show a link between investor pressure and CEOs compensation. According to Croci *et al.,* (2012), domestic institutional investors emphasizes on CEO pay-for-performance, but foreign institutional investors are interested in CEO's overall compensation; which does not necessarily align CEO's pay to dividends payout. Further, Jong and Ho (2018) contend that both foreign and domestic institutional ownerships exhibit a significantly adverse bearing on CEO compensation; insinuating that institutional investors have more voice in determining of executive remuneration. Ning *et al.,* (2015) argues that institutional investors prefer stocks of firms characterized by an attractive managerial incentive structure. Further, several studies indicate a link between CEO compensation and dividend payout policy; however, the findings are mixed (Bhattacharyya 2007; Bhattacharyya *et al.,* 2008; Wu & Wu, 2020; Geiler & Renneboog, 2016).

Prior studies have established that investors prefer dividend payouts as a mechanism for reducing the cash available for CEOs for their personal benefit (Fernandes *et al.,* 2012; Croci *et al.,* 2012; Ozkan 2011; Ozkan, 2007; Haid & Yurtoglu, 2006; Khan *et al.,* 2005). Conversely, CEOs with viable investment opportunities prefer to maintain financial flexibility in the event of limited access to financing and help reduce costs linked to financial distress (Rapp *et al.,* 2014). Thus, financial flexibility enables a

CEO invest in projects that improve firm value; specifically, if the CEOs total compensation is pegged on dividend payout (Blau & Fuller, 2008; Belghitar & Khan, 2013).

In view of the above the study's aim is to establish if the Chief Executive Oficer's compensation mediates the association between investor pressure and dividend payout policy as moderated by financial flexibility among entities publicly trading in the Nairobi Securities Exchange.

1.3 General Objective of the Study

The aim of the study is to investigate the mediating effect of CEO compensation on the link between investor pressure and dividend policy as moderated by financial flexibility among Kenyan publicly traded entities.

1.3.1 Specific objectives of the study

The study will be guided by the following research objectives

1) To establish the effect of foreign institutional investors on dividend payout policy among listed firms in NSE.
2) To determine the effect of domestic institutional investors on dividend payout policy among listed firms in NSE.
3) To establish the moderating effect of financial flexibility on the relationship between;
    a) Foreign institutional investors and dividend payout policy among listed firms in NSE.
    b) Domestic institutional investors and dividend payout policy among Kenyan public traded entities.

4) To assess the mediating effect of CEO compensation on the link between ;
    a) Foreign institutional investors and dividend payout policy, among listed firms in NSE.
    b) Domestic institutional investors and dividend payout policy among publicly traded companies in the Nairobi Securities Exchange.
5) To evaluate the mediating effect of CEO compensation on the association between;
    a) Foreign institutional investors and dividend payout policy as moderated by financial flexibility, among listed firms in NSE.
    b) Domestic institutional investors and dividend payout policy as moderated by financial flexibility, among publicly traded entities in the Nairobi Securities Exchange.

1.4 Hypothesis of the Study

The following hypotheses will be tested

H_{O1} Foreign institutional investors have no significant effect on dividend paout policy among listed companies in the Nairobi Securities Exchange.

H_{O2} Domestic institutional investors have no significant effect on dividend payout policy among listed companies in the Nairobi Securities Exchange.

Ho3 Financial flexibility does not moderate the association between;

a) foreign institutional investors and dividend payout policy among Kenyan publicly trading companies in the Nairobi Securities Exchange.
b) Domestic institutional investors and dividend payout policy among Kenyan publicly traded companies in the NSE.

Ho4 CEO Compensation does not mediate the association between;

a) Foreign institutional investors and dividend payout policy among listed firms in NSE,
b) Domestic institutional investors and dividend payout policy among Kenyan publicly traded companies.

Ho5 CEO Compensation does not mediate the relationship between;

a) Foreign institutional investors and dividend payout policy as moderated by financial flexibility, among listed firms in NSE,
b) Domestic institutional investors and dividend payout policy as moderated by financial flexibility, among publicly traded companies in NSE.

1.5 Significance of the Study

The study intended to determine the mediating influence of CEO compensation on the link between investor pressure and dividend payout policy as moderated by financial flexibility among Kenya's public traded firms. As a result, the study's conclusions are critical to a wide range of stakeholders

First, financial managers may be made cognizant of the effects of various investors on corporate policies such as dividend payout policy. Secondly, the government through the regulators would be interested to know how investor pressure, CEO compensation and financial flexibility influence dividend payout policies of listed firms in Kenya. As a resut, the government and affilaited regulatory agencies will develop guidelines and regulatory framework that recognise the implications of investor pressure, CEO compensation and financial flexibility. Scholars may have insights of the relationship between various investors on CEO compensation, financial flexibility and corporate policies.

The study's main contribution is that may aid to provide greater clarity on the unresolved gaps concerning the implications of investor pressure, CEO compensation, financial flexibility on dividend payout policy Furthermore, it investigates the relationship between investor pressure, CEO remuneration, financial flexibility, and dividend policy, which is still unknown in a developing exchange market like Kenya.

1.6 Scope of the Study

The research examined how investor pressure affects dividend payout policy and advance on moderating effect of financial flexibility and mediated by CEO Compensation. The study was limited to two forms investor pressures which are domestic institutional investors and foreign institutional investors. The study focused on 40 listed firms out of a population of 67 Kenyan firms that were listed in the Nairobi Securities Exchange as at 2019. The study period was between 2009 and 2019. This period was selected on the grounds that 2009 constitutes the first year after the financial crises of 2007/2008 and 2019 preceeds the year the COVID pandemic began. Additionally, this period saw the commencement of internet trading, the launch of the Growth Enterprises Market Segment (GEM S), the Real Estate Investments Trusts (REITs) and the Derivatives Market. The study used panel approach and secondary data as it involved observing a diverse range of businesses over time.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviews research variables namely investor pressure, CEO compensation financial flexibility and dividend payout. This chapter will also review theories and previous empirical studies related to this study and finaly conclude with the study's conceptual framework.

2.1 Concept of Dividend Payout Policy

The idea of dividend policy makes reference to various facets which influence the executive in determining dividend payout choices, specifically, the magnitude and sequence of cash payouts to shareholders over a period of time (Baker & Weigand, 2015; Roy, 2015; Lease *et al.*, 2000). Dividend payout policy is of paramount importance to managers as it reflects on a firm's performance. However, there are unresolved and contested issues on dividend payout policy despite it being investigated for decades. For the past six decades, dividend payout policy has piqued the interest of finance researchers but there still exist conflicting theoretical models that lack strong empirical support (Frankfurter & Wood, 2002). Moreover, studies have offered many explanations for why firm pay dividends but there is no specific theory or determinant that can explain dividend policy on its own (Dewasiri & Weerakoon, 2016). In their study, Baker *et al.*, (2019) used different approaches and methodologies in an attempt to resolved theoretical debate and contradictory findings of this phenomenon. Until the different approaches and methodologies are employed as suggested by Baker *et al.*, (2011), the dividend enigma will continue to be an enduring issue in finance and it will remain unresolved.

According to Pinto *et al.,* (2019), an entity's dividend payout policy refers to its decision to pay out cash dividends, bonus shares or share repurchase to shareholders. Early research on dividend payout policy addressed how frequently dividends should be paid, and if a firm decides to pay, how much cash should be distributed. Today's firms have gone beyond this scope to include options like choosing to disburse funds to shareholders through share repurchases or a special dividend as opposed to periodic payouts, and whether to rely on distribution of stock rather than dividend payments (Hussainey *et al.,* 2011). Moreover, regulatory changes have enabled non-convetional methods of dividend payouts such as share repurchases to be used as alternatives to cash dividends. Subsequently, this has made the dividend decision difficult and complex not to add investors' preference for various forms of dividend payouts.

Dividend payout policy is concerned with reinvesting profits from operating results of the firm or to share the profits with shareholders (Wahjudi, 2019). When firms pay dividends, they tend to pay relatively stable dividends but Huang & Paul (2017) observe that this is influenced by a firm's growth opportunities and investors' preferences for dividends. When cash surpluses exist, high dividend payments are preferred as it constrains management from undertaking value destroying projects that squander cash flows (Bouaddi *et al.,* 2020). Similarly, share repurchases is an alternative way for cash rich firms to return part of their retained earnings to shareholders (Abuaf, 2012)

The free cashflow hypotheses states that if management does not have net present value (NPV) positive opportunities, then management should return any extra cash to shareholders as dividends. Firms with surplus cash are to a greater extent susceptible to face higher agency cost owing to competing interests between shareholders and

management (Yusof & Ismail, 2016; Zhang *et al.,* 2016). There are, however, certain exceptions. For instance, institutional investors anticipate that growth stock firms should retain most excess earnings for use in funding future growth internally (Huang & Paul, 2017). By withholding current dividend payments, investors expect future dividend payments to increase proportionating. This will offset the retaining of existing earnings as well as internal funding of present investment initiatives. Wahjudi (2019) disagrees with this view by stating that increasing dividend payment signals positive future developments while a decrease in dividends signals negative future developments.

Executives also have to determine if to give cash dividends or stock repurchases, depending on a variety of circumstances that must be taken into account. Wesson *et al.,* (2018) found out that shareholder differences, distribution size and the extent of a firm's undervaluation as the most significant factors to be considered. Baker & Kapoor (2015) discuss various theories, motives and explanations to compare the choice between share repurchases and dividends. Abuaf (2012) suggests dividend payout should be based on a firm's ability to satisfy the standard corporate uses of cash. These include the need for transactions, precautionary considerations, and possible requirements for growth. According to Wesson *et al.,* (2018) the choice between dividend paymentss and share repurchases is determined by firm specific characteristics and should not be regarded as perfect substitutes.

Finance literature offers many theories, hypotheses, and explanations on dividend policies; therefore, managers face challenges when developing effective payout policies for their companies. Moreover, developing a universal dividend policy is likely to be unsuccessful since managers develop dividend policies at firm level

(Baker & Weigand, 2015). Investor's views on dividends and capital gains are different as some prefer capital gains; others prefer dividends and others are indifferent. This could be quite confusing when one takes into consideration dividend effects on shares prices. Because of this contentious nature of dividend policy, it is sometimes referred to as the dividend puzzle (Black, 1976).

The extant literature on dividend payout policy suggests that dividend payments reduce the conflict between the shareholders and CEOs. Moreover, Jiang & Kim (2015) and Song et al., (2015) found that the principal agency conflict is more conspicuous in emerging countries. Basing on La Porta *et al.,* (2000a, 2000b)'s agency theory came up with two dividend policy models; the substitute model and the outcome model. According to Smith *et al.,* (2017), the outcome model predicts that investors consider dividends payout as an outcome of effective governance. Therefore, it follows that shareholders exert pressure on CEOs to distribute excess cash flow (Guizani, 2018). However according to the substitute model; dividend payout supersedes all other corporate governance mechanisms in solving the agency problem. In rooting for the substitute model, John *et al.,* (2015) observe that firms with extreme agency conflicts pre-commit via dividends, which helps in mitigating the agency problems.

The dividend policy of a firm is closely tied with other financial policies such as investment policy and financing policy (Baker & Weigand, 2015). When dividends are not paid, it increases paid-up capital as well as save cash for future investments. However, Khan *et al.,* (2011) found out that dividend policy is a residual of investment and financing policies. Jeon *et al.,* (2011) notes that the share of earnings to be offered as dividends, is an inexpensive substitute to shareholder oversight thus

boosting company value by avoiding value destroying projects. Similarly, firms with investment opportunities view retained earnings as the most expedient source of funding for firm growth. As a result, every company ought to develop and execute an optimum dividend policy that considers financing and investment policies that leads to shareholders' wealth maximization.

According to Yusof and Ismail (2016), Al-Kayed (2017) and Guizani (2018), dividend policy is measured using dividend payout or the propensity to pay dividends. Dewasiri *et al.,* (2019) adds that the decision to distribute dividends is a variable that is binary (to pay or not to pay) while shareholders' reward is estimated using dividend yield (the ratio of dividend per share to market value per share). The study will use dividend payout (the ratio of dividend per share divided to earnings per share) as the dependent variable (Budagaga, 2020; Wahjudi, 2020; Basri, 2019; Guizani, 2018; Ranajee, Pathak & Saxena, 2018; Patra *et al.*, 2012)

2.2 Concept of Investor Pressure

Investors' pressure is a vital part of the executive as it influences firm resources, organisational paths and strategies that affect the value of a firm (Chakrabarti *et al.*, 2011). Lysandrou & Pra (2010) points out that investors' pressure reduces the agency problem by concentrating their shareholding so that they can exercise their voice in the firm. In contrast, corporations with low shareholdings of institutions have lower incentives to influence management and this leads to managerial opportunism (Wu et al., 2015).

Pressure on a firm's activities comes from stakeholders since firms produce externalities that have negative impacts or positive outcomes *(*Freeman, 1984). Shleifer and Vishny (1986) opine that corporate governance stresses the role of large

shareholders in managerial oversight. However, influential shareholders use threats of interventions on management and imposing pressure on capital causing an overemphasis on short-term performance (Bolton *et al*., 2006; Shleifer, 2004; Dye, 1988). The tension between shareholders and management is at the heart of the policy argument on increasing shareholder authority over corporate decisions (Guthrie & Sokolowsky, 2010). Federo *et al.*, (2020) attribute recent developments on corporate governance codes that grant shareholders access to firm activities that were exclusive to board of directors. This will enable shareholders to gain more influence over firm's activities. However, Yan & He (2018) argue that granting non-controlling large shareholders more power will exacerbate more expropriation and lower firm value.

Aguiar-Díaz *et al., (*2019) and Delgado-García *et al.,* (2010) mention several researchers who identify two categories of institutional investors: pressure sensitive investors or passive investors, who are more sensitive to pressure in respect to the company's executive and pressure insensitive or active investors, who are resistant to pressure from the company's executive. Pressure sensitive investors *(*e.g., insurance companies and banks) are institutional investors that have current or prospective business ties with investee firms and tend not to confront management (Sakaki & Jory. 2019; Filatotchev & Wright, 2011; Aggarwal *et al.*, 2011; Jalil & Rahman, 2010). In an environment where investors' protection is weak, institutional investors aim to advance their commercial relationship with the investee firm to receive commercial gains (Ruiz-Mallorquí & Santana-Martin, 2011). The literary works of Brickley *et al.,* (1988), Pound (1988), and Kochhar & David (1996) revealed that institutional investors such as banks and insurance firms have an adverse association with firm performance owing to the commercial ties with the top executives of fims they invest in.

Although pressure-sensitive investors show great loyalty to management, Ruiz-Mallorquí & Santana-Martín (2011) observes that in case of disagreement with management, these investors can go as far as disposing off their shares to protect the commerrcial link with the management of the investee firm. Moreover, the association between the management of investee firms and pressure sensitive institutional investors and can give rise to conflicts with other shareholders. De-la – Hoz & Pomboas (2016) notes that pressure sensitive investors often agree with management on actions that are not in line with the interests of shareholders. As a result of this commercial relationship with investee firms, in which they also have an ownership stake, pressure-sensitive institutional investors embrace the conflict-of-interest hypothesis (Pound, 1988).

The aura of pressure-sensitive institutional investors enhances monitoring of investee firms, since institutional investors such as banks have the ability to access inside information (Lehmann & Weigand, 2000). This stance is inconsistent with Aggarwal *et a*l., (2011) and (Chen *et al*., (2007) who view that pressure sensitive investors have high monitoring costs. The high monitoring costs arise when pressure sensitive investors exert pressure on investee management, thus, jeopardizing the business the relationship with investee firm.

Pressure-resistant institutional investors such as investment, mutual and pension funds are autonomous and actively monitor governance of investee firms (Panda & Leepsa, 2019). These investors primarlily engage investee firms for investment purposes and seldom have any business relationship with investee companies (Muniandy *et al.,* 2016; Feng *et al.,* 2010). Ferreira and Matos (2008) opined that pressure resistant investors do not have current or prospective commercial ties with investee firms.

Therefore, they will be more interested in scrutinizing firm management since they are not influenced by the potential business links. Elyasiani & Jia (2010) in their study concluded that pressure-resistant shareholders who owned more than five percent of a firm had more influence over its corporate governance and performance. Therefore, by controlling actions of management, pressure-resistant investors are more suited in overseeing management's conduct (Aggarwal *et al*., 2015).

Pound (1988) explained that pressure-resistant investors follow the active monitoring hypothesis and, thus, are well placed to oversee corporate governance and performance. Similarly, they are better placed to prevent corporate scandals since they have an independent position in the investee firm. De-la -Hoz & Pombo (2016) observed that these investors incur lower monitoring costs and have an advantage when putting pressure on management as they have no commercial links with investee companies. Furthermore, when these shareholders are discontented with management, they voice their concerns or exit (Muniandy *et al.,* 2016). Based on these arguments, pressure resistant investors are predicted to enhance corporate governance and performance (Aggarwal *et al.,* 2015; Elyasiani & Jia, 2010). However, studies done by Faccio & Lasfer (2000), Wahal (1996) and Romano (1993) report contradictory results.

Pand & Leepsa (2019) mention that literature on institutional ownership engagement in firms is varied between active monitors and passive monitors. Moreover, studies in industrialized and emerging countries show that institutional owners' engagement in firms that they invest in promotes good governance and influence a firm's strategic options (Filatotchev *et al*., 2001; Lien *et al*., 2005). Filatotchev & Wright (2011) point out that from an agency theory angle, institutional ownership is the most significant

category of shareholders for hindering agency problems. However, El-Diftar *et al.,* (2017) notes that institutional investors should be studied distinctively and should not be thought of as a homogeneous group.

Although institutional investors affect the governance of investee firms positively (Hutchinson *et al.,* 2015), others show contradictory evidence. Borochina & Yang (2017) opined that institutional investors are said to be transient if they take a short investment horizon in the firms they invest in and have high a portfolio turnover. Thus, they are likely to be myopic investors looking for short-term rewards. Additionally, institutional investors exploit other shareholders by ignoring scandals involving management as long as they gain commericially (Panda & Leepsa, 2019). This is in line with the expropriation hypotheses, which suggests that the rights of minority interests are jeopardized by large shareholders (La Porta *et al.,* 2000b).

According to El-Diftar *et al.,* (2017) and Panda and Leepsa (2019), foreign institutional owners who are from a developed and highly regulated country will pressure investee firms in a manner consistent with pressure resistant investors. Hoskisson *et al.,* (2002) adds that foreign financial institutional investors influence strategic choices in firms they invest in and are les likely to have significant commericial ties with the firms they have invested in. Conversely, Aggarwal *et al.,* (2011) and Tihanyi *et al*., (2010) report that domestic institutions shareholders are predicted to have commercial links with firms that they have invested in making them further obliged to endorse managerial plans.

Driver *et al.,* (2019) use two proxies to measure investor pressure: the first is the anticipation of acquisition, which is measured by the most recent yearly aggregate worth of gross takeovers within enterprise's sector, and the second is the percentage of

independent directors on a firm's board and the proportion of total compensation in form of equity-based pay due of board directors. Jung and Mun (2016) measure investor pressure using the proportion of an entity's common stock owned by each investor category. The proportion of ownership in an entity by foreign and domestic institutions will be used as a measure of investor pressure in this study.

2.3 Concept of Financial Flexibility

Agrawal (2020) points out that in today's dynamic world; financial flexibility has emerged as a crucial component of financial management choices. It is for this reason a firm's financial flexibility is of paramount importance to regulators and investors who are interested in a firm's ability to survive and grow. Studies on financial flexibility are short and scant but recently it is considered as being a first-order driver of a company's financial strategy (Gregory, 2020; Pendar *et al.*, 2019; Yung *et al.*, 2015; Denis, 2011). Modigliani and Miller (1963) stated that entities do not utilize lent funds as much as expected due to the limitation by lenders. This leads to firms saving on debt capacity in order to preserve flexibility in responding to foreseeable capital requirements. Myers and Majluf (1984) pointed out due to information gaps, managers maintain excess cash since they lack information on investment opportunities. This may be beneficial to investors, however, the methods of ensuring excess cash holding is maintained could disadvantage investors. The methods include limiting payment of dividends, retaining significant cash holdings or marketable securities and by preserving extra debt capacity. According to Easterbrook (1984) personal benefits may accrue to CEOs for keeping large cash balances in order to maintain risks and dividend desired by shareholder and keeping optimal debt. Therefore, financial flexibility is a firm's capacity to respond to unanticipated negative

shocks to its investment opportunities or cash-flows in a well-timed and value-maximizing way. (Denis, 2011)

The motivations for achieving financial flexibility remain linked to foreseeable demands and the ability of entities to sustain a firm's growth when external funding is insufficient or is highly priced (Islam *et al.,* 2020). It is suggested that entities with financial flexibility have a stronger ability to explore growth opportunities and have easier access to external funding in midst of unexpected earnings deficits or growth pospects, and thus avoid circumstances that lead to below par ventures and poor performance (Arslan-Ayaydin *et al.,* 2014).

Gryko (2018) opine that the financial flexibility of an entity is determined by three aspects: uncertainty of the environment, scope of the firm’s present investment activity and its growth potential and ability to shape the entity’s financial flexibility. Another view by Rapp *et al.,* (2014) explains that an entity’s financial flexibility is determined by pre-determined financial policies. Gamba and Triantis (2008) demonstrate that the financial flexibility of a firm is possible due to its strategic resolve concerning its capital structure, liquidity and investment. Additionally, in order for firms to respond adequately in an uncertain economic environment, Bancel & Mittoo (2011) and DeAngelo *et al.,* (2018) contend that maintaining large cash reserves and having minimum amounts of borrowing are ways of maintain financial flexibility. However, according to Miller & Modigliani (1961), if capital markets are perfect, firms have completed financial flexibility. When there are information gaps in the market that bring undesirable results or unexpected events, firms may necessitate financial flexibility ex post. Financially flexible positions are desirable because it enable firms to withstand exogenous shocks that protect the firm’s existence,

performance and cash holding (Arslan-Ayaydin *et al.,* 2014). Investors contend that one of the most crucial corporate finance decisions is achieving financial flexibility (Rapp *et al.,* 2014).

According to Arslan-Ayaydin *et al.,* (2014) an entity's financial flexibility represents a firm's cash holdings and leverage. Consequently, entities with a large cash reserve and minimal amounts of bororwing and high cash holding are flexible entities with higher capacity for raising extra funding. On the other hand, entities with a poor cash position and exceesive leverage fail to be financial flexible. In line with this concept, Ma & Jin (2016) states that financial flexibility of firms is measured in terms of internal funds, liquidity, and leverage. Nevertheless, other studies recommend use of index methods (single index or multiple index). Single index is the index of cash holdings (Hoberg *et al.,* 2014; Arslan-Ayaydin *et al.,* 2014; Marchica & Mura 2010; Byoun 2008) or leverage (Denis & McKeon 2009; Billet *et al.* 2007).

2.4 Concept of CEO Compensation

CEOs' compensation has been a long standing and compelling issue for public attention. The level of CEO remuneration has drawn scrutiny from shareholders, regulators, lawmakers, the business media, and academics (e.g., Pandher & Currie, 2013; Core & Guay, 2010; Dvorak, 2009; Bogle, 2008; Conyon, 2006). Chief Executive Officer compensation is the reward for making economically important contributions to a firm and is deterimiied by his or her base salary, incentives and stock options. Extensive studies haves been done around CEO compensation over the years, and the dispute on this issue has grown significantly. (Raithatha & Komera, 2016). Studies on the firm performance and CEO compensation link are not scarce but few studies discuss the significant relationship between the two (Olaniyi, *et al.,* 2017).

According to Ullah *et al.* (2019), CEO compensation usually entails three elements in developed countries: a stock-based plan (long-term incentive), an annual cash bonus plan (short-term incentive) and a base salary, and. However, in developing countries CEO compensation, such as stocks and equity-based compensation, is still at a rudimentary stage. While salary is based on an annual fixed amount and long-term incentive typically links CEO compensation to the firm‘s share price at some future date, short-term incentive payoffs usually stem from more immediate, operational performance drivers. Salary is a fixed element of CEO compensation and it is independent of performance, though, it might not be so in the longer term (Karim & Suh 2018). The CEO cash bonus plans are presumed to be an explicit or implicit contract between the board and the CEO based on performance measures (Lord & Saito 2012). Additionally, for managers to maximize shareholder value, agency problems will likely be reduced by the cash bonus component of the CEO compensation (Assenso-Okofo *et al*., 2020). Moreover, performance measures for the cash bonus plan should take into account risk-incentive tradeoffs. However, high bonuses signal lower personal risk for the CEO, therefore, no risks are faced once bonuses are paid ex post. Additionally, CEOs can be given easier targets that can be replicated in the future given the nature of contracts are relatively constant.

Annual bonus awards are commonly based on financial results that put emphasis on accounting data. According to Merchant *et al.,* (2018), bonus plans have a minimum payout requirement and a maximum payment. Several authors have argued about the drawbacks of using bonuses as a significant part of a firm's performance-based management compensation plan. Moradi *et al.,* (2015) and Hadani *et al.,* (2011) opine that bonus policies are founded on distorted actual firm performance thereby misleading shareholders so as to enhance the CEO’s bonus earnings.

Equity-based compensation programs may come in many different forms and combinations, such as stock options, warrants, savings shares and performance shares (Forsblom & Smedberg 2017). They may be based on performance indicators tied to shareholder return, operational targets, innovation or financial targets. Advantages associated with equity-based compensation plans include: equity compensations plans reduce agency costs by better aligning the CEOs' incentives with those of the shareholders. Equity compensation plans also align the risk profiles of the CEO to the risk profiles of shareholders: they encourage CEOs to make strategic decisions over a long-*time* horizon for long-term development: equity compensation plans have a direct connection to shareholders' wealth (Curi & Murgia, 2018; Hou *et al.,* 2013; Jensen & Murphy, 1990; Jensen & Meckling, 1976). Research from various studies tends to come to the conclusion that stock-based remuneration also encourages managers to take excessive risks, despite the fact that equity-linked compensation plans may normally align management and shareholder interests. (Van Essen *et al.*, 2012)

The chief executive's compensation is made up of a number of elements, including bonus, pensions, perks, stocks, stock options and salary. Two metrics of compensation are employed for the analysis of the study. First and foremost is cash remuneration, which comprises salary and bonuses. Previous studies, for instance Shaw and Zhang (2010) and Sun *et al*., (2013), have demonstrated that a CEOs cash remuneration is an acceptable indicator for overall CEO compensation. The other type of remuneration is total compensation, consisting salary, bonus, pension, perks, stocks, and stock options. The major issue in question is assessing the value of stock option. Several corporations that have granted options to their Chief Executive Officers, account for the price of those options in their annual reports employing the Black-Sholes model.

The difficulty with equity-based remuneration, such as deferred benefits, stock options, and stock awards, is that it has been avoided principally due to the intricacy involved in determining these numbers (Ozdemir & Upneja, 2012).

The study was restricted to salary and bonuses since benefits paid to the CEO differ among firms, as well as owing to their quick availability via proxy statements and simplicity of computation. According to their study, Ullah *et al.,* (2019) found out that the data on equity-*based* compensation was either missing or insufficient for conducting a panel study. Additionally, the valuation is doubtful, and long-term incentive disclosures are uncertain (Assenso-Okofo *et al*., 2020). In this study, the natural logarithm of total cash compensation (salary + bonus) was used to calculate CEO compensation (Ozdemir & Upneja 2012).

2.5 Theoretical Framework

2.5.1 The Agency Theory

Agency theory was advanced by Eisenhardt (1985), however, Jensen and Meckling (1976) offer a rational explanation on the shareholders and managers relationship. It describes the relationship as a set of contracts involving principals, such as investors, and agents, such as the top executives of a company. The principal delegates work to the agents to meet their demands and to act in their best interest. However, senior management often have their own self-interest and are prone to undermining the investors' interests causing agency conflicts.

According to Bendickson *et al.,* (2016), agency theory can be used to describe two different perspectives of the agency problem: the principal-agent research and the positivist agency theory. Two agency problems are identified by the principal-agent research.: agent monitoring and risk-sharing. The two problems are related since a

reduction in the amount of information that the agent has to share, could make it hard to create an ideal contract. This limits the ability of the principal to oversee agent behavior.

Although agency theory is mainly focused on the principal agency relationship, there are also other relationships that can be considered as part of the agency framework (Hill & Jones, 1992). These include the relationship between the debt holders and the shareholders. Agency conflicts may have significant effects on a firm's ethical behavior and corporate governance; therefore, agency costs are typically incurred to maintain an effective agency relationship and are usually associated with incentive fees. Agency costs are often associated with financial incentives paid to managers to induce behaviors that are consistent with the shatreholders' desires (Bowie and Freeman, 1992).

There are various ways of reducing agency problems such as payment of dividends and having a proper executive compensation. Previous research done by Firer *et al.,* (2008) uses agency theory to explain the effect of dividend payments when agency conflicts are exhibited in firms. Dividends are distributed to shareholders on a proportional basis, mitigating the agency costs that arise due to utilization of free cash flow (Faccio *et al.*, 2001). By paying out more dividends, senior management are left with less cash flow and are forced to look for funding in the capital markets, which plays a monitoring role on behalf of investors Therefore, dividend payments can serve as a useful tool for monitoring the agency costs associated with managing the principal-agent conflict (John *et al.*, 2011). Consequently, dividend payments are seen to be an effective strategy for resolving an organisation's agency problems (García-Meca & Tejerina-Gaite, 2014).

In addition, executive compensation is a governance mechanism advanced by positivist researchers as an important control mechanism for aligning senior management interests alongside the interests of shareholders and mitigating agency problems (Bendickson *et al.*, 2016; Jensen & Meckling, 1976). Agency theory predicts that by creating an attractive compensation package, executives have incentives to align their interest to those of shareholders (Sheikh, 2012). However, when agents' private ambitions collide with the principal's, they may act in ways that serve their personal interests rather than the principal's (Mahaney & Lederer, 2011). Moreover, a poor compensation structure could drive senior management to use the wealth of investors for their own advantage (Panda & Leepsa, 2017).

Despite its practicality and popularity, agency theory has significant faults, as Eisenhardt (1989), Shleifer and Vishny (1997), and Daily *et al.*, (2003) have demonstrated. According to Panda and Leepsa (2017), the theory is founded on a binding contract between the shareholders and managers for a limited or infinite period in which the future is uncertain. Contracting is designed to address the agency problem, but in fact it has a number of problems, including risk sharing, rationalism, fraudulent activity, and cost of transactions. Additionally, while shareholders' primary objective in a firm is to maximize profit, their responsibilities in the firm are restricted. Lastly, managers are considered as opportunity-seeking in this respect, which disregards their competence.

2.5.2 Signaling Theory

In order to eliminate information asymmetry, signaling theory recommends that agents transmit information to the principal (Patra *et al.*, 2012). Managers are thought to have more knowledge about a company than its shareholders, but they are often

hesitant to offer this knowledge that has not previously been known to the market (Al-Najjar, 2011; Shao *et al.,* 2010). Consequently, dividend payout policy is used for information purpose as well as an indicator of the company's potential growth. Miller and Rock (1985) and Li and Zhao (2008) suggested that the dividend payout policy is critical in informing investors about the firm's worth.

According to signaling theory, dividends are utilised to convey private information regarding a company's future profitability to investors (Baker & Weigand, 2015; Miller & Rock, 1995; Bhattacharya, 1979). This signal is credible only if it is too costly for other firms to mimic especially if the firm has better prospects than the others (Ben-Nasr, 2015; Shao *et al.,* 2010). Several empirical studies report evidence that supports the predictions of signaling theory. For example, various authors (Petit, 1972; Aharony & Swary, 1980; Asquith & Mullins, 1983; Ofer & Siegal, 1987; Bajaj & Vijh, 1990; Barheim & Wantz, 1995; Lonie *et al.,* 1996; McCluskey, *et al.,* 2006) state that dividend announcements are linked to increase in stock price whereas dividend reduction is linked to a decrease in stock price. Others (Kumar, 1988; Grullon *et al*., 2005) say that dividends do not provide a good forecast of future profits. Furthermore, empirical data from Allen and Michaely (2003) DeAngelo, and Brav (2004) refute the predictive effect of dividend signaling models. Similarly, Brav *et al.,* (2005) and Baker *et al.,* (2009) establish instances where managers are hesitant to change dividend payout policy in studies involving chief financial officers from the US and European countries. As a result, dividend payout policy is a costly signal that may influence investors' perception on a firm's future earnings potential.

Advocates of the signaling theory contend that a firm's dividend policy is a less expensive medium than other media for transmitting private information to the

markets (Frankfurter & Wood (2002). Frankfurter & Wood (2002) further argue that the usage of dividends as indicators suggests that other signaling techniques are not a suitable replacement. According to DeAngelo *et al.*, (2008), a straightforward asymmetric information theory that indicates the need to disperse free cash flows premised on the debate involving agency conflicts of Jensen (1986) and valuation of securities justification of Myers and Majluf (1984) performs an excellent job of describing the essential attributes of observed payout policies.

2.5.3 Stakeholder Theory

Stakeholder theory was advanced by Cornell and Shapiro (1987), building on the insights of Freeman (1984) and Titman (1984). Stakeholder theory claims that a variety of stakeholders influence a firm's value, and it split these stakeholders into two categories: financial and non financial stakeholders (Sheikh, 2020). Maximizing shareholder value has long been seen as the primary goal for firms. This implies that a managers' fiduciary obligations is to minimize claims made by non financial stakeholders that could limit financial stakeholder's wealth (Friedman, 2007). Stakeholder theory advocates that a firm's goals should go beyond maximizing shareholder wealth by generating wealth in a sustainable manner that keeps the interest of financial and non-financial stakeholders in the same direction. As stated by agency theory, dividend payments is associated with conflicts between financial stakeholders and management. To resolve this conflict, agency theory proposes a reduction in free cash flows by pledging to consistently pay dividends to financial stakeholders at the detriment of non-financial stakeholders. The stakeholder theory argues that firms establish a balance between financial stakeholders and non financial stakeholders interests (Carroll 1999). This means that non financial stakeholder will advocate for a reduction in dividend payouts to ensure the firm can fulfill its implied

responsibilities. This may go against the interests of financial stakeholders, putting pressure on management, especially by powerful institutional shareholders to demand for higher dividend payouts (Manos, 2003). In light of this, the distribution of wealth created by a firm through dividend payouts provides important information about the relative significance of shareholders and other stakeholders (Chronopoulos *et al.,* 2022).

However, institutional shareholders are far from homogeneous due to varying legal constraints and investment objectives (Meng & Wang, 2019). Stakeholder theory has drawn criticism for its claim that firms can please all stakeholders equally. While acknowledging the value of stakeholder theory in highlighting the reality that there are several actors to consider, Jensen (2002) faults it for lacking an objective basis to direct managers' actions. Additionally, the diversity of actors can lead to a governance challenge, which arises from the fact that it is challenging for a manager to establish effective control over the actions of diverse groups of actors who have conflicting interests (Retolaza *et al.,* 2015). However, stakeholder theory offers a theoretical foundation for reporting information on topics that are considered to be significant not only by shareholders but also by a broader group of stakeholders (Yongvanich *et al.,* 2005). Stakeholder theory, in essence, describes who stakeholders are and why organizations seek their support and consent for their continued existence and alter their operations in order to get that endorsement (Gray *et al.,* 1995)

2.5.4 Information asymmetry theory

Information asymmetry theory postulates that an information asymmetry problem emerges due to a knowedge gap between outside shareholders and insiders. Transparency in information regarding a company's financial status alleviates the

information asymmetry problem and contributes to a cheaper cost of financing (Botosan, 1997). It lowers investors' perceived risk, encourages investment in the firm, enhances governance in firms, and ultimately results in enhanced firm earnings. This concept, which was proposed by Brennan and Cao (1997), revolves on the assertion that it may be a bigger challenge for foreign institutional shareholders to obtain knowledge regarding local companies in emerging markets than it is for domestic institutional shareholders. The high information asymmetry in emerging markets is caused by a variety of reasons, notably cultural and linguistic obstacles, as well as disparities in accounting practices and reporting regulations (Chakravarty *et al.,* 1998; Chan *et al.,* 2008). Other factors can include the time and commitment needed to obtain knowledge regarding foreign markets, time lags in the transfer of knowledge and collection, and disparities with which investors monitor the returns as well as knowledge on the securities they have purchased (Samarakoon, 2010). These considerations are particularly crucial for developing nations.

Domestic institutional investors are thus better armed with greater knowledge than foreign institutional investors. Asymmetry of information highlights various essential topics in accounting and finance. Information asymmetry is widely believed in corporate finance to characterize the link between outside shareholders and company insiders in the market (Shleifer & Vishny, 1997). It hypothesis that one party frequently has more or better information than the other, which they can use to exploit their less informed counterpart. Oak and Andrew (2006) claimed that because company insiders, like top executives, have private knowledge and can use it to estimate a firm's fundamental value, they can exploit this information asymmetry to increase their personal utility. A high concentration of ownership is thought to minimize information asymmetry between the agent and the principal since investors

with large holdings have greater residual rights on companies and may therefore exert enhanced and effective monitoring on the executive (Shleifer & Vishny, 1997). As a result, large institutional shareholders aid in reducing information asymmetry between top executives and information asymmetry between top executives and other parties (Lev, 1988; Shiller & Pound, 1989).

In particular, domestic institutional shareholders enjoy an information edge over foreign institutional investors as a result of geographical distance, familiarity with local industry, economic, and regulatory environments, as well as possible language and cultural advantage (Baik *et al.,* 2013; Kang & Stulz 1997). In addition, signaling can be used as a mechanism to reduce the severity of information asymmetry. The theory of information asymmetry states that dividends carry information that might suggest a rise or fall in stock price, causing volatility in stock prices (Lotto, 2021). Foreign institutional ownership is also a sign of information asymmetry relating to the fundamental information released by firms: the lower the foreign institutional ownership, the greater the information asymmetry (Chung *et al.,* 2021). Liang *et al.,* 2012 attributes this to foreign institutional owners' long-term investment horizons, which lower stock volatility, and their improved product market knowledge derived from their fundamental research.

2.5.5 Theories of Executive Compensation

In the literature on executive compensation, there are two prominent theoretical views. First, optimal contracting theory proposes tying top management compensation to company performance as a tool to motivate the executives to act in the investors' best interest, eliminting agency conflicts (Grossman & Hart, 1983; Holmstrom, 1979). The separation of management and ownership, as well as agency conflict and agency

cost, are best explained by agency theory. Given the implications of agency theory, shareholders may suspect their managers' activities for agency conflicts that result in pay and oversight techniques that balance both parties' interests (Fama, 1980). The essence of remuneration agreements and the responsibilities of senior executives are solely explained by optimal contracting theory. It states that shareholders have the ability to persuade the board to agree into performance-oriented agreements (Zulfiqar & Hussain, 2020). Consequently, based on agency theory, the optimal contracting theory implies that there is a favourable linkbetween performance and pay, more specifically dividend payout policy and CEO compensation.

The managerial power theory, the alternative to the optimal contracting theory, contends that management entrenchment and moral hazard could develop if managers have more influence over shareholders (Bebchuk & Fried, 2003). Choe *et al.*, (2009) contends that the fundamental tenets of managerial power theory is the belief that the CEO's authority over pay-setting may result in a compensation contract that benefits the CEO to the detriment of investors. In this particular instance, executive compensation could encourage managerial rent-seeking rather than serving as managerial incentives for greater efficiency and firm performance. As a result, the managerial power theory proposes that the pay and performance link is negative, more specifically CEO compensation and dividend payout policy. Furthermore, optimal contracting theorists link the rise of executive compensation to lack of talent and the growing intricacy of management responsibilities, whereas managerial power theory credit the rise in managerial pay to rent extraction by entrenched executives rather than market forces (Rogal, 2019; Yarram & Rice, 2017).

From the standpoint of optimal contracting, it is expected that the management team concerned with remuneration will determine executive compensation to optimize value for shareholders (Rahayu *et al.,* 2022). In the familiar principal-agent framework, the answer to the moral-hazard problem is the ideal CEO compensation agreement. While not always perfect, the amount and makeup of CEO compensation is the most appropriate considering inadequate and asymmetric information. However, optimal contracting theory suffers from limitation First, optimal contracting theory assumes that shareholders' and CEO's interests vary, with shareholders being risk neutral interested on return on their investments whereas the CEO might be risk averse valuing growth of the firm and utilising firm assets for their personal needs. In other words, the theory assumes that executives do not engage in self-serving behavior during the contracting process because the misalignment between shareholders and executives is regarded as a cost rather than misbehaviour (Otten & Heugens, 2007).

Furthermore, with ownership and control being separated, the CEO's marginal benefit from his/her labour does not reflect his/her marginal contribution to firm performance. As a result, Van der Laan (2010) contends that efforts may be misdirected toward lavish perks consumption or strategies that benefit the CEO's utility over firm performance. Therefore, setting pay is not a perfect means of solving agency problems. On the other hand, managerial power theory assumes that compensation arrangements endorsed by the boards frequently depart from optimal contracting given that board members whom are held captive or susceptible to management's influence are sympathetic to the executive or are simply ineffective in overseeing compensation policies (Tiscini & Raoli, 2013). Managerial power theory has limitations as well, as administrative and personality factors make rent extraction

easier (Rogal, 2019). First, board decisions are heavily influenced by information provided by executives. Second, directors are more likely to be affluent, altering their understanding of reasonable remuneration and they tend to assume that executives' lucrative pay accurately reflect their worth. Third, firms typically delegate the task of proposing remuneration amounts that conform to market-rate parameterst to independent compensation consultants and committees. The desire for reappointment influences experts and members of the board just as much as it does directors which renders the compensation subject ineffective. As a result, experts, board members, and directors may believe that their personal interests are best served by not opposing the CEO pay package.

2.6 Empirical Review

2.6.1 Foreign Institution Investors and Dividend Payout Policy

Institutional investors, particularly foreign institutional investors, have been identified as a corporate governance mechanism, and several studies have reported their positive role in a variety of corporate policies, including policy on investments (Bena *et al*., 2017; Cella, 2020), management of cash (Loncan, 2019), and the payment of dividends (Cao *et al.,* 2017). Foreign institutional shareholders in emerging markets are thought to be more advanced and have better monitoring capabilities than domestic institutional investors (Baba, 2009; Doum *et al.,* 2006). According to Firth *et al.,* (2016) and Hoskisson *et al.,* (2002), opine that foreign institutional investors are unlikely to have strong business links with the listed companies in which they have invested in. Furthermore, foreign institutional investors are not subject to political pressure to facilitate the expropriation of wealth from minority shareholders by state shareholders (Huang & Zhu, 2015; Firth *et al.,* 2010). Accordingly, foreign

institutional investors have greater independence and, potentially, more successful in monitoring firms.

Additionally, literature suggests that foreign institutional investors do not face information disadvantages when investing in local firms. Foreign institutional investors typically demand that managements reveal their financial policies, allowing for tighter oversight of management's operations and therefore reducing the necessity for the dividend-induced monitoring (Glen *et al.,* 1995; Manos, 2002; Jeon *et al.,* 2011). This shows that foreign ownership and dividend payments have an adverse association. Furthermore, if the investee company has room for growth, some of them favour low payouts, preferring capital gain above dividend (Hankins *et al.,* 2008; Huang & Paul, 2017)

Purba *et al.,* (2022) performed a study to analyze the association between dividend policy and foreign institutional investors covering 2010 and 2018. Considering a set of data of 529 Indonesian publicly traded enterprises, they found that foreign institutional shareholders presence has a significantly adverse influence on a firms' dividend policy.

The results of Lahiri (2013)'s study on the effect of foreign institutional investment and dividend payout policy in India indicate that foreign institutional investment increases the likelihood of paying cash dividends and that foreign institutional shareolders are drawn to firms that pay cash dividends. The study period covered 2001–2010 using a panel data of 150 listed firms. Dividend payout ratio (DPYR), defined as the proportion of total dividend to net income was employed as the dividend payout policy measurement and share of foreign institutional shareholding is

represented by the stock held by foreign shareholders as a percentage of the total number of stock outstanding.

Further, Bataineh (2021) carried out a study to investigate the impact of ownership structure on the dividend policy in Jordan. The study was carried out among 66 Jordanian listed firms on the Amman Stock Exchange from 2014 to 2017. Dividend paid per share divided by a firm's closing price per share was used to measure dividend payout policy. Foreign ownership is expressed as a proportion of a company's share held by foreign entities. The conclusions showed a significant inverse link between foreign ownership and dividend payout policy.

Jacob and PJ (2018) established an adverse impact of foreign institutional ownership on dividend payout policy in their study on the institutional ownership and dividend payout link in developing markets: data from India from 2001 to 2016. The dividend-to-total-assets ratio measures dividend payout policy, whereas the amount of shares held by foreign institutional shareholders represents foreign institutional investor shareholding

The Rajput and Jhunjhunwala (2019) study, which sought to investigate the effects of corporate governance and ownership structure on dividend policy in developing countries such as India, concluded that foreign institutional ownership had an insignificant effect on payout policy. A dummy variable with the value 1 if entities pay dividends and 0 otherwise is used to measure dividend payout policies. Foreign institutional investors shareholding is estimated as the total proportion of shares held by foreign institutions.

Henry (2011) who performed a study focusing on the dividend clientele features of five investor categories among entitites publicly traded in the Australian Stock Exchange observed that foreign institutional investors desire lower dividends. The study was conducted from 1992 to 2008 using the dividend per share divided by earnings per share as a measure for dividend payout policy and ownership by foreign institutions estimated as the aggregate pooled shareholding of all foreign institutional investors within the topmost 20 investors of entities at the start of the financial year.

Between 2000 and 2016, Baker et al., (2021) performed a study on the link between stock ownership and a firm's characteristics to assess the influence on firm payments for 303 listed Swedish entities. They show an adverse association between foreign institutional shareholding investors and dividend payout. Dividend payout is computed by dividing cash dividends by the stock price at the close of the year, while ownership by foreign institutions is determined by dividing the total of all foreign institutional investors' shareholdings by the market capitalization of the firm at the the close of each year.

Despite foreign institutional investors linked to improve corporate governance quality, their role in Kenya is not well known. In addition, the relationship between foreign institutional investment and corporate dividend policy has received less attention. Dividends, unlike accruals, cannot be easily falsified or manipulated. Therefore, they are attractive variable to study, particularly in emerging markets, which are often characterized by unreliable accounting and auditing practices.

2.6.2 Domestic Institutional Investors and Dividend Payout Policy

The influence of domestic institutional investors on payout policies have been explored in a number of developing nations, with contradicting points of view.

Domestic institutional ownership, on one hand, is favourably linked to dividend payout policy (Bataineh, 2021; Abdelsalam *et al.*, 2008; Farinha, 2003; Manos, 2003), which is in line with the debate that poor legal protection and higher agency conflicts in developing countries prevent domestic institutional shareholders from properly overseeing the executive. As a result, domestic institutional investors prefer mature companies that pay significant cash dividends, which send a positive signal to external lenders, resulting in cheaper costs (Khan, 2021). However, domestic institutional investors may gain from the homegrown knowledge superiority, in contrast with foreign institutional investors (Gharbi & Othmani, 2020). According to Luo and Na (2018), domestic institutional investors realise high abnormal returns on their investments. This is due to the investors' proximity to the investee companies. They have better and more information about local entities. Despite advances in technology that have greatly lessened the adverse impact of separation on acquiring information, new research continues to support domestic institutional investors' informational advantage (Kim *et al.*, 2016; Ferreira *et al.*, 2017).

From 2001 to 2016, Jacob and PJ (2018) examined the institutional shareholding and dividend distributions link employing a large sample of non-financial NSE publicy traded entities. Institutional shareholders, typically, have considerable shareholding in corporations that pay dividends and are viewed to favor firms that pay dividends. Additionally, they show proof in favor of domestic institutional shareholders enhancing dividends across investor groups. Furthermore, to account for endogeneity, a dynamic panel GMM estimator was utilized, and the results show the value of domestic institutional shareholders in enhancing dividend payout and validate models that anticipate a favourable link. Dividend-to-total assets ratio was employed as the

estimate of dividend payout and the percentage of stock controlled by domestic institutional shareholders indicate domestic institutional ownership.

In their study, Jeon *et al.,* (2011) examined the foreign ownership and payment policy link choices in the Korean stock market. According to the study, there is minimal indication that domestic institutions investors significantly influenced on dividend payments. The research assesses dividend payments as the sum of all regular dividends paid during the financial year divided by the total number of shares outstanding, and domestic institutional ownership is calculated as the number of shares held by domestic institutions divided by the total number of shares outstanding.

Khan (2021) conducted a study between 2013 and 2019 to examine how ownership structure and board composition influence dividend policy in publicly traded Turkish corporations. The findings indicated a favorable relationship between dividend payouts and domestic institutional shareholding. To determine institutional ownership, the firm's aggregate sum of shares divided by the sum of stocks controlled by domestic institutional investors was employed. Dividend policy is estimated using three different indicators in this study: dividend payout dummy, a binary variable, is computed by dividing the cash dividend by the net income; the dividend per share to the price per share ratio is used to calculate dividend yield; and dividend payout ratio is s calculated by dividing the cash dividend by the net income.

In a low interest rate market, Baker *et al.,* (2020) investigated investor preferences for retaining equities with various dividend rates. They analyze whether different groups of shareholders have specified preferences for dividends and the magnitude of the dividend yield using a unique dataset indicating ultimate stock ownership in publicly listed Swedish enterprises. Domestic institutional shareholders had higher holdings in

entities with a high dividend yield, according to the study. Ownership by domestic institutions is etmated as the total amount of stocks controlled by domestic institutional shareholders divided by a corporation's outstanding stocks, while dividend yield is measured by dividing cash dividend with the end of calendar year closing stock price.

The study on the influence of ownership structure on dividend policy of listed companies in Turkey was researched by Al-Najjar and Kilincarslan (2016). They established that domestic institutional investors have no significant influence on dividend decisions, nonetheless they significantly and negatively influence dividend payments, according to the study. Dividend yield is determined by dividing the entity's dividend per share by its share price, whereas dividend payout ratio is determined by dividing dividends per share by earnings per share. Domestic institutional shareholding is computed as a percentage of total capital shares held by Turkish financial institutions, comprising, insurers, investment trusts, pension funds as well as banks.

Using the agency cost/free cashflow framework, Fairchild *et al.,* (2014) examined the potency of investor efficacy and payouts. They discovered that domestic institutional shareholding and dividends have a favourable association. The share of stock controlled by domestic institutional shareholders was used to calculate domestic institutional ownership, while dividend change was estimetad as the percentage change in yearly dividend payments from year -1 to year 0.

2.6.3 Moderating Role of Financial Flexibility

2.6.3.1 Foreign InstitutionaL Investors and Dividend Payout Policy

Empirical evidende show mixed findings on studies relating to the foreign institutional investors and dividend policy payout link with some indicating positive, others negative or no relationship. Research conducted by Baba (2009) and Jeon *et al.,* (2011) found that foreign institutional shareholding is linked to greater dividend. Lin and Shiu (2003) and Ferreira *et al.,* (2010) have found that poor dividend payout policy companies are preferred by foreign institutional shareholders. Conversley, foreign institutional investors and dividend payout policies have no relationship, according to Grinstein and Michaley (2005). Given that varied findings yield no convincing verdict, foreign institutional shareholders are hesitant due to increasing information asymmetry and the difficulty of overseeing corporation's daily operations. Furthermore, foreign institutional investors encounter other challenges that may affect their investment behaviour distinct from their domestic counterparts (Yeh, 2021; Yeh, 2018).

Among the aforementioned challenges is the desire for financial flexibility in a firm which mostly clashes with the need to distribute surplus earnings to shareholders. According to Oded (2020), dividend payout strategy is a trade-off between financial flexibility and avoiding the misuse of excess cash. Enhanced monitoring by foreign institutional investors is likely to oblige firms to pay out dividends consistent with the notion that dividend payouts reduce the amount insiders divert to themselves or spend inefficiently (Cao *et al.,* 2017; Jeon *et al.,* 2011; Easterbrook, 1984; Jensen, 1986). However, Karim and Ilyas (2020) found that when foreign institutional investors' ownership is high, cash holdings augment further to shareholder wealth. Furthermore, foreign institutional investors may choose to invest in firms with better long-term

growth prospects (Bena *et al.,* 2017); making foreign institutional investors forego dividend payouts and increasing cash holdings of investee firms. However, foreign institutional investors may generate market pressure inducing short-termism by speculating and having no long-term interest in the firm (Ain *et al.,* 2021). This in turn forces dividend payments thus decreasing cash availability within a firm. Foreign institutional investors, therefore, may embrace to retain financial flexibility in order have a stable payout policy or commit firms to reduce their financial flexibility so as to make them pay high dividends. As a result, there is need to investigate if dividend distribution policy of an entity is influenced by foreign institutional ownership when financial flexibility is considered.

2.6.3.2 Domestic Institutional Pressure and Dividend Payout Policy

It has been suggested in literature that domestic institutional shareholders possess information advantage over foreign institutional shareholders (Gharbi & Othmani, 2020; Huang & Shiu, 2009). Yeh (2021) alludes this is to domestic institutional investors having a better understanding of the local culture and business climate than their foreign peers. Moreover, domestic institutions investors are nearer to native businesses in terms of geography, thus they are better conversant with local legislation, rules, accounting norms, and culture (Liu *et al.,* 2018). This proximity advantage reduces supervision expenses, translating to increased governance inducement such as dividend payout policies. Although Baker *et al.,* (2021)'s contend that an investor's domicile has an impact on dividend payout policy, they note that previous research has shown inconsistent results leading to consideration of other factors in pursuit of consistency.

One of these factors includes financial flexibility (Bancel & Mittoo, 2011; Gamba & Triantis, 2008) since it affects a firms' strategic decisions: dividend policy (Kumar & Vergara-Alert, 2020; Lie, 2005), corporate investment and performance (Arslan-Ayaydin *et al.,* 2014), research and development (Feng *et al.,* 2021). Furthermore, financial flexibility of firms is determined by their governance structures (Feng *et al.,* 2021). For instance, Thanatawee (2014) found that domestic institutional investors tend to increase firm value by effective monitoring: mitigating the agency costs that tend to rise when there is excess cash under the control of managers. On the contrary, Ilyas *et al.,* (2021) argue that domestic institutional investors do not significantly increase shareholder value of firms associated with surplus cash reserves. Specifically, their research indicates that entities with significant domestic institutional investors, insiders utilize additional funds inefficiently, hence does not contribute to shareholders' wealth. Therefore, there is a need to evaluate the domestic institutional investors and dividend payout policy relationship as moderated by financial flexibility.

2.6.4 Mediating role of CEO Compensation

2.6.4.1 Foreign Institutional Investors and Dividend Payout Policy

Thomas and Van der Elst (2014) contend that foreign institutional investors encourage the use of pay for performance and strive for long-term performance. For instance, Croci *et al.,* (2012) indicate that foreign institutional shareholders have a significant beneficial influence on CEO compensation. Moreover, Ferreira and Matos (2008) found that entities with a larger percentage of foreign institutional shareholding had an elevated corporate valuation, better performance in operations, and lower expenditures on capital. Nguyen (2012) claim that foreign institutional shareholders are more potent and unhindered in their monitoring role due to their

limited commercial links with the firms they invest in. However, foreign institutional shareholders aid in raising corporate governance standards hence improving firm value (Tsang *et al.,* 2019). Foreign institutional investors are better monitors and encourage investee firms to adopt better governance procedures because of the experience they have and the global level standards they bring (Aggarwal *et al.,* 2011). Therefore, foreign institutional shareholders seem to advocate investee firms to practice better corporate governance leading to superior financial performance (Yang *et al.,* 2012; Ni *et al.,* 2017). Specifically, foreign institutional investors promote enhanced CEO compensation which leads to improved dividend payout policies.

In their study of Malaysian data, Ming *et al.,* (2018) examined if institutional investors had a role on the link between between firm performance and CEO compensation. The study's findings support the assertion that foreign institutional investors are linked with enhanced oversight since they revealed a favourable link between corporate performance and CEO compensation.

Garner and Kim (2013) explored the influence of foreign investors on corporate governance by investigating the relationship between pay-performance sensitivity and foreign share ownership. They observed that companies with significant foreign share holding exhibit strong pay-performance sensitivity, but firms with lower foreign share ownership do not, implying that foreign investors could stand as excellent monitors. They claim that foreign owners can encourage better corporate governance in emerging markets.

Zhang *et al.,* (2021) conducted an empirical study to determine if and by what means institutional investors in China monitor CEO compensation. Using a sample of

Chinese listed firms from 2005 to 2015, they found that foreign institutional investors exert no significant impact on the CEO pay-performance link.

Croci *et al.,* (2012) investigated the impact of institutional investors and family control on CEO compensation packages in Continental Europe. They observed that foreign institutional shareholding raises CEO total remuneration without matching pay with performance using a data set of 915 publicly traded companies from 2001 to 2008.

2.6.4.2 Domestic Institutional Investors and Dividend Payout Policy

While Chung and Zhang (2011) argue that institutional shareholders increase the standard of governance of a firm, Sabbaghi (2016) contends that the sort of institutional investor is important. According to Croci *et al.,* (2012), Aggarwal *et al.,* (2011) and Ferreira *et al.,* (2010), domestic institutional investors monitor and influence investee firms differently than foreign institutional investors. Saidat *et al.,* (2018) contend that domestic institutional investors are notable for not performing a thorough oversight function and frequently have strong business links with investee firms. According to Gharbi and Othmani (2020) domestic institutional prefer to put up with managers' narrow minded behaviour to protect their interests with investee firms. As such, these domestic institutional shareholders are less expected to function as effective monitors since they experience conflict of interest. Furthermore, evidence suggests that in emerging countries, domestic institutional shareholders are linked to the state unlike in developed countries. As a result, domestic institutional shareholders are subject to political influence and cede to the state (Huang & Zhu, 2015). Additionally, Singh *et al.,* (2021) reject the hometown advantage and claim that domestic institutional investors diminish firm value since they have less incentive to monitor firms they have invested in. However, Aggarwal *et al.,* (2011) demonstrate

that local institutional shareholders play a part in in enhancing the governance of entitys situated in their countries only when there is strong shareholders' protection. Therefore, from the above arguments it can be predicted that domestic institutional investors do not encourage good corporate governance by negating CEO pay which translates to inferior dividend payout policies. Jong and Ho (2018) examined the influence of structure of ownership on executive compensation of 279 Malaysian publicy traded corporations from 2010 to 2014. According to the research, domestic institutional shareholders are more likely to possess a significant influence on limiting CEO compensation that is unrelated to corporate performance.

Ozkan (2012) evaluated the influence of both local and foreign acquisitions on CEO remuneration packages. From 1999 to 2005, panel data from 147 UK entities were employed to put the theory to test. The research revealed that domestic institutional investors do not significantly influence CEOs pay-performance sensitivity. Croci *et al.,* (2012) evaluated the influence of institutional shareholding and family shareholding on CEO remuneration packages in Europe. From 2001 to 2008, the research examined a sample of 915 companies that are listed with 4,045 firm-year data from 14 countries. The results imply that domestic institutional shareholders actively influence CEO remuneration by raising pay-for-performance sensitivity. Ming *et al.,* (2018) conducted research to investigate the impact of institutional investors on the firm performance and CEO compensation link. The study found that the adverse outcome between CEO compensation and firm performance is motivated by domestic institutional ownership.

2.6.5 Investor Pressure, Financial Flexibility, CEO Compensation and Dividend Payout Policy

Chang *et al.,* (2016) posit that institutional investors have authority over corporate policies such as dividend payout policy. Institutional investors employ dividend payouts as a monitoring tool since dividends may be utilised to prevent the manager-shareholder agency conflict. This is especially true for companies with high agency costs. Institutional investors are said to be more capable monitors due to their economies of scale when gathering information (Diamond, 1984) and their ability to use a variety of official and un-official techniques to sway the firm's management (Cubbin & Leech, 1983). Additionally, institutional investors also have more power and expertise, and act more rationally (Dong & Ozkan, 2008).

Conversely, institutional investors with certain characteristic may exert pressure on the firm's management to increase dividend payments. For instance, Jory *et al.,* (2017) argue that pressure-sensitive investors (domestic institutional shareholders) protect their commercial links with the entities in which they invest in and are not as likely to force the payment of dividends, whereas pressure-insensitive investors (foreign institutional shareholders) rely on the forces of dividend to restrain managers' excesses. Therefore, differences in institutional ownership are important since they may cause differences in corporate policies. Moreover, earlier research also highlights the possibility of liquidity outlays (Maug, 1998; Coffee, 1991); rent seeking problems with other investors, self dealing, and strategic fit (Pound, 1988), which could make institutional investors' monitoring ineffective.

Institutional investors ensure that corporations do not engage in any negative behavior, such as misusing surplus cash, excessive CEO remuneration, or profits manipulation (Hartzell & Starks, 2003; Khan *et al.,* 2005). According to classical

agency theory, corporate executives with significant free cash flow are to a greater extent inclined to make investment initiatives with adverse net present value (NPV) outcomes (Jensen, 1986, Stulz, 1990). The FCF theory holds that mandating managers to disgorge funds to shareholders is the best way to solve the agency problem (Gregory & Wang, 2013). Dividends can be used as a monitoring tool by institutional investors through cash disbursements that lower free cash flow at the firm. Therefore, institutional investors perform a significant part in reducing the agency conflicts by managing firms' dividend payout policy considering the financial flexibility of firms. Nevertheless, different types of institutional investors monitor firms differently (Dong & Ozkan, 2008).

Ameer (2010) asserts that domestic institutional investors (pressure sensitive investors) such as banks may influence investee firms to over borrow and hoard cash. Cash holdings should therefore be less significant to domestic institutional investors. As a result, it is anticipated that the domestic investors' shareholdings and dividend payout policy relationship will be weakened considering financial flexibility. Alternatively, foreign institutional shareholders (pressure-insensitive investors) like foreign banks believe that the amount of cash a firm hold may actually increase its worth since a firm with a large cash position may be less likely to pass up lucrative investment opportunities; ensuring dividend payments into the future. Therefore, taking into account a firm's financial flexibility, foreign insitutionall shareholders exhibit a favorable influence on dividend payout policy.

Equally, Almazan et al., (2005) confirm that pressure-sensitive institutional investors (domestic institutional investors) and pressure insensitive institutional investors, (foreign institutional shareholders) exhibit different influence on firms' observable choices, for instance, CEO compensation. From the viewpoint of agency theory,

institutional shareholders might limit agency conflicts by preferring behavioral based compensation, such as, salary and bonuses than outcome-based compensation, such as, stock options (Khan *et al.,* 2005; Eisenhardt, 1989). According to Lee and Chen (2011) institutional investors have the knowledge and resources to oversee CEO compensation in addition to the incentive and obligation to do so. Compared to individual investors, institutional investors offer superior oversight when establishing a remuneration strategy.

According to literature (Crane *et al.,* 2016; Bebchuk & Fried, 2005; Cheng & Firth, 2005) there is an adverse association between institutional shareholding and CEO compensation. The aforementioned contend that institutional shareholders reduce the marginal cost of delegated monitoring; agency theory envisages that institutional shareholders should be linked to reduced CEO compensation when institutional shareholders increase monitoring of firms. However, CEO pay, exhibits obvious variances as a result of the presence of various types of institutional investors. While examining CEO remuneration in the 200 largest U.S firms between 1990 and 1994 David *et al.,* (1998), found that institutional shareholders' effect on CEO pay is influenced by the kinds of ties they have with the investee firms. From their study, CEO remuneration is inversely associated with the existence of pressure resistant investors (foreign institutional investors) and favorably correlated with pressure sensitive investors (domestic institutional investors).

Tosun (2020) suggests that institutional shareholders can influence a CEO's compensation, which ultimately influences the CEO's judgments on firm policies. Strong links between shareholder wealth and CEO compensation are preferred by shareholders as they give the Chief Executive Officer the motivation to increase value for shareholders (Lee & Chen, 2011). Mehran (1995) contend that shareholder value

is augmented by CEO compensation. However, institutional investors are not homogenous; they do not all share the same size, investing preferences, constraints and ability to monitor investee firms (Wahab & Rahman, 2009). Consequently, the different monitoring abilities of institutional investors influence CEO compensation plans, which in turn may have various implications on the CEO's readiness to allocate surplus cash to shareholders.

By advocating for corporate policy changes, pressure-insensitive investors (foreign institutional investors) a function as effective monitors and punish executive management in order to lower agency costs (Jory *et al.*, 2017). However, Wahab, and Rahman (2009) posit that pressure sensitive investors (domestic institutional Investors suffer difficulties in overseeing companies and are vulnerable to management coercion, thus are ineffective monitors. Therefore, it is predicted that pressure resistant investors (foreign institutional investors) decrease CEO compensation which in turn negatively influences CEO sentiments on dividend payout policy. However, pressure sensitive investors (domestic institutional investors) will have a positive association with CEO pay, thus, favorably influencing dividend payout policy.

Overall, this research evaluates the influence of foreign and domestic institutional investors on dividend payout policy taking into consideration the monitoring effectiveness of these investors using CEO compensation and financial flexibility of investee firms. It is hypothesized that foreign institutional shareholders are effective monitors thus curtailing CEO pay and encouraging high dividends. However, they view the financial flexibility of a firm as valuable and would encourage high cash balances thus reducing dividends. In contrast, domestic institutional shareholders are viewed as ineffective monitors hence they would not limit CEO remuneration consequently enduring lower dividends. Moreover, they don’t consider the financial

flexibility of investee firms as valuable, therefore, encouraging investee firms to hoard cash rather than distribute to shareholders. Domestic institutional investors (i.e., banks) would prefer sustaining their business relationship with investee firms by encouraging borrowing.

2.7 Control Variables

To separate the influence of the independent variable on dividend payout policy, the control variables such as profitability, leverage, firm size and firm age were taken into account. Literature identifies firm size, firm age, leverage and profitability as the most important determinants of dividend payout policy (Boshnak, 2021; Suwaidan & Khalaf, 2020; Juhmani, 2020; Mehdi *et al.*, 2017; Al-Najjar and Kilincarslan, 2016). The aforementioned studies argue that larger firms and old firms are more established thus relish more stable earnings and enjoy superior free cash flows compared to smaller and younger firms which enables them to pay higher dividends. Additionally, given the competing obligation to pay interest, highly leveraged entities are likely to pay lower dividends. Furthermore, more profitable entities have a stronger ability to pay greater dividends than low-profitiability ones.

2.7.1 Firm Age and Dividend Payout Policy

The empirical research on firm age and dividend payout policy relationship shows conflicting results. Some studies find positive relationship (Eluyela, *et al.*, 2019: Boshnak, 2021), while others find a negative relationship (Kumar & Ranjani, 2018: Ofori-Sasu *et al.*, 2017: Ofori-Sasu *et al.*, 2019)

Khan (2021) revealed a favourable significant link between dividend payout and firm age in a study of companies included on the BIST 100 index from 2013 to 2019. The total number of years since the firm's inception was used to determine the firm age.

In a study done to identify bank-specific characteristics impacting dividend policy among Indonesian publicly traded firms, the age of a firm and dividend policy are both significantly and favorably associated (Budagaga, 2020). Data sample was drawn from all commercial banks registered on the securities exchanges of eleven Middle East and North African countries (UAE, Tunisia, Saudi Arabia, Qatar, Oman, Morocco, Lebanon, Kuwait, Jordan, Egypt and Bahrain) and for the period 2000 to 2015 with firm age estimated as the natural logarithms of years of operation. Michiels *et al.*, (2017) revealed a beneficial and significant impact of firm age on dividend policy in a study on the dividend policies of privately held family businesses. For the years 2010 to 2012, data was obtained from 492 medium to small-sized Belgian family-controlled enterprises. Firm age was calculated using the natural logarithm of firm age as an indicator for a firm's maturity.

Briano-Turrent *et al.*, (2020) studied the link between firm age and dividend payouts from 2004 to 2014 in 87 enterprises listed in four Latin American nations. The natural logarithm of firm age was utlized to calculate firm age. The results demonstrate a significant and beneficial relationship between an enterprise's age and dividend policy. Eluyela *et al.*, (2019) reported an outcome that is both positive and significant on the company age and dividend payout policy link in their study involving dividend payout policy and gender dichotomy. Using data from publicly trade financial services firms in the Nigerian Securities Exchange from 2010 to 2017, the firm's age was calculated as the number of years the firm has been in operation from its inception.

Kumar and Ranjani (2018) observed a significant adverse association between a firm's maturity and dividend policy in the services sector but a statistically

insignificant relationship in the manufacturing sector in their study comparing dividend behavior in the Indian manufacturing and service sectors between 2007 and 2015. The number of years since incorporation was used to calculate the firm's age. OforiSasu *et al.*, (2017) established a significantly adverse impact of firm age on dividend payout in their paper on how dividend policy affects shareholder value of publicly traded entities on the Ghana securities exchange from 2009 to 2014. The natural logarithm of the number of years an entity has been in existence was used to calculate firm age.

2.7.2 Firm Size and Dividend Payout Policy

The decision to pay dividends to investors is considered to be impressed by the entity's size (Al-Najjar & Hussainey, 2009). As a result, large organizations, according to Ho (2003), are more capable of paying dividends than smaller firms. According to Aivazian *et al.*, (2003), larger enterprises have easier market access and are likely to pay higher dividends. There is theoretical and empirical foundation for either a negative or favourable link between dividend payout policy and firm size.

Hashmi, *et al*., (2020) evaluated the impact of various company size indicators on seven major corporate finance practices (board structure, remuneration and incentives, firm performance, diversification, investment policy, dividend policy and financial policy). The findings reveal that an entity's size as defined by total assets is unrelated to dividend distribution policy. Adjaoud and Ben-Amar (2010) examined the dividend policy and corporate governance quality link in Canadau utilizing a sample of 714 firm-years publicly trading on the Toronto Securities Market during the 2002-2005 period, they discovered a favourable link between an entity's size and dividend payout ratio. The logarithm of total assets was utized to determine size of the firm.

Setiawan and Phua (2013) in their study of 248 listed Indonesian firms assessed the dividend policy and corporate governance relationship for period between 2004 and 2006. Using total assets as a proxy for firm size, resuts show that there is no significant link between firm size and dividend policy thus implying that there is no difference between large and small firm on dividend payment. Patra *et al.,* (2012) who conducted research on dividend policy determinants in Greece established a positive and significant link between dividend payment and firm size among listed firms in Athens Stock Exchange (ASE). Data was collected for 63 listed firms for the year 1993 to 2007. The natural logarithm of total assets was utilized to measure size of a firm.

In a study conducted by Bista *et al.,* (2019), firm size which is proxied by the firm's total assets, yielded a significantly favourable link between dividend policy and firm size. The study was conducted among 14 commercial banks in Nepal for the period 2010 to 2016. Kumar and Ranjani (2018) found a significantly positive influence of firm size on dividend policy in their study. The research was conducted on manufacturing and service sector enterprises from the Centre for Monitoring Indian Economy's (CMIE) Prowess database from 2007 to 2015. The sample size was 452, collected from a population of 26,000 entities. The total assets of an entity were used to calculate firm size.

2.7.3 Leverage and Dividend Payout Policy

Leverage is frequently discussed as a key factor of dividend payout policy, since heavily leveraged companies will prefer to cut dividends to fulfil obligations to repay debt (Singla & Samanta, 2018; Abor & Bokpin, 2010). The amount of interest paid is proportionate to the amount of financial leverage. According to literature, leverage and

dividend policy have a negative relationship (Papadopoulos & Charalambidis, 2007; John & Muthusamy, 2010; Jensen *et al.,* 1992; Fan & Sundaresan, 2000).

A study by Basri (2019) examined the determinants of dividend policy of government-controlled entities for the 2007 to 2016 period. The research utilized data from 15 publicly trading government owned entities. The findings indicated that leverage negatively affects dividend policy of these firms. This study estimated leverage as the ratio of total debt to total equity. Abor and Bokpin (2010) performed a study on the influence of investment prospects and corporate finance on payout policy using a sample of 34 developing countries. Debt-to-equity ratio was used to calculate leverage. This study found that leverage had no meaningful influence on dividend distribution policy.

Al-Kayed (2017) used data of 13 banks operating in the Saudi Arabia to examine the variables influencing the payment of dividends for Saudi Arabian Islamic and conventional banks. Dividend policy was calculated using dividend yield ratio. The research discovered that for Islamic banks, leverage is positively related to dividend policy while for conventional banks it is negative and significant. Wahjudi (2020) examined the drivers of dividend payout policy using data drawn from the Indonesia Stock Exchange. Leverage was determined using the total debt to total equity ratio. The findings were that the higher the leverage of firms, the smaller will be the possibility of paying dividends to shareholders.

Labhane and Mahakud (2016) studied determinants of the dividend policy of Indian companies. The study used data from the Indian National Securities Exchange and a sample of 240 listed firms from 1994-1995 to 2012-2013. Leverage was estimated as total debt to total capital ratio. The research found that companies that are heavily

levered expend lower number of dividends owing to the burden of fixed interest payments. Francis *et al.,* (2011) used an exogenous measure of changes in takeover pressure to assess the impact of corporate governance on payout policy. This study considered a sample of 1,469 of AMEX, NASDAQ and NYSE, entities that are established in the United States and panel data for the period 198-1993. Leverage was measured as ratio of book value of current and long-term debt to total assets. The research found that there is an adverse link between an entity's payouts and leverage.

Singla and Samanta (2018) examined the factors influencing construction firms' dividend policy in India. Data was drawn from 45 publicly trading firms for the 2011 to 2016 period. The measure of leverage was the total debt to total asset ratio. The study's findings revealed that leverage had an insignificant but positively influence on dividend payout. Patra *et al.,* (2012) conducted research to establish the corporate dividend policy factors of listed entities. The research utilised a sample of 63 non-financial entities drawn from Greece as an emerging market country case study, with data ranging from 1993 – 2007. The findings showed that leverage reduces the chance of dividend payments.

2.7.4 Firm Performance and Dividend Payout Policy

A firm's profitability refers to an entity's management's capacity to earn revenue by utilizing the assets available to them (Basri, 2019). Therefore, profits are regarded as the most prevalent and primary proxies of a firm's ability to declare and expend dividends (Singla, & Samanta, 2018; Abor & Bokpin, 2010). Prior research indicates a beneficial link should exist between profitability and dividend payout policy (Botoc & Pirtea, 2014 and Patra et al., 2012) However, Kuzucu (2015) and Harada and Nguyen (2011) acknowledged profitability as having a detrimental effect on a firm's payout policy.

Kaźmierska-Jóźwiak (2015) investigated the factors influencing dividend policy of Polish non-financial publicly traded firms between 2000 and 2012. The findings showed that a firms's profitableness had an adverse influence on dividend payout ratio. Furthermore, the study's findings observed that highly profitable firms retained their earnings for capital use. The profitableness of a firm was measured using return on equity ratio (net profit/ owners' capital).

While using a sample of 86 listed entities in the Amman Stock Exchange (ASE) between 1994 and 2003, Al-Najjar (2011) assessed the link between dividend policy and capital structure. Profitability was measured as return on equity (net income/owners' equity). The outcome of this study demonstrate that profitability is favourably and significantly linked with dividend payout ratio.

To examine the determinants that affect dividend policy in a developing and emerging market, Dewasiri et al. (2019) performed a study on Sri Lankan listed companies. The research used a sample of 191 entities for the period 2010 and 2016. Return on equity was utilized as an indicator for profitableness. The research confirmed that the profitableness of a firm had a signifcant positive influence on dividend payout.

Wahjudi (2020) explored the variables that significantly affect dividend policy in the Indonesia Stock Exchange. The study consisted of 90 commercial banks with panel data from 2011 to 2015. Return on asset (Net asset/Total income was utilised as the indicator of profitableness of firms. The findings of this research showed that the profitableness of a firm decreases dividend payout but not significantly.

Labhane and Mahakud (2016) investigated trends and the factors that affect dividend policy. The study examined data from 781 enterprises over two sub-periods, 1995–2003 and 2004–2013, taken from the Indian National Stock Exchange. The ratio of

profits before interest and taxes to total assets was used to determine profitability. The findings of this research showed that the profitableness of companies has a favorable and significant effect dividend payout.

Singla & Samanta (2018) examined the factors that influence construction firms' dividend policies in India. Their research used a sample of 45 companies for six years from 2011 - 2016. Profitability was evaluated using the profit before interest and tax to total asset ratio. Profitability enhanced dividend payout, according to the study.

Using a dataset of 117 publicly traded banks across 11 Middle East and North Africa (MENA) region countries, Budagaga (2020) examined the determinants of banks' dividend payment decisions. Return on equity (net income to the bank's average total equity ratio) was used as an indicator of financial performance. The research revealed a statistically significant favourable association between dividend payout and profitability.

Boshnak (2021) evaluated how the composition of boards and the structure of ownership affect dividend payout policy. The study considered a sample of top 70 Saudi listed firms from 2016-2019. Return on Asset (ROE) s was utilized as an indicator of profitableness. The findings showed that profitableness increases the likelihood to pay dividends.

2.8 Conceptual Framework

Reflecting from the above literature and theories, there is evidence that investor pressure comprises of foreign institutional investors and domestic institutional investors (Jung & Mun, 2016) for which there is need to investigate the influence of independent variables with regards to dividend payout policy (dependent variable). Furthermore, investor pressure may have an indirect influence on divided policy

through CEO compensation. In addition, financial flexibility (cash holdings) which in most cases might be determined by investor pressure is a key predictor of dividend payout policy; hence the potential influence of financial flexibility (cash holdings) in this study (Figure 2.1).

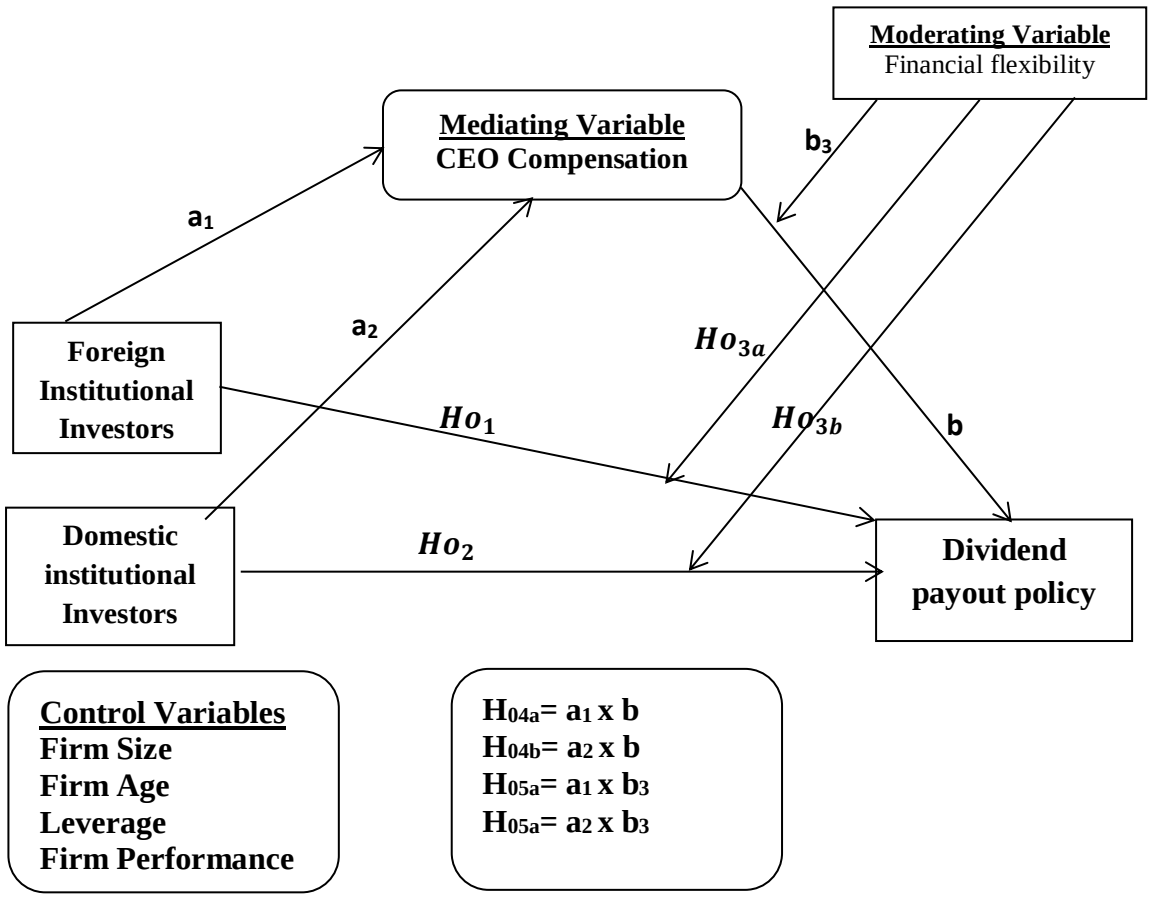

Figure 2.1: Conceptual Framework

Source: Researcher, 2023

CHAPTER THREE

RESEARCH AND METHODOLOGY

3.0 Introduction

This section highlights the research paradigm, research design, target population, sampling techniques, model specification, measurement of variables, data collection and data analysis.

3.1 Research Paradigm

The term ‘paradigm’ describes a set of beliefs dispensed by scientists, the way we perceive the world and conduct research. (Creswell, 2014). While various research paradigms are acknowledged (Morgan, 2007; Lincoln *et al.*, 2011; Denzin & Lincoln 2011; Creswell 2014) the study acknowldges four paradigms: pragmatism, interpretivism, post-positivism and positivism. The positivist approach to research is that objects are observable and are capable of providing reliable data and facts (Wahyuni, 2012). According to Myers (1997), positivist research often tries to test theory in order to improve prediction of occurrences. Postpositivism can be viewed as a more subdued and flexible form in comparison to positivism (Hassmén *et al*., 2016). Post-positivism as a paradigm shows epistemological and ontological evolutionary method in explaining the world around us, highlighting the epistemological point of view that study's findings comprise a projection of reality instead of the total truth as depicted by the positivist approach (Creswell 2014, Denzin & Lincoln 2011). Interpretivism seeks to 'walk in the shoes' of people being studied and rejects natural scientific methodologies (Hammond, 2013). Supporters of the interpretative paradigm believe in a thorough grasp of an idea and want to comprehend the world in which they live (Rahi, 2017). They advance knowledge that is personal and have subjective meanings through their own experiences. Pragmatism on the other hand finds the

flaws in the study so as boost it by using mix method approach (Johnson & Onwuegbuzie, 2004). The focus of the researcher is reflected in the mixed method approach, methods and designs to acquire true knowledge (Creswell 2014; Onwuegbuzie & Leech, 2005).

The study used positivism, a philosophical position that stresses applying observable social reality to create generalizations (Saunders, 2016, p 135). Walliman (2011) argued that reality is independent from human beings hence theories are based on empirical research. In other words, rather than emphasizing subjectivity and interpretation, logical reasoning and mathematical evidence are logically justified. The above argument is related to this study since its findings will be statistically tested and the data is without any ambiguity. Positivism is often linked with quantitative, scientific, traditionalist and objective research especially when the data is predetermined and highly structured which is linked to the approach adopted for this study.

3.2 Research Design

The entire strategy for addressing the study questions is defined as the research design. When examining and gathering quantitative and qualitative data, it is critical to emphasize the two major methodologies. A quantitative method is primarily associated with deductive testing of hypotheses, whereas a qualitative approach involves with inductive testing (Saunders *et al.,* 2003). This study's primary focus was quantitative. This study employed an explanatory research design and a panel approach. According to Kumar (2005), the explanatory method refers to research whereby the researcher studies the outcome of a naturally occurring treatment once it has taken place as opposed to generating the treatment. To put it another way, it was

a research effort designed at determining the prevailing causative situation that persist across groups. Furthermore, it attempted to validate theories that are related to the current state so as to understand the study (Bechhofer and Paterson, 2008).

The research used panel data analysis, which involves making repeated observations of the same item across the period (Sekaran, 1992). It entails keeping track of changes in a wide variety of the populace throughout time. Because this research is primarily descriptive (the goal is to determine by how much), statistics from a sample are utilized to establish generalizations regarding parameters for the population. The research looked into the ownership structure of various Nairobi Securities Exchange listed entities in addition to the changing trends of their dividend policy to assess if there had been any proof supporting the theory.

3.3 Target Population

Cooper and Schindler (2011) define a population as the entire set of components out of which a researcher draws inferences. Similarly, Kombo and Tromp (2011) describe a population as a collection of humans, objects, or items from which samples are collected for measurement in research. Eriksson and Kovalainen (2015) defined a population as a researcher's universe, implying that a population includes all elements in any area of study. This study's population consisted of 67 Nairobi Securities Exchange-listed companies and the targeted elements are their audited financial statements or audited annual reports that had been published. The publicly traded companies at the NSE had reporting capabilities that adhered to International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS). There were 67 firms listed at the Nairobi Securities Exchange (Table 3.1). These firms are categorized into eleven sectors namely: Real Estate Investment Trust,

Telecommunication and Technology (1), Manufacturing and Allied (10), Investment Services (1), Investment sector (5) , Insurance (6) , Energy and Petroleum (7) , Construction and Allied (5) , Commercial and Services (11) , Banking (11) , Automobiles and Accessories (3) and Agricultural (6).

Table 3.1: Target Population

No.	Industry	Number of firms
1.	Agricultural	6
2.	Automobiles and Accessories	3
3.	Banking	11
4.	Commercial & Services	11
5.	Construction & Allied	5
6.	Energy & Petroleum	7
7.	Insurance	6
8.	Investment Sector	5
9.	Investment Services	1
9.	Manufacturing & Allied	10
10.	Telecommunication & Technology	1
11.	Real Estate Investment Trust	1
Total Number of firms listed		67

Source: CMA (2018)

3.4 Inclusion/ Exclusion Criteria

A total of 10 firms that were operating before 2010 and ceased operating between 2009 and 2019, were excluded from study. In addition, 17 firms that were operating inconsistently and actively trading between 2009 and 2019 were also excluded because this eliminated the problem of missing data which violated the precision and completeness principle and also the study wanted to deal with balanced panel data. As a result, the study identified from among the 67 listed firms those that had continuously traded during the study period (that is from 2009 – 2019). The census technique was employed; hence the sampling frame was 40 businesses from 2009 to 2019. Ultimately, 440 firm-year data of 40 firms was incoorporated in the sample (balanced panel data).

3.5 Measurement of Variables

3.5.1 Dependent Variable

According to Yusof and Ismail (2016), Al-Kayed (2017) and Guizani (2018), dividend policy is using the propensity to pay dividends or dividend payout policy. Moreover, Dewasiri *et al.,* (2019) calculated dividend policy utilizing two measures; propensity to pay dividends as a binary variable (the decision to pay or not to pay dividends) while dividend payout policy using dividend yield (dividend per share divided by market value per share). The study used dividend payout policy estimated using dividend per share divided per earnings per share (Budagaga, 2020; Wahjudi, 2020; Basri, 2019; Guizani, 2018; Ranajee *et al.*, 2018; Patra *et al.,* 2012).

3.5.2 Independent Variables

The study used two investor pressures types which include foreign institutional investors and domestic institutional investors. Foreign Institutional investor was estimated as a percentage of shares held by foreign institutional shareholders (Jacob & PJ, 2018; Bhandari & Arora, 2016; Thanatawee, 2013) while domestic institutional investor was measured as the percent of shares held by domestic institutional shareholders (Jacob & PJ, 2018; Roy, 2015; Thanatawee, 2013)

3.5.3 Moderating Variable

The study measured financial flexibility as cash and cash equivalents scaled to total assets (Rashidul Islam *et al.,* 2020; Farinha *et al.,* 2018). The other measure of financial flexibility uses Cash-to Net Assets ratio where net assets are total assets (AT) less cash and cash equivalents (Ang & Smedema, 2011)

3.5.4 Mediating Variable

The study used CEO Compensation as mediating variable. There are several measure of CEO compensation, that is Cash compensation and total compensation. However, this study used natural logarithm of total cash (salary plus bonus) compensation (Ozdemir & Upneja 2012).

3.5.5 Control Variable

Firm size (SIZE) was the logarithm of total assets (Adjaoud & Ben-Amar, 2010; Patra *et al.*,2012). Firm age was measured using firm age foundation or firm age since incorporation (Khan, 2021; Eluyela *et al.,* 2019; Kumar and Ranjani, 2018; Ofori-Sasu *et al.,* 2017). The measure for leverage was the ratio of long-term debt to total equity considering 2009 and 2019 as the reference point (Basri, 2019; Wahjudi, 2020; Francis, et al., 2011). The ratio of net profit to total assets was used to measure firm performance (Kaźmierska-Jóźwiak, 2015; Al-Najjar, 2011).

Table 3.2: Measurent of Variables

Variables	Indicators	Measurement	References
Dependent Variables			
Dividend Payout Policy	DP	This is the ratio of dividends per share to earnings per share for all available years	Budagaga, 2020; Wahjudi, 2020; Basri, 2019; Guizani, 2018; Ranajee *et al.*, 2018; Patra *et al.*, (2012);
Independent Variables			
Foreign Institutional investor	IF	is the proportion of shares held by foreign institutional investors	Jacob & PJ, 2018; Bhandari & Arora, 2016; Thanatawee, 2013
Domestic Institutional investor	ID	is the proportion of shares held by domestic institutional shareholders	Jacob & PJ, 2018; Roy, 2015; Thanatawee, 2013.
Moderator Variable			
Financial flexibility	FF	Cash and cash equivallents/ Total Assets	Farinha *et al.*, 2018; Rashidul Islam *et al.*, 2020.
Mediating variable			
CEO compensation	CC	Natural logarithm of total cash (salary plus bonus) compensation	Ozdemir & Upneja, 2012.
Control Variables			
Firm Size	FS	Natural log of total assets	Adjaoud & Ben-Amar, 2010; Patra, Poshakwale & Ow-Yong,2012)
Firm Age	FA	Logarithim of the numbr of Years since incorporation	Khan, 2021; Eluyela *et al.*, 2019; Kumar and Ranjani, 2018; Ofori-Sasu, Abor & Osei, 2017
Leverage	LEV	ratio of long-term debt to total equity	Basri, 2019; Wahjudi, 2020; Francis, et al., 2011
Firm Performance	FP	ratio of net profit to total assets	Kaźmierska-Jóźwiak,2015; Al-Najjar, 2011

3.6 Data Collection

The content/document analysis guide was utilized as a data gathering tool. Secondary sources were used in the study, which was accomplished by assessing the content of financial reports from 40 Kenyan entities listed on the Nairobi Securities Exchange. As required by Kenya's company law, all of their audited information was freely available. Document analysis, as stated by Oso and Onen (2009), is a tool for gathering secondary data. Since the data being gathered was secondary in nature, document analysis was employed. Corbetta (2003) recognized many benefits of the documents over other research approaches.

The study was undertaken utilizing secondary sources, which was accomplished by examining the contents of annual financial reports from 40 Kenyan companies

registered on the Nairobi Stock Exchange. As required by Kenya's company laws, all of their audited information was readily accessible. Document analysis, according to Oso and Onen (2009), is a tool for gathering secondary information. Because the data being gathered was secondary in nature, document analysis was employed. Corbetta (2003) recognized many benefits of using documents analysis over other research approaches. It is a non-reactive approach in which the information included in a document does not get distorted due to the researcher's interaction with the respondent. However, the document analysis guide may have certain limits with regards to accuracy and sufficiency.

3.7 Data Analysis and Presentation

Data preparation, coding, editing, and cleaning are the first steps in data processing. Both descriptive and inferential statistics were utilized to analyze the data. Descriptive statistics was utilized for examining data location, such as where data tended to fall as estimated by the mean, and data variability, such as how scattered the data was as computed by the standard deviation. Inferential statistics are significantly linked to the logic of hypothesis testing. Among the inferential statistics utilized were multiple regression and correlation analysis. Pearson correlation assumed linearity of data and displayed the link / relation between the dependent variable and the independent variable, while multiple regression reveals the magnitude of the influence of the independent variables on the dependent variable. To determine the degree to which investor pressure accounts for the change in payout policy, the data was initially analyzed for correlation using the coefficient of correlation r for association and the coefficient of determination R^2.

3.7.1 Model Specification

A panel data approach was used to test the hypotheses. According to Hsiao (1986), panel data has many key benefits: it gives a greater amount of freedom, enhances variability in the data and so decreases the likelihood of multicollinearity, and allows for the control of fixed effects. Panel data also has the advantage of handling additional observations, thereby increasing the degrees of freedom. Furthermore, it minimizes the problem of regressor collinearity and adjusting flexibility of behavior variations within and between countries, groups, or organizations (Biwott, 2011; Hsiao, 2007). The fixed effect model (FEM) and the random effects model (REM) was utilized for analyzing panel data. When controlling for omitted variables that differ between individuals but remain constant over time, the fixed effects model was utilized. If certain omitted variables are constant over time but change between individuals, while others are fixed between individuals but varies over time, then the random effects model will be useful in accounting for both categories. Since the effect of a single item may be a random result as opposed to a fixed value, the random effect model is suitable if data are indicative of a sample rather than the entire populace.

Three tests were performed, in line with Lee (2008), to contrast the utility of these models. First, the F test was used to examine fixed effects, and the null hypothesis (all individual effects terms excluding one and zero) was rejected at a 0.1% significance level. This implies that the fixed effects model was superior to the pooled OLS model. Secondly, the Lagrange multiplier (LM) test was used to assess random effects, and the null hypothesis (cross-sectional variance components are zero) was rejected at a 0.1% significance level. This supports the random effects hypothesis over the pooled data model. Lastly, the Hausman test was utilized to contrast fixed and random effects, and the null hypothesis--that there was no significant link between individual

effects and regressors--was rejected at the 0.1% significance level in this test. This supports the explanation for the use of the fixed effects model over the random effects model. In conclusion, the test results indicated that the fixed effect model prevailed over all other models in dealing with data.

The model that was used to test the direct effects of controls and direct effect hypothesis

Model 1: For testing the effect of Control Variables on dividend payout policy

$Y= \beta_0 + \beta_1$Firm Age $+ \beta_2$Firm size $+ \beta_3$Leverage $+ \beta_1$Firm Performance $+ \varepsilon$……..….(1) This model was utilized to test the effect of the control varilables on the dependent variable (dividend payout policy). Here the main concern was with the individual effect of every control variable and R^2 (the variance).

Model 2: For testing direct effect hypotheses

$Y= \beta_0 + C + \beta_1 X_1 + \varepsilon$ ……..…..….H_{01} This model was used to test the effect of foreign institutional investors on the dependent variable (dividend payout policy) while holding constant the control variables.

$Y= \beta_0 + C + \beta_1 X_1 + \beta_1 X_2 + \varepsilon$ ……..…..….H_{02} This model was used to test the effect domestic institutional investors on the dividend policy while holding constant the control variables and foreign institutional investors variable.

Model 3: For testing moderating hypotheses

$Y= \beta_0 + C + \beta_1 X_1 + \beta_2 X_2 + \beta_3 M + \beta_4 V + \varepsilon$ ……..…..….H_{03a}(a) and H_{03b} and This was used to test the effect of the moderator (Financial Flexibility) on dividend policy while holding constant the controls and the independent variables and the mediator.

Model 4: For testing mediating hypotheses

$M= \alpha_0 + C + \alpha_1 X_1 + \varepsilon$ ……..…..……. This was used to test the effect of foreign institutional investors on CEO Compensation while holding constant the controls variables.

$M= \alpha 0 + C + \alpha_1 X_1 + \alpha_2 X_2 + \varepsilon$ ……..…..…….. This was used to test the effect of domestic institutional investors on CEO Compensation while holding constant the controls variables and foreign institutional investors variable.

$Y= \beta 0 + C + \beta_1 X_1 + \beta_2 X_2 + \beta_3 M + \varepsilon$ ……..……..…. H_{04a} and H_{04b}. This model was used to test the effect of the mediator (CEO compensation) on dividend policy while holding constant the controls and the independent variables.

For testing mediation hypotheses Mackinon's (2012) procedure was followed (as shown in Figure 3.1).

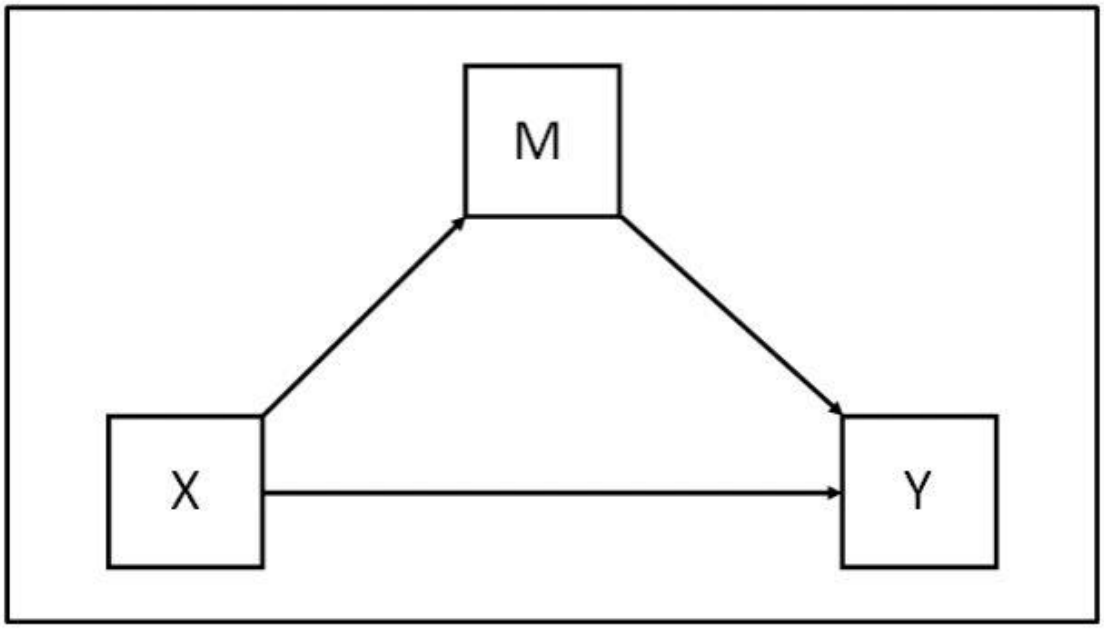

Figure 3.1 Model 3: Testing Mediation Hypotheses

This entails;

i) X must have a significant relationship with M

$M = a_0+C+a_{1,}a_2X+Ɛ$

ii) M must have a significant relationship with Y

$Y= b_0 +C + bM +Ɛ$

iii) Testing the effect of X on Y while holding constant M. If it is significant (partial mediation), if it's not significant (full mediation)

$Y= Co +C +b_1M_1+C'X+Ɛ$

iv) Mediation= a_1 x b…… H_{04a}

Mediation= a_2 x b…… H_{04b}..... or

C(total effect) – C'(direct effect)

Model 5: Moderation and Moderated Mediation Model

i) To test the Moderating effect of financial flexibility on the relationship between X and Y the following equations was applied.

$Y=B_0 + C + B_1X_{1,\,2} + B_2V + B_3XV + Ɛ$ ……. …….

ii) To test the effect of financial flexibility on the association between the mediator (CEO compensation) and dividend policy (as shown on figure 3.2) the following equations was applied,

$Y=B_0 + C + B_1 M + B_2V + B_3MV + Ɛ$ ……. ……..

iii) To test moderated mediation hypothesis, the following equation was applied

$a1(b1+b2w)$……. H_{05a} and H_{05b}

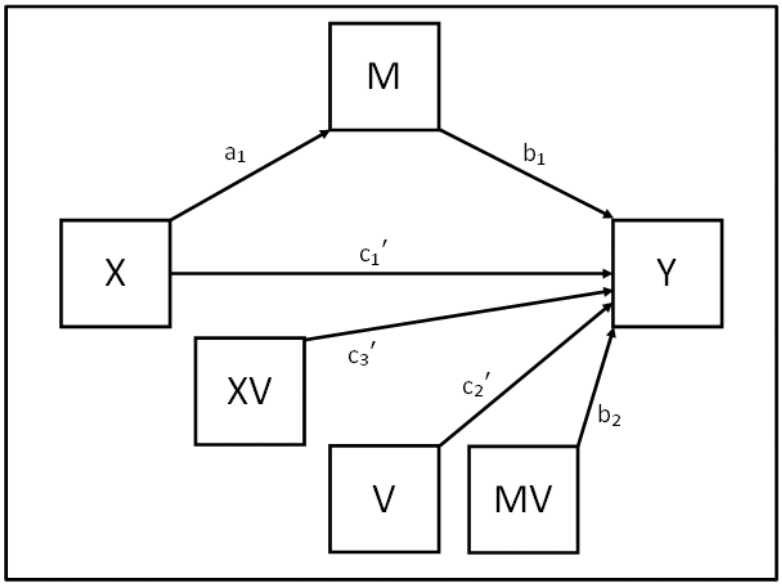

Figure 3.2: Model 5: Moderation and Moderated Mediation Model

3.8 Regression Assumptions and Diagnostic Tests

Some econometric concerns have the potential for distorting and misleading regression findings unless they are identified and addressed. Various econometric tests were run to identify any econometric flaws, and the required steps were taken to correct them. When econometric flaws are identified or suspected, there are usually several options for dealing with them. Given the similarity of our regression methodologies, all hypotheses were likely to have the same potential econometric problems. An overall summary of important econometric areas was covered for the purpose of simplicity and brevity.

3.8.1 Heteroskedasticty

When the residuals of the regression are heteroskedastic, the problem of heteroskedasticty arises. In other words, the variance of residuals does not remain constant across all observations. The conventional OLS estimators no longer generate minimal variance in this scenario. The coefficients' standard error yields erroneous estimations. The calculated parameters might stay consistent yet inefficient in the

presence of heteroskedasticity. In order to test for heteroskedasticity the study performed the BreuschPagan/Cook-Weisberg (1979) test and White's test. The said tests were based on the Lagrange Multiplier (LM) test that bases on the assumption that residuals were normally distributed with K degree of freedom. The variance of the disturbance terms is homoscedastic, according to the null hypothesis. To put it another way, the error terms' variance were constant. The Breusch Pagan/Cook-Weisberg (1979) and White's (1979) tests were carried out. The Lagrange Multiplier test was used, and it was based on the premise that residuals were normally distributed with K degrees of freedom. According to the null hypothesis, the variance of the disturbance terms is homoscedastic. In other words, the error terms' variance were constant.

The hypothesis tested were as follows;

H_0: Error variance was homogeneous.

H1: Error variance was not homogeneous.

Decision criteria; Reject the H_0 if the P-values are less than the level of significance.

3.8.2 Normality Test

The Jarque-Bera test was used to determine normality in the study's findings. Furthermore, skewness and kurtosis was employed for the omnibus test, as advocated by Jarque and Bera (1987). Several authors have discussed improved Jarque-Bera tests. The Jarque-Bera statistic is based on the chi-squares distribution with two degrees of freedom. The anticipated value of the statistic under the null hypothesis of normality is two. The Jacque-Bera test was used in this study to determine normality. The JB test computes the skewness and kurtosis coefficients of OLS residuals (Gujarti and Porter, 2010). A normally distributed variable has skewness of zero and kurtosis

of three. In the event that this assumption is violated, study sought for and eliminated outliers.

3.8.3 Stationarity Test

The assumption of stationary in time series data is an essential assumption of regression analysis. Stationarity refers to the likelihood that time series variables will not vary over time. Nonstationarity causes erroneous regression associations and undermines the validity of t- test and F-tests. Stationary implies that the mean, variance, and auto-covariance are not affected by time. Several unit root tests were used in the study, including the Im-Pesaran-Shin and Fisher unit root tests. If the data is not stable, the standard treatment is to de-trend the time series using first differences.

3.8.4 Autocorrelation

Among the key assumptions of the Classical Linear Regression Model (CLRM) is that the covariance of the error terms over time is equal to zero, or that the error terms are uncorrelated (Brooks, 2010). Nevertheless, if the error terms are correlated, autocorrelation or serial correlation occurs, causing the standard error to be biased. As a result, the standard OLS estimators are no longer the minimal variance ones. Therefore, following each standard OLS regression in this study, a diagnostic test is necessary to check for the presence of serial correlation. We may have a priori suspicion of autocorrelation based on the examination of an extended time series of ten years. The graphical technique is widely utilised to assess the presence of autocorrelation first hand. However, in order to validate the presence of autocorrelation, a rigorous statistical test was used. Durbin-Watson (DW) and Breusch-Godfrey (BG) tests are the most basic and widely used in time series analysis

to identify autocorrelation. There are numerous autocorrelation error tests, and the study used the Wooldridge and Durbin-Watson tests. Each of them was used in a certain econometric circumstance. The most commonly known Wooldridge test was typically the most appropriate when the model is exposed to a fixed-effect, but the Durbin-Watson test was the most appropriate regarding random-effects models due to its capacity to identify specific formations of autocorrelation.

The hypotheses of the autocorrelation test are as follows:

H_0: The errors were not autocorrelated.

H_1: The errors were autocorrelated.

The decision rule of this test is as follows: if the risk obtained exceeds the critical value (Prob> F) < (5%), we rejected the null hypothesis, in this case, the errors are regarded as autocorrelated and vice versa. The Durbin-Watson, Breusch-Godfrey, and Wooldridge tests were the most basic and widely utilized in time series analysis to detect autocorrelation. The autocorrelation rule of thumb is 1.50 to 2.

3.8.5 Multicolinearity

When the corresponding motions of more than two independent variables coincide, the problem of multicolinearity arises. The typical OLS estimates will not be able to differentiate between the variables in this case. Considering that several of the extra predictor variables in this research were typically believed to suffer multicolinearity, the extent of correlation between the variables was assessed using Variance Inflation Factors (VIF) following every standard OLS regression. According to Hayes (2013), the researcher anticipated the Variance Inflation Factor (VIF) values of collinearity diagnostic to be between 1 and 10, indicating that there was no Multicollinearity.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.0 Introduction

Based on the study objectives, this chapter covers the data analysis as well as the study findings. Tables were used to summarize and illustrate the data. The acquired data was analyzed and interpreted in agreement with the study's objectives. To evaluate the data in this study, various statistical approaches were used, aided by Stata. This chapter similarly discusses the analysis of data, presentation, and interpretation of results. The results are related to the study's objectives.

4.1 Firm Selection

Secondary data, particularly audited financial reports collected from publicly traded corporations, were utilized in this study on entities registered on the Nairobi Securities Exchange (NSE). The 40 listed companies which satisfied the study's inclusion criteria were subjected to a panel data analysis. The study's inclusion exclusion criterion was utilized to eliminate companies that had not been in continuous operation and those that had been listed on the NSE after 2009. Real Estate Investment Trust, Telecommunication and Technology, Manufacturing and Allied, Investment Services, Investment sector, Energy and Petroleum, Insurance, Construction and Allied, Commercial and Services, Banking, Automobiles and Accessories, and Agricultural were among the firms represented. The panel data was gathered during an 11-year period, from 2009 to 2019, yielding 440 firm year observations. In order to carry out significant statistical tests in quantitative research, Creswell (2014) claimed that a large N is required.

4.2 Summary of Descriptive Statistics

Table 4.1 shows the raw summarized descriptive statistics for the study variables under consideration during the period of study i.e. 2009-2019.

Table 4.1: Descriptive characteristics of Exogenous and Endogenous Variable

				Quantiles				
Variable	N	Mean	S.D.	Min	.25	Mdn	.75	Max
DP	440	0.34	0.28	0	0.11	0.30	0.57	0.90
IF	440	0.29	0.29	0.00	0.02	0.22	0.56	0.96
ID	440	0.45	0.24	0.01	0.27	0.41	0.67	0.88
FF	440	0.06	0.07	0.00	0.01	0.04	0.08	0.40
CC	440	17.11	0.64	15.74	16.55	17.14	17.55	18.55
FF	440	0.06	0.07	0.00	0.01	0.04	0.08	0.40
FA	440	1.83	0.16	0.85	1.73	1.81	1.91	2.21
FS	440	23.70	2.02	18.26	22.13	23.57	25.54	27.52
LEV	440	0.19	0.32	0.00	0.00	0.06	0.24	1.78
FP	440	0.06	0.10	-0.32	0.02	0.05	0.12	0.30

Key; DP = Dividend Payout Policy, IF = Foreign Institutional Ownership, ID = Domestic Institutional Ownership, CC = CEO Compensation,
Source: Research Data (2023)

The table shows that dividend payout had a mean of 0.34 (std. dev. = 0.28; Minimum = 0; Maximum = 0.90). This suggests that the selected firms pay 34 % of their earnings as dividends. Furthermore, the large variation between the minimum and maximum number suggests significant fluctuations in dividend payout policy among listed firms.

The average mean for domestic institutional ownership is 45% (standard deviation =24; Minimum=1%; Maximum=88%). This shows that there is elevated domestic institutional ownership than foreign institutional ownership 29% (standard deviation =29; Minimum=0; Maximum=96) in the listed firms. Therefore, there is a high chance of conflict of interests as domestic institutional investors have an investment relationship as well as a business relationship with investee firms. The mean for

foreign institutional ownership indicates that listed firms have less foreign institutional investors hence the monitoring function could be less effective. Further, there is a low variability in both domestic institutional ownership and foreign institutional shareholding as shown by a lower standard deviation.

The average CEO compensation amount is 27 million (standard devation =0.64; Minimum = 15.74; Maximum = 18.55). This implies that on average, CEOs of listed firms are paid on average Kshs. 27 million (e^17.11).

Financial flexibility (the cash and cash equivalent to total asseets ratio) had an average of 0.06 (standard deviation =0.07; Minimm=0; Maximum=0.4). The implication of these findings is that listed firms have low financial flexibility pointing out to restricted dividends payments.

The mean firm size is about 20 billion taking into consideration the period 2009 to 2019 being the primary points of reference (standard deviation = 7.5; Minimum= 85 million; Maximum = 894 billion). This means that the listed companies under consideration have an average asset value of Ksh19.623 billion (e^23.7).

With regard to the years from 2009 to 2019, the average firm age is 67 years (standard deviation = 0.150; Minimum= 7 years; Maximum= 162 years). The inference is that some of the listed companies being studied have been in operation for more than 67 years. (10^1.83).

Furthermore, Table 4.1 reveals that the mean leverage was 0.19 (standard deviation =0.32; Minimum=0; Maximum=1.78) suggesting that on average long-term debt is 19% of total equity.

Lastly, financial performance had a mean of 0.060 (standard deviation =0.1; Minimum= -0.32; Maximum=0.30). This means that the listed companies under consideration earned a 6% return on total assets on average.

4.3 Regression Assumptions and Diagnostic Tests

The data sets were to be subjected to tests of the model's conventional linear regression assumptions before running the model. Before utilizing OLS estimation to validate hypotheses testing coefficient estimates, Brooks (2008) states that five critical assumptions must be met. What follows are the assumptions of the classic linear regression model, containing diagnostic tests.

4.3.1 The Assumption of Heteroscedasticity

To test for heteroskedasticity, the Breusch-Pagan/Cook-Weisberg test and the White's test were employed, and the results are shown in Tables 4.2 and 4.3. To control heteroskedasticity, the test employs a cluster-robust standard error estimator. The research anticipated that data ought to be autonomous across clusters when using this robust standard error estimator (cluster) (Gould & Rogers, 1994). Table 4.2 revealed that the Chi2 (1) value was 0.23 and the -value was 0.6321, indicating that the null hypothesis was not rejected. As a result, the constant variance assumption was not violated.

Table 4.2: Breusch-Pagan / Cook-Weisberg Test for Heteroscedasticity
H_o: Homoskedastiity

Variable: My residuals	
chi2(1) =	0.23
Prob > chi2 =	0.6321

Source: Research Data (2023)

Applying the White test and the results shown in Table 4.3, the Prob > Chi2 = 0.4663, indicating that the null hypothesis was not rejected and that the homoskedasticity assumption was not violated. According to table 4.3, the model does not meet the heteroscedasticity challenge, which means that the variance of the error term is constant, as evidenced by an insignificant p-value (p-value is 0.4663, which is greater than 0.05). The null hypothesis, thus, fails to be rejected since the error variance is constant.

Table 4.3: White's Test for Homoscedasticity

White's test for Ho: homoscedasticity			
against Ha: unrestricted heteroskedasticity			
chi2(35) = 35.04			
Prob > chi2 = 0.4663			
Cameron & Trivedi's decomposition of IM-test			
Source	chi2	df	P
Heteroskedasticity	35.04	35	0.4663
Skewness	7.88	7	0.3435
Kurtosis	1.98	1	0.1592
Total	44.90	43	0.3922

Source: Research Data (2023)

4.3.2 Normality Test

Skewness/Kurtosis illustrates the number of observations (440) as well as the skewness probability, which is 0.5577 (Table 4.4), indicating that skewness is asymptotically normally distributed (ρ-value of skewness > 0.05). Furthermore, Pr (Kurtosis) shows that kurtosis is asymptotically distributed (ρ-value of kurtosis > 0.05).

Lastly, the joint Prob> chi (2) is 0.4592> 0.05, indicating that the skewness/kurtosis test findings for normality are inconclusive and insufficient to reject the null hypothesis.

Table 4.4: Skewness/Kurtosis Tests For Normality

Skewness/Kurtosis tests for normality					
			-------	Joint	------
Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	chi2(2)	Prob>chi2
Myresiduals	440	0.5577	0.2720	1.56	0.4592

Source: Research Data (2023)

To demonstrate normality, two further tests were performed: the Jarque-Bera and Shapiro Wilk normality tests. If the ρ-value is less than the Pro>Chi (2) value, the null hypothesis cannot be rejected, indicating that the residuals are normally distributed. According to Table 4.5, the null hypothesis cannot be rejected (Prob> chi (2) = 0.2886> 0.05). As the residuals are normal, there is no violation of the normal distribution assumption of error terms.

Table 4.5: Jarque-Bera Normality Test

Jarque-Bera	normality test: 2.485 Chi(2)	0.2886
Jarque-Bera	test for Ho: normality:	

Source: Research Data (2023)

The Shapiro-Wilk test's null hypothesis is that the residuals are normally distributed. Table 4.6 shows the Shapiro Wilk test findings. Given the ρ-value (0.14219) is greater than 0.05, the normality hypothesis cannot be rejected.

Table 4.6: Shapiro Wilk Normality Test

Variable	**Obs**	**W**	**V**	**Z**	**Prob>z**
Myresiduals	440	0.8035	0.0543	3.90	0.14219

Source: Research Data (2023)

4.3.3 Stationary Test (Unit Root Test)

Time-series data attains stationarity when the mean and variance related to it remain constant across time, as stated by Gujarati (2004). As a result of the variance's limit, the drift in the data series tends to revolve about its mean. The series' nature might be stochastic (decided randomly) or deterministic (displaying a trend), a non-stationary time-series or random walk model, according to Studenmund (2011), refers to a

model where the mean and variance gradually changes as time goes by and consists of a simple correlation coefficient between the X variable and its lagged variable that is influenced by elements beyond the length of the lag between the two time intervals. In economics and finance, time-related or seasonal shocks in a single time period can have a significant impact on successive time periods. The Im-pesaran-shin and Fisher unit-root tests are used in the study. For this test, the following hypothesis was considered:.

Im-pesaran-shin unit-root test

(Ho): Panel data has unit root [non-stationary].

The alternative hypothesis (Ha): Panel data has no unit root.

Fisher unit-root test

Null hypothesis (Ho): Panel data contains unit root [non-stationary].

The alternative hypothesis (Ha): Panel data is stationary.

The p-values in table 4.7 represent rejection of the null hypothesis, indicating that the data investigated lacks unit root. This suggests that the means and variances of the data are not time dependent; thus, the aim of Ordinary Least Squares (OLS) is to provide significant findings (Gujarati, 2012).

Table 4.7: Unit Root Test

	Im-Pesaran-Shin	Fisher
DP	-1.740	-8.866
ρ-value	0.00	0.00
IF	-1.740	-4.191
ρ –value	0.00	0.04
ID	-1.690	-3.982
ρ –value	0.00	0.00
CEOC	-2.347	-22.639
ρ –value	0.00	0.02
FF	-1.621	-5.082
ρ –value	0.00	0.00
FS	-1.778	-4.75
ρ –value	0.00	0.00
FA	-2.936	10.68
ρ –value	0.02	0.00
LEV	-1.740	-2.940
ρ –value	0.00	0.05
FP	-1.665	-5.489
ρ –value	0.00	0.00

Source: Research Data (2023)

4.3.4 Autocorrelation

Autocorrelation is the extent of correlation between a given time series and a lagged version of itself over subsequent time intervals (Makkhan et al., 2020). Autocorrelation examines the relationship between existing and previous error term values. The Wooldridge test statistic is utilized for estimating autocorrelation in the the residuals in statistical regression analysis. The null hypothesis of the Wooldridge test statistic states that "no first-order autocorrelation." According to the study results (Table 4.8), the Prob>F = 0.418 was more than 0.05, indicating that the Ho hypothesis was not rejected and that no first order existed. As a result, the findings of the study indicate a non-significant auto-correlated connection between all independent factors and dividend payout policy. These results imply that the assumption of autocorrelation is not violated.

Table 4.8: Wooldridge Test for Autocorrelation

Wooldridge test for autocorrelation in panel data
H0: no first-order autocorrelation
F(1, 39) = 0.670
Prob > F = 0.418

Source: Research Data (2023)

4.3.5 Multicollinearity

Multicollinearity takes place when more than two independent variables in a regression model are significantly linked. It is a situation in which independent variables are highly correlated. It frequently occurs in a multiple regression model when there is a significant correlation between independent variables, leading to problematic conclusions of the regression coefficients. While seeking to evaluate the extent to which explanatory variables represent changes in the outcome variable, this produces unusual results (Creswell, 2014). According to Brooks (2008), a non-zero correlation test result between predictor variables is expected in any realistic setting, but it will almost always be harmless in the belief that there will almost always be an acceptable level of association between predictor variable, but it will not cause too much concern. However, it develops into a challenge when the independent variables are highly correlated with one another. The problem is known as multicollinearity. As a result, estimating multicollinearity becomes crucial. This study used the coefficients of correlation and the Variance Inflation Factor (VIF) to test for multicollinearity, which is in line with literature (Ho & Wong 2001; Haniffa & Cooke, 2002; Eng & Mak 2003; Haniffa & Cooke 2005; Cerbioni & Parbonetti 2007).

Multicollinearity leads to increased standard errors in Beta assessments, leading to poorer reliability quality and inaccurate results. The multicollinearity test was utilized to determine whether there was a high degree of correlation between single or several

variables in the research with more than one of the other predictor variables. By assessing the correlation level between the predictor variables, the variance inflation factor (VIF) computed the inflated variances owing to linear dependency with other independent variables. VIFs of 10 or greater are considered extreme multi-collinearity (Gujarati, 2012). The VIF test results varied from 1.23 to 3.08 (Table 4.9).

Table 4.9: VIF test for Multicollinearity

Variable	VIF	1/VIF
Firm size	3.08	0.324725
Institutional foreign	2.80	0.357193
Financial flexibility	2.35	0.425706
Institutional domestic	2.22	0.450172
CEO compensation	1.81	0.552040
Leverage	1.50	0.668613
Firm age	1.45	0.689036
Firm performance	1.23	0.813897
Mean VIF	2.05	

Source: Research Data (2023)

4.3.6 Specification Error Test

The Ramsey RESET test findings are highlighted in Table 4.10. According to the results in the table, the probability values of the calculated statistics in the Ramsey RESET test are greater than the threshold value of 0.05, suggesting that the model is not misstated.

Table 4.10: RESET (test using powers of the fitted values of FP)

Ho:	model has no omitted	Variables
	F(3, 428) =	1.53
	Prob > F =	0.2072

Source: Research Data (2023)

4.4 Correlation Results

The correlation results are shown in Table 4.11 in a summary manner. The correlation between each explanatory variables is investigated since it has the potential to produce a large standard error, a low t-statistic, and unanticipated adjustments in the signs or magnitudes of coefficients despite a high R-squared. Although STATA excludes totally collinear independent variables when regressing, multicollinearity may require investigation using pair-wise correlation and Tolerance and Variance Inflation Factor (VIF) techniques. The pair-wise correlation matrix of the predictor variables demonstrates that there is no combination of variables with exceptionally high collinearity (greater than 0.80 in Table 4.11).

Results in Table 4.11 show that foreign institutional ownership is favourably linked to dividend payout policy ($r = 0.4196$, $p < 0.05$). As a result, the higher the foreign institutional ownership, the greater the probability a company will pay dividends. This is due to their superior monitoring abilities. Furthermore, results suggest that domestic institutional ownership is favorably associated to payout policy ($r = 0.2445$, $p < 0.05$). As a result, the more the domestic institutional ownership, the greater the dividend payment, showing that domestic investors have access to inside knowledge and hence exert pressure on corporations to pay dividends. Further, the correlation findings show that CEO compensation is favourably linked to dividend payout policy ($r = 0 .1491$, $p < 0.05$). Therefore, a rise in CEOs compensation leads to an increase in dividend payment. Furthermore, the correlation results show that financial flexibility is inversely associated to dividend payout policy ($r = -0.1103$, $p < 0.05$). Consequently, an increase in cash and cash balances of a firm leads to a reduced dividend payment. Besides, size of a firm ($r=0.1410$, $p<0.05$) and the age of a firm ($r=0.3226$, $p<0.05$) are favourably associated with dividend payout policy, implying that older and larger

entities are more likely to pay dividends. Results further show that leverage is inversely associated with dividend payout policy (r = -0 .3145, p < 0.05). As a result, increasing debt levels result in lower dividend payouts. Further, financial performance shows a favourable link with dividend payout policy (r = 0.06157, p < 0.05). Hence, a rise in the profitability of these firms leads to more dividend payments.

Table 4.11: Correlation Results

	DP	IF	ID	CC	FF	FA	FS	LEV	FP
DP	1.0000								
IF	0.4196*	1.0000							
ID	0.2445*	-0.2127*	1.0000						
CC	0.1491*	0.0678	-0.0115	1.0000					
FF	-0.1103*	-0.0319	0.0741	0.5659*	1.0000				
FA	0.3226*	0.4599*	-0.2196*	-0.0276	-0.0454	1.0000			
FS	0.1410*	0.0145	0.0780	0.5964*	0.7197*	0.1411*	1.0000		
LEV	-0.3145*	-0.2222*	0.1442*	0.0327	0.2295*	-0.0853	0.3552*	1.0000	
FP	0.6157*	0.2080*	-0.1098*	0.0014	0.0178	0.1750*	0.0138	-0.3560*	1.0000

Note: * 5% significance level

Source: Research Data (2023)

4.5 Test for the Control Variables effect on Dividend Payout Policy

Table 4.12 shows the regression findings for the fixed effect for the four control variables in the study: firm size, firm age, leverage, and profitability and the random effect is presented Appendix I.

Table 4.12: Fixed Effect-Control Variables

Fixed-effects (within) regression	Number of obs	= 440				
Group variable: FIRMID	Number of groups	= 40				
R-sq: within = 0.1658	Obs per group: min	= 11				
between = 0.5670	Avg	= 11.0				
overall = 0.4210	Max	= 11				
	F(4,396)	= 19.67				
corr(u_i, Xb) = 0.3457	Prob > F	= 0.0000				
DP	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
FS	.0832548	.0304027	2.74	0.006	.023484	.1430256
FA	.3158227	.118665	2.66	0.008	.0825305	.5491149
LEV	-.1416985	.0446759	-3.17	0.002	-.2295301	-.0538669
FP	.6912	.112169	6.16	0.000	.4706787	.9117212
_cons	-1.119741	.3520295	-3.18	0.002	-1.811821	-.4276607
sigma_u	.16589484					
sigma_e	.15199183					
rho	.54365225	(fraction of variance due to u_i)				

F test that all u_i=0: F(39, 396) = 10.10 Prob > F = 0.0000

Source: Research Data (2023)

The regression findings of the control variables are made clear utilizing the fixed effect model based on the Hausman test results (Prob>chi2 = 0.00) reported in Appendix II. Table 4.12 demonstrates that a firm's age has a significant and favorable influence on dividend payout policy (β= 0.3158, ρ<0.05), which corresponds with the findings of Eluyela, *et al.,* (2019) and Boshnak, (2021). The findings also suggest that the size of a firm has a significant and favorable influence on dividend payment (β= 0.0832, ρ<0.05). Additionally, Table 4.12 reveals that leverage had a significant and negative influence on dividend payout (β= -0.1416, ρ<0.05) and profitability has a significant and beneficial effect on dividend payout policy (β= 0.6912, ρ<0.05). These results agree with those of Al-Najjar and Hussainey (2009) and Ho (2003). Boshnak (2021), Suwaidan and Khalaf (2020), Juhmani (2020), Mehdi *et al.,* (2017), Al-Najjar and Kilincarslan (2016) posit that larger and older firms enjoy more steady earnings and better free cash flows, allowing them to pay greater dividends than younger and smaller firms. Furthermore, given the demand to pay interest, highly leveraged

companies are likely to pay smaller dividends, but highly profitable firms have greater ability to pay dividends than less profitable entities.

4.6 Testing the Effect of Investor Pressure on Dividend Payout Policy

4.6.1 Random Effect

The random effect model is used to estimate the coefficients, which makes assumptions that group or individual effects are not correlated with other explanatory variables. Appendix III shows the results of a random model regression. Based on on the random model, foreign institutional shareholding, domestic institutional ownership, firm size, a firm's age, leverage, and a firm's performance explain 21.35% of the variation of dividend payout. Foreign institutional ownership significantly increased dividend payout (β= 0.389, ρ<0.05) (Appendix III). A unit increment in foreign institutional ownership results in a 0.389 unit rise in dividend payout. Domestic institutional shareholding had a significant and favourable influence on dividend payout (β= 0.210, ρ<0.05). Consequently, every unit increase in domestic institutional shareholding results in a 0.21-unit rise in dividend distribution.

4.6.2 Fixed Effect Model

The fixed effect model takes into account the non-dependence of each entity or cross-sectional unit included in the collected data, allowing the intercept to vary in each entity while assuming that the coefficients' slope is constant within the companies. The fixed effects regression results are shown in Table 4.13. The findings showed that 23.05% variability in dividend payout can be attributed to foreign institutional owners, domestic institutional owners, firm size and firm age, leverage and profitability. Foreign institutional investors' ownership had a significant beneficial effect on dividend payout policy (β= 0.597, ρ<0.05) as shown in Table 4.13.

Furthermore, each additional unift in foreign institutional investors' ownership leads to a 0.597 increase in dividend payout. Besides, there is a positive and significant association between domestic institutional shareholding and dividend distribution policy (= 0.438, 0.05) (Table 4.13). As a result, each additional unit owned by domestic institutional investors results in a 0.438 rise in dividend payout.

Table 4.13: Fixed-Effects GLS Regression Model: Direct Effects

Fixed-effects (within) regression	Number of obs	=	440
Group variable: FIRMID	Number of groups	=	40
R-sq: within = 0.2305	Obs per group: min	=	11
between = 0.4057	Avg	=	11.0
overall = 0.3452	Max	=	11
	F(6,394)	=	19.68
corr(u_i, Xb) = -0.2295	Prob > F	=	0.0000

DP	Coef.	Std. Err.	T	P>t	[95% Conf.	Interval]
FA	.273329	.1141724	2.39	0.017	.0488657	.4977922
FS	.1258929	.0285654	4.41	0.000	.0697332	.1820525
LEV	-.1168675	.0438508	-2.67	0.008	-.2030783	-.0306567
FP	.5717032	.1116864	5.12	0.000	.3521274	.791279
IF	.5972315	.1572126	3.80	0.000	.2881511	.9063119
ID	.4385307	.1230707	3.56	0.000	.1965733	.680488
_cons	-1.858747	.3442441	-5.40	0.000	-2.535532	-1.181962
sigma_u	.18336209					
sigma_e	.14634126					
Rho	.6108872	(fraction of variance due to u_i)				

F test that all u_i=0: F(39, 394) = 10.07 Prob > F = 0.0000

Source: Research Data (2023)

4.6.3 Hausman Test- Direct Effect

The Hausman test may be used to analyze fixed or random effects, with the null hypothesis preferring the random effects model over the fixed effect (Greene, 2008). The null hypothesis states that unique errors (u i) are not associated with regressors; the alternative hypothesis states that they are. The Hausman Specification test (Hausman, 1978) is used to establish whether to consider using a fixed or random effect estimator. The null hypothesis uses a random effect estimator to approximate the panel data, whereas the fixed effect model is the suitable estimator. Rejecting the null hypothesis (p-value 0.05) indicates that the fixed effect model will be utilized.

When estimating variables in respect to dependency, panel data modeling permits a researcher to employ either fixed effect models or random effect models while accounting for the issue of omitted/missing variables. The criteria for utilizing fixed effect or random effect models was based depending on the outcomes of the Hausman test (Appendix IV).

Appendix IV is a summary of the Hausman test results. It also displays dividend payout determinants that should be rejected since the chi-square value of 94.12 was significant, p-value = 0.000 as well as the the null hypothesis of "difference in coefficients not systematic". As a result, the fixed effects model is used to assess the study's hypotheses.

H_{01}: *Foreign institutional investors have no significant effect on dividend payout policy among listed firms in NSE*

Hypothesis 1 was rejected based on the results (β_1 =0.597, p=.000<0.05), and the study indicated that in Kenya, foreign institutional investors have a significant and positive effect on dividend payout policy of listed firms. Previous research supports the findings (Baba, 2009; Kim *et al.,* 2010; Jeon *et al.,* 2011; Cao *et al.,* 2017) but differ with those of Balachandran *et al.,* 2019) and Jory *et al.,* (2017) who established an adverse link and suggested that foreign institutional investors use alternatives methods of oversight instead of dividend payout to reduce agency costs. Given that foreign institutional investors tend to take a proactive role in promoting effective corporate governance (Guo & Platikanov, 2019; Aggarwal *et al.,* 2011; Ferreira & Matos, 2008; Gillan & Starks, 2003) may explain the positive association expressed in the link between foreign institutional shareholders and dividend payout policy. Hence foreign institutional investors practice effective corporate governance practices by not

having any conflict of interest with the investee firms; therefore, they have the incentive to spend resources to monitor and pressuring the investee firms to pay dividends.

H_{02}: Domestic institutional investors have no significant effect on dividend payout policy among listed firms in NSE

The aforementioned hypothesis was rejected on the basis of the results of the fixed effect model, which revealed that domestic institutional investors had a significant and positive influence on dividend payout policy by Kenyan listed firms ($\beta_2 = 0.438$, $p=.000<.05$). These results are reinforced by Jacob and PJ (2018). However, those of Jeon *et al.,* (2011,) show no relationship. The reason for a positive and significant relationship is that domestic institutional investors have a local information advantage arising from the proximity to the investee firms (Gharbi & Othmani, 2020; Kang *et al.,* 2018). The local information advantage arises from monitoring costs that do not accrue to domestic institutional investors due to their proximity to investee firms. Acquisition expenses, global operations costs, transportation costs, and cultural and language understandings are examples of these costs (Leuz, Lins & Warnock, 2009). Due to their lower costs of obtaining monitoring information, domestic institutional investors with information advantages are better equipped to effectively offset agency problems (Lee *et al.,* 2020). As such domestic institutional investors have an enhanced supervisory influence on corporate choices and policies, such as dividend payout policies. Furthermore, where there is high agency conflicts and insufficient legal protection, domestic institutional investors favour established firms that generate significant cash dividends (Manos, 2003; Farinha, 2003; Abdelsalam *et al.,* 2008; Bataineh, 2021).

4.7 Testing the Effect of Financial Flexibility on the relationship between Investor Pressure on Dividend Payout Policy

4.7.1 Hierarchical Regression Model

The hypotheses made for this study were tested using hierarchical regression analysis, in which the models were placed in sequential blocks (Table 4.14). Thus, Model I (the baseline model) only includes the control variables which are; firm age (FA), firm size (FS), leverage (LEV) and firm performance (FP). Other than the control variables, Model 2 includes all of the other predictor variables presented in block, which are, the Foreign Institutional Investor (IF) and Domestic Institutional Investor (ID). Model 3 incorporates the moderating variable, Financial Flexibility (FF). Models 4 and 5 incorporate an interaction term between the variables Financial Flexibility (FF) and Foreign Institutional Ownership on Dividend Payout Policy – called "IF*FF", and Domestic Institutional Ownership on Dividend Payout Policy – called "ID*FF". Moderation exists if the association between the outcome and the interaction term is significant (Barron & Kenny, 1986).

Table 4.14: Hierarchical Regression Model

DP	Model 1 Coef.(Se)	Model 2 Coef.(Se)	Model 3 Coef.(Se)	Model 4 Coef.(Se)	Model 5 Coef.(Se)
_cons	-1.12 (0.35)**	-1.86(0.36)**	-1.42(0.36)**	-1.43(0.35)**	-1.03(0.25)**
FA	0.32 (0.12)**	0.27(0.11)**	0.27(0.12)**	0.24(0.11)**	0.24(0.09)**
FS	0.08(0.03)*	0.13(0.03)**	0.09(0.03)**	0.01(0.03)**	0.07(0.02)**
LEV	-0.14(0.45)**	-0.11(0.04)**	-0.11(0.04)**	- 0.11(0.04)**	-0.13(0.04)**
FP	0.69(0.11)**	0.57(0.11)**	0.46(0.11)**	0.44(0.11)**	0.62(0.10)**
IF		0.59(0.16)**	0.65(0.16)**	0.66(0.15)**	0.33(0.08)**
ID		0.44(0.12)**	0.40(0.12)**	0.41(0.12)**	0.16(0.08)**
FF			-0.60(0.16)**	-0.67 (0.17)**	-0.73(0.16)**
IF*FF				-0.10(0.42)**	-0.10(0.04)**
ID*FF					-0.17(0.04)**
R-sq:	*0.17*	*0.23*	*0.25*	*0.26*	*0.27*
R-sqΔ		*0.06*	*0.02*	*0.01*	*0.01*
F- value/Wald chi2	*19.67*	*19.68*	*19.25*	*17.85*	*228.74*
Prob > chi2	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
sigma_u	*0.17*	*0.18*	*0.18*	*0.18*	*0.10*
sigma_e	*0.15*	*0.15*	*0.14*	*0.14*	*0.14*
Rho	*0.54*	*0.61*	*0.62*	*0.62*	*0.35*
Hausman test					
chi2	37.84	94.12	119.15	51.79	14.17
Prob>chi2	0.00	0.000	0.00	0.00	0.1162

**p<.05, Number of observation = 440, Number of groups = 40

Source: Research Data (2023)

4.7.2 Modgraphs for Moderating Effect of Financial Flexibility

Considering that a significant interaction was established, it is interesting studying the nature of the moderator at this stage (Aiken & West, 1991). Thus, Jose (2013) recommended that Modgraph be used to create a line graph (Graph 1). According to Jose (2008), Modgraph is a moderating tool, which allows researchers to clearly see the moderating association of the third variable on two variables. Modgraph permits one to input statistical data from multiple regression results so as to compute the equations that create cell means, which are essential for presenting statistical interactions visually. The data from the regression analysis was entered using Jose's ModGraph application. The +SD (Standard Deviation) and -1 SD (Standard Deviation) values of predictor and continuous moderator variable averages were determined by Jose's program. These values were classified as high, medium, or low and were utilized in program analysis. The developed figures aid in comprehending the theoretical meaning of the identified statistical interaction. The regression analysis results gave the input data. This application has previously been utilized in research (Lindsay *et al.*, 2017).

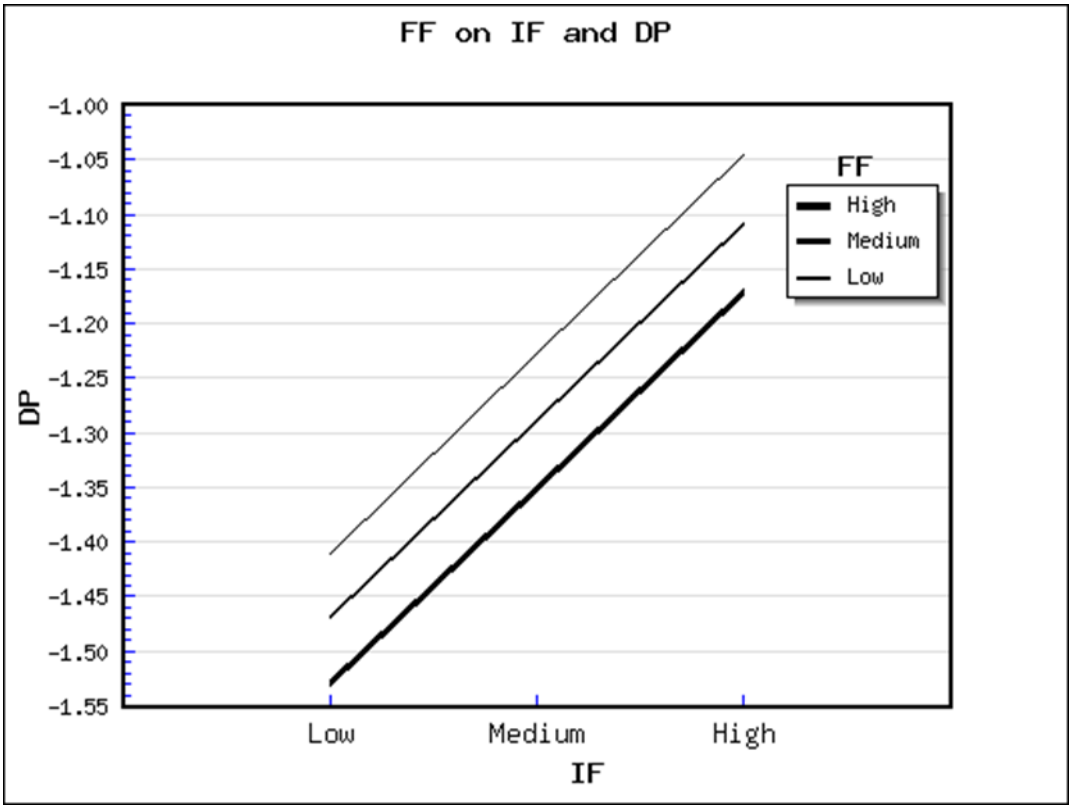

Figure 4.1: Moderating Effect of financial flexibility on the relationship between Foreign Institutional Investors on Dividend Payout Policy

Figure 4.1 depicts the buffering moderating effect of financial flexibility on the effect of foreign institutional holdings on dividend payout policy. In the presence of financial flexibility, foreign institutional investors' hold further decreases dividend payout policy. Though foreign institutional investors are likely to raise dividend payout policy of listed firms, a financially flexible firm decreases foreign institutional investor effect on dividend payout policy. This suggests that insiders tend to build excessive cash balances for their personal utility resulting in a low dividend payout. However, pressure from foreign institutional investors' makes insider expropriation more costly. This reduces the incentive for insiders to hoard cash for opportunistic reasons, which results in a high dividend payout.

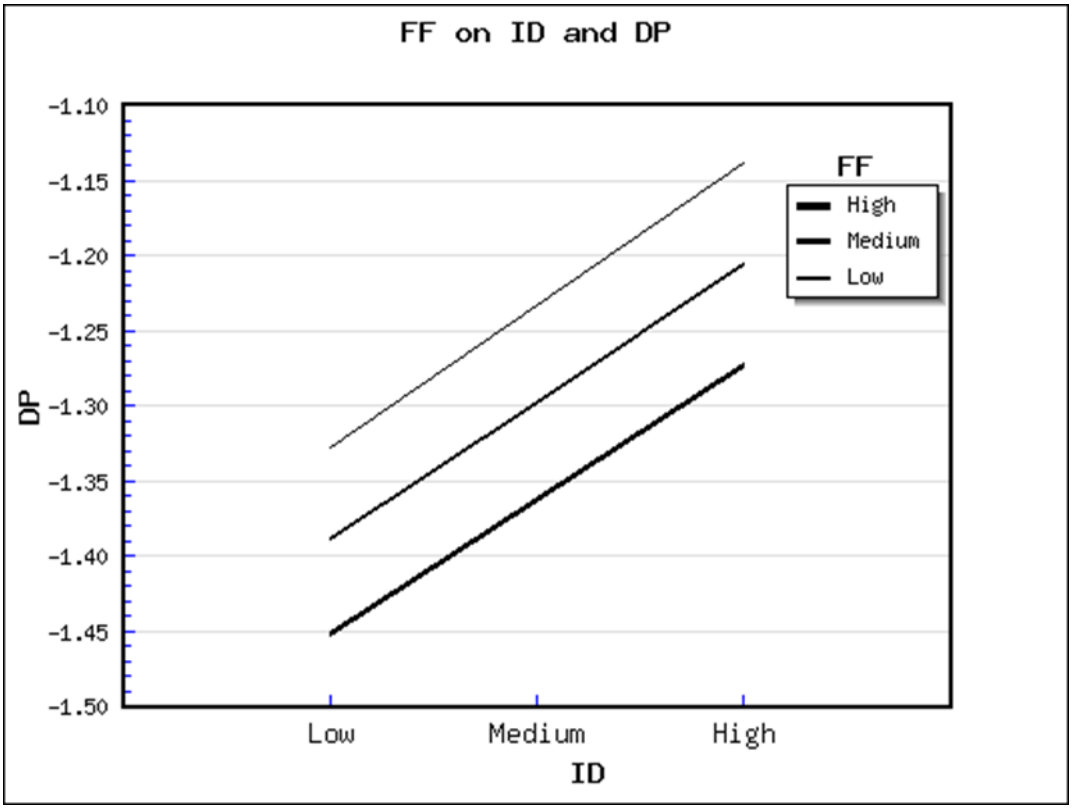

Figure 4.2: Moderating Effect of financial flexibility on the relationship between Domestic Institutional Investors on Dividend Payout Policy

Figure 4.2 depicts a buffering moderating effect, which means that the moderating variable (financial flexibility) reduces the influence of domestic institutional investors holding (independent variable) on dividend payout policy (dependent variable). This suggests that when the moderating variable (financial flexibility) increases, the impact of domestic institutional investors holding on dividend payment policy decreases. Although the presence of domestic institutional investors holding positively determines dividend payout policy, a financially flexible firm may curtail the extent to which domestic institutional shareholders may put pressure on firms to distribute dividends.

H_{03a} *Financial flexibility does not moderate the link between; foreign institutional investors and dividend payout policy among publicly traded companies in NSE*

Financial flexibility had a significant moderating effect on the relationship that has been established between foreign institutional investors holding and dividend payout policy (β= -0.10; ρ<0.05) and R-sqΔ of 0.01). Moreover, the modgraph demonstrates a buffering moderating influence in which financial flexibility reduces the influence of foreign institutional investors' holding on dividend payout policy. Therefore, H_{03a} was rejected. The presence of financial flexibility in firms indicates that entrenched insiders erode the pressure by foreign institutional investors on dividend payout policy. Insiders build excessive high cash balances for their own personal utility, thus, leading to reduced dividend payout policy. Nevertheless, enhanced scrutiny by foreign institutional investors is likely to compel entities to distribute dividends in line with the notion that doing so minimizes the amount that insiders divert to themselves or spend inefficiently. However, in order for investee firms to meet current and future investment opportunities, foreign institutional investors offer investee firms the incentive to amass cash and hold high levels of cash (Karim & Ilyas, 2020), thus, reducing dividend payout policy. Loncan (2020) contends that foreign institutional investors can do so by reducing the risk of expropriation by putting management under increased monitoring pressure to maintain cash balances at levels that are consistent with maximizing shareholders' wealth.

H_{03b} *Financial flexibility does not moderate the relationship between domestic institutional investors and dividend payout policy among publicly traded companies in NSE*

Table 4.14 demonstrates that financial flexibility significantly plays a moderating role in the domestic institutional investor – dividend payout policy link (β= -0.17; ρ<0.05) and R-sqΔ of 0.01). Furthermore, the modgraph reveals a buffering moderating influence in which financial flexibility reduces the strength of domestic institutional investors' hold on dividend payout policy. Therefore, H_{03b} was rejected. Financial flexibility poses a threat to domestic institutional investors' pressure on dividend payout policies since a financially flexible firm may reveal the conflicts of interest between domestic institutional investors and the investee firm, which has an unfavorable effect on dividend payout policies. This indicates that domestic institutional investors give the business relationship with investee firms high priority.

4.8 Results of the Mediating Effect

4.8.1 Effect of Investor Pressure on Dividend Payout Policy

Mediation entails establishing the importance of the predictor variable's indirect influence on the dependent variable via a mediator. The indirect effect is estimated as the product of *path a* and *path b (ab*); where path a is the regression of CEO compensation (mediator) on investor pressure (predictor variables) and path b is the regression of dividend payout policy (outcome variable) on investor pressure, while controlling for CEO compensation. Table 4.15 displays the fixed effect regression findings for path a. Relying on the Hausman test (shown in Appendix XV), the random effect regression model was chosen (chi2 *(6) = 1.83; Prob>chi2 = 0.9346*).

The results presented in Table 4.15 reveal that foreign institutional investors' holdings had a significant coefficient of estimate, as indicated by $\beta_1 = 0.294$ and $\rho < 0.05$. As a result, foreign institutional investors had a significant and favourable effect on dividend payout. This suggests that for every unit rise in foreign institutional investors' holding, CEO compensation goes up by up to 0.294. Domestic institutional investors' holdings likewise had a significant coefficient of estimate based on $\beta_2 = -0.159$ *and* ρ*-value* $= 0.00 < 0.05$, which implies that domestic institutional investors' holdings had a significant and adverse influence on CEO compensation. This indicates that for every unit increment in domestic institutional ownership, CEO pay falls by 0.159.

The study further revealed that firm size ($\beta = 0.949$, $\rho < 0.05$), firm age ($\beta = 0.170$, $\rho < 0.05$) and profitability ($\beta = 0.184$, $\rho < 0.05$) had a significant effect on CEO compensation. However, leverage ($\beta = 0.004$, $\rho > 0.05$) had an insignificant influence on CEO compensation. In conclusion, the results validated that the type of investor influences a firm’s decision to enhance the CEO pay and ultimately its dividend payout. Therefore, firms should co6nnsider their investor type that value CEO pay for better dividend payout.

Table 4.15: CEO Compensation and Investor Pressure

Random-effects GLS regression	Number of obs	=	440
Group variable: FIRMID	Number of groups	=	40
R-sq: within = 0.2010	Obs per group: min	=	11
between = 0.1426	Avg	=	11.0
overall = 0.1467	Max	=	11
	Wald chi2(6)	=	105.82
corr(u_i, X) = 0 (assumed)	Prob > chi2	=	0.0000

CC	Coef.	Std. Err.	Z	P>z	[95% Conf.	Interval]
FA	.1707357	.0675147	2.53	0.011	.0384093	.3030621
FS	.0949821	.0171676	5.53	0.000	.0613342	.12863
LEV	.0408016	.0263881	1.55	0.122	-.0109182	.0925214
FP	.1848345	.065651	2.82	0.005	.056161	.313508
IF	.2944125	.065311	4.51	0.000	.1664052	.4224197
ID	-.1595601	.0526234	-3.03	0.002	-.2627001	-.0564201
_cons	6.113645	.2078536	29.41	0.000	5.70626	6.521031
sigma_u	.33211172					
sigma_e	.08833796					
Rho	.93392484	(fraction of variance due to u_i)				

Source: Research Data (2023)

4.8.2 Investor Pressure, CEO Compensation and Dividend Payout Policy

The study additionally examined the influence of investor pressure on dividend distribution and the role of CEO compensation in mediator. To test for mediation, three models were utilized. Model 1 depicts the outcomes of the mediator's regression on the independent variables. The objective of this model is to determine path a (a_1, and a_2) beta coefficients. Model 2 depicts the findings of the dividend payout policy regression on investor pressure (foreign institutional investors and domestic institutional investors) while controlling for CEO compensation, which is intended to generate path b (the beta coefficient of b). The fixed effect regression model was used

to estimate the model using the Hausman test findings that appears in Appendix XVIII (*chi2 (7) = 89.65; Prob>chi2 = 0.0000*). Model 3 shows the indirect path *ab* computed coefficients i.e. a_1b and a_2b coefficients used to test hypotheses H_{4a} and H_{4b} respectively. According to Zhao *et al.,* (2010), the significance of the beta coefficient c' (a x b) was used to determine the mediating effect. The coefficient was derived by multiplying Model 1's beta coefficients (path a) by the mediator's coefficient, b, as indicated in Model 2. Preacher and Hayes' (2004) Sobel test calculator was used to examine the significance of the indirect path, ab, by utilizing the beta coefficients and standard errors of model 1 and model 2.

H_{04a} *CEO compensation does not mediate the link between foreign institutional ownership and dividend payout of listed firms in Kenya.*

The null hypothesis was rejected based on the findings of the mediation shown in model 3 in Table 4.16, where the coefficient for the indirect path, a_1b, is significant and positive ($\beta = 0.071, \rho < 0.05$). The interpretation was that CEO compensation had a mediating effect on the link between foreign institutional investors and dividend payout of publicly traded companies in Kenya.

H_{04b} *CEO compensation does not mediate the link between domestic institutional ownership and dividend payout of listed firms in Kenya..*

Model 3 in Table 4.16 reveals that the indirect path a_2b, had a negative but significant coefficient, ($\beta = -0.038, \rho<0.05$), indicating that the null hypothesis was rejected and the alternative hypothesis was accepted. Consequently, the link between domestic institutional ownership and dividend payouts from listed companies in Kenya was shown to be mediated by CEO compensation.

Table 4.16: Summary Table for Mediation

	Model 1 (*path a*)		**Model 2 (*path b*)**		**Model 3 (*a x b= c`*)**		**Model 4 (*path c*)**	
	B	**ρ>z**	**β**	**ρ>z**	**β**	**ρ>z**	**β**	**ρ> z**
a_1	0.294	0.000	-	-	0.071	0.0259	0.597	0.000
a_2	-0.159	0.000	-	-	-0.038	0.049	0.438	0.000
B			0.243	0.011				
FS	0.094	0.00	-	-	0.022	0.02	0.126	0.001
FA	0.170	0.011	-	-	0.041	0.071	0.273	0.017
LEV	0.040	0.122	-	-	0.009	0.187	-0.116	0.008
FP	0.184	0.005	-	-	0.044	0.058	0.571	0.000
-cons	6.440	0.000	-	-	-	-	-	-
R^2		0.2010			0.2263		0.2305	
Hausman Prob>chi2		ρ<0.05			ρ<0.05		ρ<0.05	

Source: Research Data (2023)

4.9 Investor Pressure, CEO Compensation, Financial Flexibility and Dividend Payout Policy

The study's primary objective was to evaluate the influence of investor pressure on dividend payout policy and the interacting effect of the mediator and moderator (CEO compensation and financial flexibility). The model employed for testing the moderated mediation model reveals the output of the dividend payout policy regression on investor pressure (foreign institutional investors and domestic institutional investors) while controlling for CEO compensation and financial flexibility, that is intended to generate path b3 (the beta coefficient of b_3).

The estimate Model 1 in Table 4.17 used is the random effect regression based on the results of the Hausman test, as shown in Appendix XXIV (*chi2 (5) = 1.27; Prob>chi2 = 0.0000*). Model 2 in Table 4.17 illustrates the computed coefficients of the indirect path a_1b_3, which used the fixed effect regression based on the findings of the Hausman test, as illustrated in Appendix XXX (*chi2 (9) = 31.60; Prob>chi2 = 0.0000*).

The random effect regression was used to estimate Model 1 in Table 4.18, as indicated in Appendix XXVII (*chi2 (5) = 1.62; Prob>chi2 = 0.0000*). The estimated coefficients of the indirect path a_2b_3 using the fixed effect regression basing on the Hausman test results, as provided in Appendix XXXIII (*chi2 (9) = 100.15; Prob>chi2 = 0.0000*), are presented in Model 2 in Table 4.18

According to Zhao et al., (2010) the significance of the index for the moderated mediation was the criterion for determining the moderated mediation effect. The coefficient was calculated through multiplying the beta coefficients of Model 1 (*path a)* by the coefficient of the moderator-mediator interaction, $b_{3,}$ as indicated in Tables 4.17 and 4.18. Preacher and Hayes' (2004) Sobel test calculator was used to examine the significance of the mediator and moderator interaction, b3, utilizing the beta coefficients and standard errors of model 1 and model 2.

Table 4.17: Summary Table for Moderated Mediation (X_1)

	Model 1 (*path a*)				**Model 2 (*path b_3*)**	
	B	**ρ>z**			**β**	**ρ>z**
FS	0.095	0.00	-	-	0.077	0.01
FA	0.168	0.014	-	-	0.223	0.044
LEV	0.057	0.029	-	-	-0.151	0.000
FP	0.182	0.006	-	-	0.471	0.000
X_1	0.306	0.000			0.578	0.000
M					0.147	0.041
V					-0.905	0.000
X_1V					-0.097	0.022
MV					-0.973	0.004
-cons	6.041	0.000	-	-	-2.091	0.000
R^2	0.1817				0.456	
Hausman Prob>chi2	ρ>0.05				ρ<0.05	
Index for moderated mediation						
X_1 *MV (0.306 * 0.973)	Std. Err		t		**ρ> z**	
0.298	0.1197		-2.486		0.013	

Source: Research Data (2023)

Table 4.18: Summary Table for Moderated Mediation (X_2)

	Model 1 (*path a*)				**Model 2 (*path b_3*)**	
	B	**ρ>z**			**β**	**ρ>z**
FS	0.098	0.000	-	-	0.068	0.012
FA	0.188	0.007	-	-	0.270	0.007
LEV	0.032	0.226	-	-	-0.074	0.056
FP	0.203	0.003	-	-	0.247	0.017
X_2	-0.174	0.000			0.647	0.000
M					0.282	0.000
V					-0736	0.000
X_2V					-0.128	0.000
MV					-0.859	0.006
-cons	6.139	0.000	-	-	-3.200	0.000
R^2	0.1601				0.4240	
Hausman						
Prob>chi2	ρ>0.05				ρ<0.05	
Index for moderated mediation						
X_1 *MV (-0.174* -0.859)	Std. Err		t	**ρ> z**		
0.149	0.0711		-2.10	0.036		

Source: Research Data (2023)

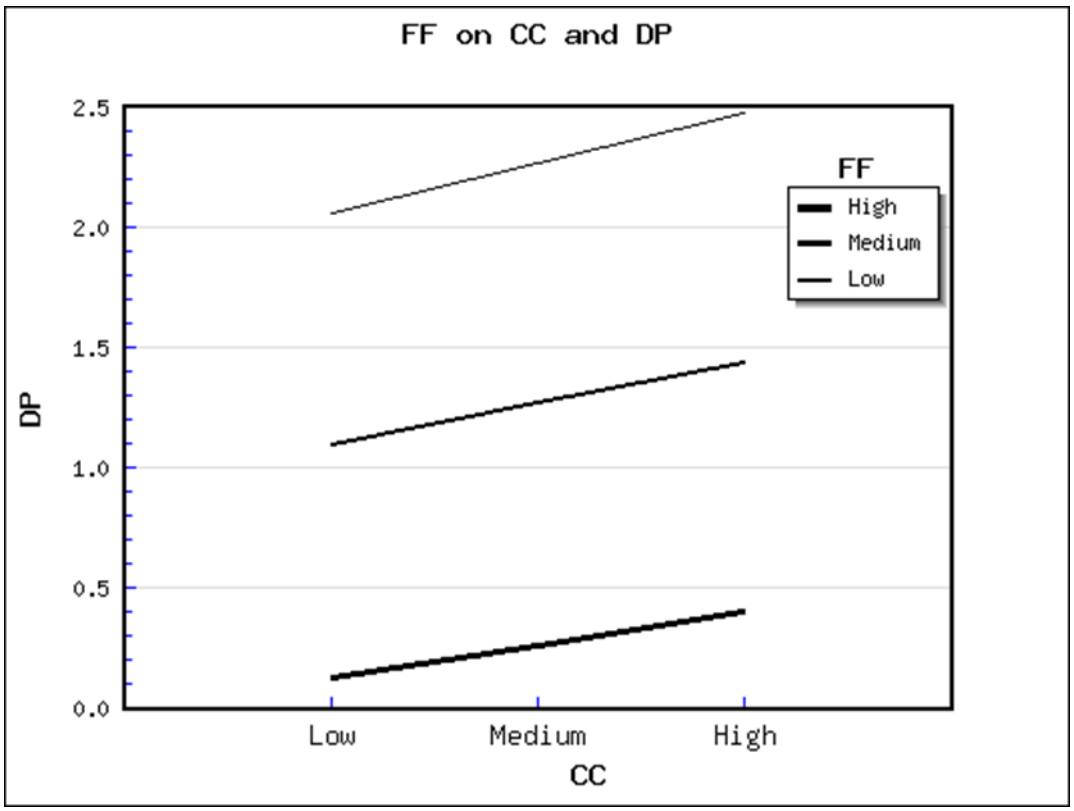

Figure 4.3: The moderated mediation effect of Financial Flexibility and CEO Compensation on the relationship between Investor Pressure and Dividend Payout Policy

Figure 4.3 depicts a buffering moderating influence meaning that financial flexibility (moderating variable) lowers the effect CEO compensation (mediating variable) on dividend payout policy (dependent variable). Specifically, high financial flexibility weakens the link between CEO compensation and dividend payout policy. Although CEO compensation positively determines dividend payout policy, financial flexibility is likely to reduce the effect of CEO compensation contracts that are intended to have firms pay high dividends. However, depending on the investor type, financial flexibility has implications on the CEO compensation and dividend payout policy relationship.

H_{05a} CEO Compensation does not mediate the relationship between foreign institutional investors and dividend payout policy as moderated by financial flexibility, among publicly traded companies in the NSE,

As stated in Table 4.17, this hypothesis was evaluated against the outcomes of the indirect path a_1b_3. The null hypothesis was rejected and the alternative hypothesis accepted based on the results (β = 0.298, $\rho<0.05$). Hence, the study' findings validated that CEO compensation mediated the foreign institutional investor's holding and dividend payout policy relationship as moderated by financial flexibility. Further the modgrapgh indicates that foreign institutional investors value a financial flexible firm indicating that investee firms would not pass on investment opportunities. However, since foreign institutional investors face high information asymmetry on investment opportunities, CEO compensation contracts are tied to future investment returns. Therefore, foreign institutional investors prefer firms that have high financial flexibility that results in high CEO compensation contracts tied to future high dividend payout

H_{05b} CEO Compensation does not mediate the relationship between domestic institutional investors and dividend payout policy as moderated by financial flexibility, among publicly trade companies in the NSE

This hypothesis was tested using the indirect path a_2b_3. The findings in Table 4.18 (β = 0.149*and* $\rho<0.05$) suggest that the null hypothesis was rejected, and the study concluded that CEO compensation mediated the influence of domestic institutional investors' holding on dividend payout policy significantly as moderated by financial flexibility. Moreover, the modgraph indicates domestic institutional investors have business ties with investee firms. For their own business interest, domestic

institutional investors favor firms with high financial flexibility. When domestic institutional investors face this conflict of interest, CEOs tend to exploit it to demand higher pay resulting in low dividend payout.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter contains the preceding chapter's summarised results, the study conclusions, recommendations, and avenues for additional research.

5.1 Study Findings Summary

The highly contested and contentious issue of dividend payout policy, as well as how investor pressure influences it, has generated interest in researching this link and how financial flexibility might moderate this relationship. Further, the study's objectives was to establish how CEO compensation could mediate this relationship. Consequently, the aim of this research was to establish the influence of investor pressure, CEO remuneration, and financial flexibility on dividend payout policy among listed firms in Kenyan. Several findings were established, which are given below..

5.2 Effect of Investor Pressure on Dividend Pay-out policy

5.2.1 Effect of Foreign Institutional Investors on Dividend Pay-out policy

The first specific aim was to evaluate the impact of foreign institutional investors on the dividend payout policy of Kenya listed companies. The fixed effect regression study revealed that foreign institutional investors' holding had a favourable and statistically significant influence on dividend payout policy ($\beta = 0.597$ $\rho<0.05$). The results reported are comparable to those of (Jeon *et al.,* 2011; Lahiri, 2013; Kim *et al.,* 2010) but contrast those of (Henry, 2011; Baker *et al.,* 2021; Bataineh, 2021; Purba *et al.,* 2022) which could indicate that foreign institutional investors face higher information asymmetry. Thus, the task of monitoring investee firms could be more

difficult and costly suggesting emphasizing the significance and relevance of dividend payment as a monitoring mechanism. However, some studies find that dividend payout policy is not affected by foreign institutional shareholders (Jacob & PJ, 2018; Rajput & Jhunjhunwala, 2019).

Thus, having foreign institutional investors would enhance monitoring of investee firms especially in countries with weak shareholders' protection (Jong & Ho 2018). Uncertainty associated with foreign investments decisions and over-investment problems by managers would make foreign institutional investors prefer high dividend payouts as mechanism to discipline and control managers (Duqi *et al.,* 2020; Brennan & Thakor, 1990; Jensen, 1986). Moreover, foreign institutional investors are known for their proficiency in setting higher international norms and practices (Ali, *et al.,* 2021).

5.2.2 Effect of Domestic Institutional Investors on Dividend Payout Policy

Objective number two sought to determine the effect of domestic institutional investors among listed firms' dividend payout policy. Domestic institutional investors was operationalized in the study as a proportion of stock controlled by domestic institutional shareholders. Having domestic institutional investors could result in better dividend payout policy. As stated by the research results, domestic institutional investors have a significant favorable impact on dividend payout policy ($\beta = 0.438$ $\rho<0.05$). The conclusions are reinforced by empirical literature (Jacob and PJ, 2018; Khan, 2021; De Ridder, & Råsbrant, 2020; Fairchild *et al.,* 2014), others diverge from these findings (Al-Najjar & Kilincarslan, 2016) while others are indifferent (Roy, 2015; Jeon *et al.,* 2011).

Therefore, domestic institutional investors are crucial determinants of dividend payout policy of firms. According to Potharla *et al.,* (2021), domestic institutional investors enjoy geographical proximity to investee firms, which helps them acquire and analyze information more effectively. This proximity provides unrivaled edge in terms of oversight for domestic institutional investors (Chhaochharia *et al.,* 2012; Kim *et al.,* 2016). Additionally, domestic institutional shareholders are better acquainted with the business climate of investee firm's location, accounting standards, language and culture (Chhaochharia *et al.,* 2012; Ayers *et al.,* 2011; Gaspar & Massa, 2007).

Furthermore, the role of domestic institutional investors cannot be underestimated, as they are more inclined to improve corporate governance by eliminating information asymmetry. As a result, the relevance of domestic institutional investors is clear; as advocates of superior dividend payout policies.

5.3 Moderating Effect of Financial Flexibility on the relationship between Investor Pressure and Dividend Payout Policy

Financial flexibility moderated the link between foreign institutional investors' holding – dividend payout policy (β= -0.10; ρ<0.05). The research results also show that financial flexibility has a buffering effect on the association between foreign institutional investors' holding and dividend payout policy. This indicates that the impact of foreign institutional investors' holding on dividend payout policy is decreased by increasing financial flexibility. According to Cao *et al.,* (2017), increased financial flexibility escalates scrutiny by foreign institutional investors to avoid misuse of cash. However, foreign institutional investors encourage maximisation of shareholders' return by encouraging investee firms to accumulate

and hold cash so as to meet existing and future investment opportunities (Loncan,2020; Karim & Ilyas, 2020), thus reducing dividend payout policy.

Furthermore, study findings disclosed that financial flexibility had a significant and moderating influence on the link between domestic institutional investors' holdings and dividend payout policy of listed firms (β= -0.17; ρ<0.05). In addition to the existing relationship, the research findings point to a buffering effect of financial flexibility. This means that as financial flexibility increases, domestic institutional investors' holdings reduces dividend payments. This could be explained by the conflict of interest caused by domestic institutional investors' commercial relationship with investee firms. In this case, domestic institutions investors allow inefficiencies of insiders having too much cash in their control, which could indicate the diversion of corporate resources to extract private benefits thus reducing dividends.

5.4 Effect of Investor Pressure on CEO Compensation

5.4.1 Effect of Foreign Institutional Investors on CEO Compensation

The study investigated the link between foreign institutional investors and CEO compensation. The study revealed that foreign institutional investors had a beneficial and significant influence on CEO compensation (β= *0.294*, ρ*<0.05*). The beta coeeficient of 0.294 highlights the significance of foreign institutional investors to CEOs compensation. According to Croci *et al.,* (2012), foreign institutional investors actively participate in monitoring of several corporate decision-making processes such as CEO compensation packages. Luong *et al.,* (2017) assert that foreign institutional investors have unique features that enable them to be independent from management, in addition to experience in monitoring firms. Similar findings by Yeh (2021), Yeh (2020), Min and Bowman (2015) and Bekaert and Harvey (2000)

indicated that foreign institutional investors' presence suggests the availability of improved financial strengths, worldwide expertise, global capabilities, diverse investments, managerial know-how, competition to boost efficiency, globalization, and intensive monitoring. Therefore, the existence of foreign institutional investors improves governance and performance of investee firms, which has a favorable significant influence on CEO compensation.

5.4.2 Effect of Domestic Institutional Investors on CEO Compensation

The domestic institutional investors and CEO compensation relationship was also examined and shown to be statistically significant and negative (β= *-0.159;* ρ *<0.0.05*). According to the beta coefficient, a one percentage change in domestic institutional investors' holding led to a -15.9% change in CEO compensation. Jong and Ho (2018) support these findings. Therefore, an institutional investors' domicile determines CEO's compensation. Yeh (2021), Huang and Zhu (2015) and Firth *et al.,* (2010) contend that domestic institutional investors follow the conflict-of-interest hypothesis, thus, they have less power in making corporate decision processes such as determining CEO compensation. This is because domestic institutional investors are not independent of investee firms due to business ties with investee firms as well as facing political pressure from the state. This results in conflict of interest which negatively affects their incentive to monitor. Despite having a local information advantage, domestic institutional investors are unable to carry out their oversight and corporate governance roles effectively and efficiently.

5.5 Effect of CEO Compensation on Dividend Payout Policy

The study also examined the CEO compensation and dividend payout policy, and results showed that it was statistically significant and positive at 95% level of confidence (β*=0.243 and* ρ*<0.05*). The dividend payout policy changes by 24.3% for

every percentage change in CEO compensation. Therefore, there is a strong and positive relationship between CEO compensation and dividend payout policy. The results of this study support the hypothesis that dividend provisions in compensation agreements encourage CEOs to reduce monitoring costs associated with cash. Specifically, firms with slower anticipated growth must invest more in monitoring and are more likely to tie the CEO's compensation to dividend payments. White (1996) supports these findings. This is inconsistent with Bhattacharyya (2007) model, which argues that investors use the provisions of the compensation contract to persuade managers who are less productive (i.e., managers who have less access to projects with a positive NPV) to pay out more of their available cash or earnings as dividends. In contrast, highly productive CEOs are considered to have access to projects with higher positive NPV and are given incentives to invest more of their available funds in profitable initiatives rather than distributing as dividends. According to this model, there is a positive (negative) correlation between CEO compensation and earnings retention (dividend payout policy).

5.6 Mediating Effect of CEO Compensation

As proposed by Zhou *et al.,* (2010), the study examined mediation by evaluating the significance of the indirect path. The indirect path was determined by multiplying the beta coefficient of path *a* by the mediator's beta coefficient in path *b*. Using the Sobel test calculator developed by Preacher and Hayes (2004), the significance of the coefficient *ab* was examined.

5.6.1 Foreign Institutional Investors and Dividend Payout Policy

The mediating effect of CEO Compensation on the dividend payout policy and foreign institutional investors relationship of Kenyan listed firms was examined. The mediation effect a_2b is illustrated in Table 4.16, model 3 ($\beta=0.071$, ρ-

value=0.000<0.05), implying that CEO compensation had a significant mediating effect on the foreign institutional investors and dividend distribution payment policy relationship.

The CEO mediates the link between foreign institutional investors and dividend payout policy because pressure-sensitive investors (foreign institutional investors) design CEO incentives to maximize shareholders' return. For that reason, Nguyen (2012) and Almazan *et al.,* (2005) observe that foreign institutional investors have the motivation to oversee a firm's executive. Although Panda and Leepsa (2019) argue that foreign institutional investors' involvement has a greater impact on the management and governance of investee companies, prior research suggests global development and advancement of corporate governance systems practices are driven by foreign institutional investors (Gillan & Starks, 2003). Additionally, Panicker *et al.,* (2019) note that foreign institutional investors (pressure-sensitive investors) are motivated by strong wealth maximization motives and welcome globalization for its potentially advantageous effects and its rapid returns on shareholder wealth. It is for this reason foreign institutional investors' remuneration practices are influenced by global pay standards, which call for larger CEO pay (Jong & Ho, 2018; Li *et al.,* 2007). Fernandes *et al.,* (2012) suggest that foreign institutional investors pay their CEOs more. In addition, since foreign institutional investors face higher information asymmetry, they link CEO compensation contracts to dividend payment as proposed by White (1996). As a result, foreign institutional investors will advocate for CEOs to have better remuneration linked to strong shareholders' return i.e dividends.

5.6.2 Domestic Institutional Investors and Dividend Payout Policy

The study also examined whether CEO compensation mediated the domestic institutional investors' holding and dividend payout policy relationship. Table 4.16, Model 3 (β= *-0.038;* ρ*<0.05*) shows the findings of the mediation effect, a_2b, which revealed that CEO compensation significantly mediated the link between domestic institutional investors and dividend payout policy.

Previous studies have established that domestic institutional investors have an edge due to the advantage of posessing local knowledge leading to a spillover effect of effective corporate governance practices leading to better shareholders' return. According to Potharla *et al.,* (2021), geographic proximity to investee firms allows domestic institutional investors to acquire and evaluate information more quickly and effectively. Consistent with this argument, Thanatawee (2014) asserts that domestic institutional investors provide a proficient oversight role, enhancing corporate goverance and shareholder value. Douma *et al.,* (2006) observed that domestic institutional investors have been seen to motivate managers to improve shareholders' return. Moreover, Huang (2010) contend that domestic institutional investors should support investee companies to pay their CEOs more depending on performance. Thus, a favourable link is established between investor pressure and CEO compensation which has a beneficial spillover influence on dividend payout policy.

However, Jong and Ho (2018) and Ozkan (2012) point out that domestic institutional investors may have a significant effect on limiting managerial compensation. According to Sarkar *et al.,* (2008), domestic institutional investors (pressure-sensitive investors) have the capacity to exert control over the investee firm's strategic decision-making process by virtue of their controlling interest. Furthermore, Zhang *et al*., (2021) argue that domestic institutional investors (pressure sensitive investors) favour

short-term gains and are not overly concerned wth the long-term worth of the firm. Therefore, domestic institutional investors (pressure-sensitive investors) place a high value on income earned from the business relationship with investee firms rather than the firm's long-term value. As a result, domestic institutional investor (pressure sensitive investor) will protect their own interest by extending its monitoring of the firm such as curtailing the CEO's remuneration. This will have an adverse influence on dividend payments as CEO compensation contracts are not linked to dividend payments as proposed by White (1996). As a result, CEOs will not be motivated to improve shareholders' returns.

5.7 Investor Pressure, Financial Flexibility, CEO Compensation and Dividend Payout Policy

As proposed by Zhou *et al.*, (2010), the research assessed mediation by establishing the significance of the indirect path. The moderated mediation beta coefficient in *path, b_3* was multiplied by the beta coefficient of path *a* to calculate the indirect path. Preacher and Hayes's (2004) Sobel test calculator was utilized to establish the significance of the coefficient ab_3.

5.7.1 Foreign Institutional Investors, Financial Flexibility, CEO Compensation and Dividend Payout Policy

The research investigated the moderated mediation effect of Financial Flexibility and CEO Compensation and on the foreign institutional investors and dividend payout policy relationship. The study findings of the indirect effect a_1b_3 illustrated in Model 2 in Table 4.17 (moderated mediation index 0.298, $\rho<0.05$), indicated that there was a moderated mediation effect of CEO compensation, Financial Flexibility on the foreign institutional investors and dividend payout policy relationship.

Prevailing studies suggests that foreign institutional investors are known for enhancement of corporate governance standards and practices. Moreover, foreign institutional investors face high information asymmetry since they monitor firms at arm's length. However, they tend to exercise their ownership rights more actively leading to higher firm value and better operating performance. Specifically, foreign institutional investors encourage high CEO compensation due to the global advancement of corporate governance practices which they follow. Furthermore, foreign institutional investors face high information asymmetry, thus, they link CEO compensation contracts to dividend payout policies.

Indicatively, the results from the modgraphs indicate that as much as foreign institutional investors face high information asymmetry, they prefer to maintain high financial flexibility and high CEO compensation leading to low dividend payout policies. Financial flexibility is valued by foreign institutional investors because it can reduce a firm's likelihood of passing on valuable financial opportunities. Hence, from this study foreign institutional investors prefer high financial flexibility linked to CEO compensation contracts that would lead firms to forego current dividend payments. In other words, foreign institutional investors encourage firms to hold high cash balances (to avoid missing out investment opportunities) linked to the CEOs compensation contract that would lead to higher future returns.

5.7.2 Domestic Institutional Investors, Financial Flexibility, CEO Compensation and Dividend Payout Policy

The research examined the moderated mediation effect of CEO Compensation, Financial Flexibility on Domestic Institutional Investors and Dividend Payout Policy relationship of Kenya's listed firms. Model 2 in Table 4.18 shows the results of the mediation effect a_2b_3 (moderated mediation index 0.149, ρ-value<0.05), indicating

that there was a significant moderated mediation influence of Financial Flexibility, CEO compensation, on the Domestic Institutional Investors and Dividend Payout Policy relationship.

Results from the modgraph indicate that domestic institutional investors prefer investee firms to have high financial flexibility that leads to high CEO compensation in investee firms resulting in low dividend payout policy. Previous studies suggest that as a result of business ties with investee firms, domestic institutional investors are favorably disposed to top management. In light of this, the close ties between domestic institutions and senior management may make it more difficult to effectively monitor managerial behavior. Specifically, domestic institutional investors encourage investee firms to hoard cash for their own business interests. This could potentially result to opportunistic behavior on the part of the CEO by arguing for higher pay owing to the conflict of interest. Consequently, investee firms pay lower dividends.

5.8 The Control variables (firm age, firm size, leverage and profitability) and Dividend Payout Policy

The results of this study show that the age of a firm is significantly and positively (β =0.32, ρ<0.05) tied to dividend payout policy indicating that well-established entities that have been in operating for a while are inclined to paying higher dividends (Eluyela, *et al.,* 2019: Boshnak, 2021). Conversely, Budagaga (2020) posit that as entities get older, their investment prospects shrink leading to surplus cash forcing these firms to distribute excess cash to shareholders. However, young and growing firms invest their funds in organizing, marketing and product development, thus they do not pay dividends.

The study findings showed that the size of a firm has a significant and favorable (= 0.083, 0.05) impact on dividend payment policy. These results are consistent with prior studies done by Bista *et al.,* (2019), Patra *et al.*, (2012), Ho (2003), and Aivazian *et al.*, (2003). This suggests that firms have a tendency to support dividend payments when they have developed and amassed assets. Additionally, previous studies contend that larger companies distribute dividends to convey financial stability and reduce agency costs (Hashmi *et al.*, 2020; Kumar & Ranjani, 2018).

Furthermore, the findings showed a significant and an adverse association between the dividend payout policy of publicly traded companies and leverage (β= -0.14; ρ<0.05). The findings allude to the constraints that leverage places on firm managers' decision-making processes, such as dividend payments. However, Jawade (2021) points out that the effect of leverage does not impact dividend if operating profitability is sustained. By increasing leverage, firms pay high fixed payments resulting in reduced dividend payments.

Moreover, a significant and positive association is exhibited between profitability and dividend payout policy of publicly traded companies in Kenya (β= 0.69; ρ<0.05). Therefore, profitability, directly influences bearing on dividend payout policy since it shows a firm's ability to earn profits. Other results by Dewasiri *et al.*, (2019), Al-Najjar, (2011), Labhane and Mahakud, (2016), Singla & Samanta, (2018) Budagaga, (2020), Boshnak, (2021) confirm that firms typically set higher divided payout policies when firms are highly profitable.

5.9 Conclusion of the Study

The research hypotheses were generated by carrying out an extensive review of the literature, eventually leading to the study's conceptual framework. The main focus

was placed on the interaction power of CEO compensation and financial flexibility on the association between domestic institutional and foreign institutional investors on Dividend Payout Policy among Kenyan listed firms. Data was obtained from the yearly audited financial reports of the listed companies.

In accordance with agency theory, the findings confirm that both foreign institutional investors and domestic institutional investors had a significant and positive effect on dividend payout policy. A reduction in the separation of control from ownership may reduce the conflict of interest between the executive and investors hence improving firms' dividend payout policies. The fixed effect model predicted that both foreign and domestic institutional investors explained 21.34% of the variability in dividend payout policy. Noticeably, foreign institutional investors had the highest explanatory power of 62.8% on dividend payout policy while domestic institutional investors had 43.9%, attributable to shareholders' return.

Furthermore, the results reveal that the association between investor pressure indicators (foreign institutional investors and domestic institutional investors) and dividend payout policy was moderated by financial flexibility. These finding imply that financial flexibility influences the impact and direction of investor on dividend payout policy.

The study also revealed that CEO compensation had a partial mediating influence on the link between the elements of investor pressure (foreign institutional investors and domestic institutional investors) and dividend payout policy. The results suggested that CEO compensation augments the pressure of investors to optimize investors' returns.

Finally, the study findings demonstrated the moderated mediation effect of the interaction between financial flexibility and CEO compensation and empirically supported studies on investor pressure and dividend payout policy link. This study will be useful to academics, policymakers, and practitioners.

5.10 Recommendations of the Study

5.10.1 Managerial Contribution

According to the results, foreign institutional investors and domestic institutional investors had a beneficial influence on dividend payout policy. Therefore, with reference to investor pressure, foreign institutional investors and domestic institutional investors affects dividend payout policy. The managerial implication from this study is that investor pressure is able to positively and significantly influence the creation of shareholder wealth, which is the basic objective of a firm. Additionally, managers need to understand that financial policies such as dividend payout policy can function as a means of mimising agency costs. This study also provides evidence of different monitoring behaviors between foreign and domestic institutional investors. Foreign institutional investors prefer dividend induced monitoring since they are at a disadvantage in terms of information while domestic institutional investors, despite being active monitors, have information superiority.

Financial flexibility affects the link between investor pressure and dividend payout policy. Findings show that the association between foreign institutional investors and dividend payout policy is enhanced in the context of financial flexibility. This suggests that foreign institutional investors increase their oversight of investee firms by requiring dividend-induced monitoring whenever a firm intensify its financial flexibility. However, financial flexibility has a buffering influence on the domestic

institutional investors and dividend payout policy link. This indicates that domestic institutional investors are open to forego dividend payments in favour of the commercial ties with the firms they invest in, where financial flexibility exists.

The partial mediation role of CEO compensation on investor pressure and dividend payout policy causality infers listed firms are yet to realize the significant benefits of CEO compensation. Therefore, listed firms should design CEO contracts to maximize shareholders' returns and facilitate investors' monitoring to ensure that misuse of firm resources is minimal.

5.10.2 Policy Contribution

The study recommends that in order to limit the agency problem, policymakers should consider the formation of investors in framing related regulations to better control the agency problem. The results demonstrate that foreign institutional investors have an important function in enhancing dividend payout policy in listed firms in Kenya and that their impact is more relevant. Therefore, foreign institutional investors play an active role in enhancing corporate governance. As a result, there is a need for policymakers to facilitate foreign institutional investors to be partiipants in the Nairobi Securities Exchange. Despite having relatively better grasp of investee firms, domestic institutional investors act in their self-interest and do not encourage investee firms to manage their financial flexibility efficiently and rationally. Neither do they design CEO compensation to maximize shareholders' wealth. Therefore, additional policy interventions are necessary to induce monitoring from domestic institutional investors

5.10.3 Theoretical Contribution

The study confirmed the tenets of stakeholder theory, which offers a theoretical rationale of how investor pressure could determine dividend payout policy in Kenyan listed firms. The study found that investor pressure (foreign institutional investors and domestic institutional investors) positively and significantly affected dividend payout policy. The findings suggest that foreign institutional investors are competent at monitoring in a stakeholder-focused corporate governance framework. Stakeholder theory states that firms should build trusted dealings with stakeholders to maximize investors' returns (Jones *et al*., 2018; Jones, 1995). A consumate relationship with stakeholders aids firms in obtaining important information (Desai, 2018), improve the market's performance (Talke & Hultink, 2010) and boost investors' returns (Henisz *et al.*, 2014; Cavazos *et al.*, 2012). Therefore, the study reveals that foreign institutional shareholders perform a positive monitoring function in investee entities which leads to higher dividend payout policy. Equally, domestic institutional investors are major stakeholders in the firm since they have a comparative informational advantage stemming from their familiarity with their home country and industry economic conditions. Owing to their proximity to investee firms, domestic institutional investors can get more and better information, participate in active governance of these firms and achieve anomalous returns as a result. Therefore, domestic institutional investors positively influence dividend payout policies.

Further, the research applies agency theory as a theoretical mechanism to tie financial flexibility to the value effect between investor pressure and dividend payout policy. According to agency theory, the free cash flow hypothesis (e.g., Easterbrook, 1984; Jensen, 1986) contends that dividends assist in resolving agency conflicts between investors and the executive The findings show that financial flexibility has a buffering

and moderating effect on the link between foreign institutional investors and dividend payout policy. This suggests that foreign institutional investors minmize agency conflicts by augmenting oversight and governance while lowering the possibility cash expropriation by insiders through dividend payments. Therefore, the study concludes that when financial flexibility increases, foreign institutional investors increase their monitoring leading to higher dividends. Nevertheless, foreign institutional investors allow investee firms to be financially flexible when investment opportunities arise, resulting in low dividend payout policies with low dividend payout rates. Similarly, financial flexibility has a moderating buffering effect on the the association between domestic institutional investors and dividend payout policy. This implies domestic institutional investors often have business links with investee firms which present a conflict of interest. As a result, domestic institutional investors cannot take an active stance in promoting corporate governance. From the study, domestic institutional investors influence corporate governance for their own gain. Due to conflict of interest, domestic institutional investors promote managerial behavior which, in accordance with agency theory, generates less firm value. According to the study, domestic institutional investors encourage managers to hoard cash, which serves their business relationship with investee firm more than the interests of maximizing shareholders' wealth. Consequently, financial flexibility weakens the association between domestic institutions investors and dividend payout policy.

In addition, the study's results backs agency theory which suggests that shareholder value should be maximised through successful interactions between management and investors while agency costs should be kept to a minimum. From the study, CEO compensation has a mediating effect on the association between foreign institutional investors and dividend payout policy. This implies that foreign institutional investors

can use their power to design CEOs compensation contracts. According to Almazan *et al.,* (2005), pressure-resistant investors (foreign institutional investors) have a higher chance of influencing CEO remuneration to reflect their desires. Furthermore, foreign institutional investors are more likely to demand higher CEO compensation owing to their proficiency for enhancing international norms and practices. Conversely, agency theory posits that the CEO compensation and firm performance relationship should be positive (Ozkan, 2012). Thus, the study's findings demonstrate that foreign institutional investors have a favorable influence on CEO compensation, which in turn has a positive influence on dividend distribution policy. Similary, CEO compensation has a mediating effect between domestic institutional investors and dividend payout policy. According to agency theory, owners who do not operate their businesses should tie management compensation to performance (McConaughy, 2000). It is anticipated that domestic institutional investors have local information edge which positively influences CEO compensation. This, in turn, will have a beneficial effect on the CEO's attitude and will strength the link between CEO compensation and dividend payout policy. In light of this, domestic institutional investors are anticipated to improve CEO compensation contracts, which ultimaley results in an improvement in shareholders' return, or dividend payout policy. However, due to conflict of interest with investee firms, domestic institutional investors could have a detrimental effect on CEO pay performance contracts. Consequently, CEO compensation will have negatively effect on dividend payout policy.

5.10.4 Empirical Contribution

This study tested the moderated mediation effect of financial flexibility, CEO compensation on the relationship between investor pressure and dividend payout policy from 2009 to 2019. Though, empirical literarture indicate that there is a link

between investor pressure and dividend payout policy, the findings are inconclusive. Similarly, some studies have shown that investor pressure influence CEO compensation. Likweise, CEO compensation may influence dividend payout. Yet other studies have argued that dividend payout policy is impacted by financial flexibility. Therefore, the purpose of this study was to tie up this pieces of empirical literature by examining the indirect relationship between investor pressure and dividend payout policy through CEO compensatiton as moderated by financial flexibility. The findings show that investor pressure (foreign institutional investors and domestic institutional investors) had a favourable and signfificant effect on dividend payout policy. Further, CEO compensation mediates the relationship between investor pressure and dividend payout policy. Additionally, financial flexibility moderates the relationship between investor pressure and dividend payout policy. Finally, CEO compensation mediates the relationship between investor pressure and dividend payout policy as moderared by financial flexibility.

5.11 The study Limitations and Further Research Recommendations

This final section outlines the study's shortcomings along with potential research direction. First, future studies should incorporate a large sample by including other jurisdictions allowing the outcomes to offer a regional status and contrast the function of investor pressure in multiple contexts. Secondly, subsequent research ought to inquire into the link between investor pressure and other corporate outcomes such as firm performance, investment policy and firm diversification. This is to determine the behaviour of investors on different corporate outcomes. Third, future research should seek to establish other moderating or mediating variables that might influence investors' propensity to favor or restrict dividend payout policies. This will help improve our understanding of the disparities of dividend payout policy between firms

with different types of investors. Finally, future research might include diverse facets of corporate governance such as board financial proficiency, gender and age.

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APPENDICES

Appendix I: Testing Control Variables

Random-Effects GLS Regression Model:

Random-effects GLS regression	Number of obs	= 440
Group variable: FIRMID	Number of groups	= 40
R-sq: within = 0.1643	Obs per group: min	= 11
between = 0.6066	avg	= 11.0
overall = 0.4420	max	= 11
	Wald chi2(4)	= 134.43
corr(u_i, X) = 0 (assumed)	Prob > chi2	= 0.0000

DP	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
FS	.0692191	.0229012	3.02	0.003	.0243337	.1141046
FA	.3796093	.0953376	3.98	0.000	.192751	.5664675
LEV	-.1582126	.041366	-3.82	0.000	-.2392886	-.0771367
FP	.8658521	.1063609	8.14	0.000	.6573886	1.074316
_cons	-1.097655	.2726161	-4.03	0.000	-1.631972	-.5633368
sigma_u	.12382559					
sigma_e	.15199183					
rho	.39893479	(fraction of variance due to u_i)				

Appendix II: Testing Control Variables

Hausman Test

	---- Coefficients ----			
	(b)	(B)	(b-B)	sqrt(diag(V_b-V_B))
	fe	Re	Difference	S.E.
FS	.0832548	.0692191	.0140357	.0199965
FA	.3158227	.3796093	-.0637866	.0706551
LEV	-.1416985	-.1582126	.0165142	.0168757
FP	.6912	.8658521	-.1746521	.0356266

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg
Test: Ho: difference in coefficients not systematic
chi2(4) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 37.84
Prob>chi2 = 0.0000

Appendix III: Direct Effects

Random-Effects GLS Regression Model

Random-effects GLS regression	Number of obs	=	440
Group variable: FIRMID	Number of groups	=	40
R-sq: within = 0.2135	Obs per group: min	=	11
between = 0.5567	Avg	=	11.0
overall = 0.4445	Max	=	11
	Wald chi2(6)	=	172.30
corr(u_i, X) = 0 (assumed)	Prob > chi2	=	0.0000

DP	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
FA	.2436901	.0966048	2.52	0.012	.0543482	.433032
FS	.0865554	.0215833	4.01	0.000	.044253	.1288578
LEV	-.1400976	.0407587	-3.44	0.001	-.2199831	-.060212
FP	.7742988	.1057639	7.32	0.000	.5670053	.9815922
IF	.3899333	.0865863	4.50	0.000	.2202274	.5596393
ID	.210777	.090144	2.34	0.019	.0340981	.3874559
_cons	-1.237152	.2638479	-4.69	0.000	-1.754285	-.7200202
sigma_u	.11533					
sigma_e	.14634126					
Rho	.38312918 (fraction of variance due to u_i)					

Appendix IV: Direct Effects

Hausman Test:

	---- Coefficients ----			
	(b)	(B)	(b-B)	sqrt(diag(V_b-V_B))
	fe	re	Difference	S.E.
FA	.273329	.2436901	.0296388	.0608511
FS	.1258929	.0865554	.0393374	.0187122
LEV	-.1168675	-.1400976	.02323	.0161747
FP	.5717032	.7742988	-.2025956	.0358866
IF	.5972315	.3899333	.2072981	.1312197
ID	.4385307	.210777	.2277537	.0837882

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg
Test: Ho: difference in coefficients not systematic
chi2(6) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 94.12
Prob>chi2 = 0.0000

Appendix V: Model 3

Random-Effects GLS Regression Model

Random-effects GLS regression	Number of obs	=	440
Group variable: FIRMID	Number of groups	=	40
R-sq: within = 0.2392	Obs per group: min	=	11
between = 0.5352	avg	=	11.0
overall = 0.4386	max	=	11
	Wald chi2(7)	=	183.34
corr(u_i, X) = 0 (assumed)	Prob > chi2	=	0.0000

DP	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
FA	.2410329	.0961059	2.51	0.012	.0526687	.429397
FS	.0708277	.0221865	3.19	0.001	.0273429	.1143125
LEV	-.1410875	.0403956	-3.49	0.000	-.2202613	-.0619137
FP	.6656963	.1091632	6.10	0.000	.4517403	.8796522
IF	.3889931	.0868084	4.48	0.000	.2188517	.5591345
ID	.2026988	.0901844	2.25	0.025	.0259406	.379457
FF	-.501935	.156881	-3.20	0.001	-.8094162	-.1944539
_cons	-1.026711	.2728678	-3.76	0.000	-1.561522	-.4919004
sigma_u	.11759773					
sigma_e	.14414785					
Rho	.39959819 (fraction of variance due to u_i)					

Appendix VI: Model 3

Fixed-Effects GLS Regression Model

Fixed-effects (within) regression	Number of obs	=	440
Group variable: FIRMID	Number of groups	=	40
R-sq: within = 0.2553	Obs per group: min	=	11
between = 0.4026	avg	=	11.0
overall = 0.3492	max	=	11
	F(7,393)	=	19.25
corr(u_i, Xb) = -0.2817	Prob > F	=	0.0000

DP	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
FA	.2710072	.112463	2.41	0.016	.0499029	.4921115
FS	.0886504	.0299622	2.96	0.003	.0297442	.1475565
LEV	-.1158063	.0431945	-2.68	0.008	-.2007276	-.0308851
FP	.4598267	.1142782	4.02	0.000	.2351536	.6844998
IF	.6581568	.1557697	4.23	0.000	.3519107	.9644029
ID	.4079223	.1215211	3.36	0.001	.1690096	.646835
FF	-.6070848	.1678482	-3.62	0.000	-.9370775	-.2770922
_cons	-1.425992	.359575	-3.97	0.000	-2.132923	-.7190605
sigma_u	.18693008					
sigma_e	.14414785					
Rho	.62709871 (fraction of variance due to u_i)					

F test that all u_i=0: F(39, 393) = 10.61 Prob > F = 0.0000

Appendix VII: Model 3

Hausman Test:

	---- Coefficients ----			
	(b)	(B)	(b-B)	sqrt(diag(V_b-V_B))
fe	Re	Difference	S.E.	
FA	.2710072	.2410329	.0299743	.0584087
FS	.0886504	.0708277	.0178226	.0201368
LEV	-.1158063	-.1410875	.0252812	.015296
FP	.4598267	.6656963	-.2058696	.0338068
IF	.6581568	.3889931	.2691637	.1293387
ID	.4079223	.2026988	.2052235	.0814503
FF	-.6070848	-.501935	-.1051498	.0596771

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg
Test: Ho: difference in coefficients not systematic
chi2(7) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 119.15
Prob>chi2 = 0.0000

Appendix VIII: Model 4

Random-Effects GLS Regression Model

Random-effects GLS regression	Number of obs	=	440
Group variable: FIRMID	Number of groups	=	40
R-sq: within = 0.2514	Obs per group: min	=	11
between = 0.5430	Avg	=	11.0
overall = 0.4481	Max	=	11
	Wald chi2(8)	=	191.34
corr(u_i, X) = 0 (assumed)	Prob > chi2	=	0.0000

DP	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
FA	.2213582	.0960667	2.30	0.021	.033071	.4096454
FS	.0762253	.0222753	3.42	0.001	.0325665	.1198842
LEV	-.1396068	.0401463	-3.48	0.001	-.2182921	-.0609214
FP	.6436555	.1085133	5.93	0.000	.4309734	.8563376
IF	.3986817	.087006	4.58	0.000	.2281531	.5692103
ID	.2016256	.0901798	2.24	0.025	.0248765	.3783748
FF	-.5755026	.1579816	-3.64	0.000	-.8851408	-.2658643
FF*IF	-.1140733	.0425256	-2.68	0.007	-.1974219	-.0307247
_cons	-1.047533	.2728784	-3.84	0.000	-1.582365	-.5127015
sigma_u	.11981722					
sigma_e	.14319129					
Rho	.41182451	(fraction of variance due to u_i)				

Appendix IX: Model 4

Fixed-Effects GLS Regression Model

Fixed-effects (within) regression	Number of obs	=	440
Group variable: FIRMID	Number of groups	=	40
R-sq: within = 0.2671	Obs per group: min	=	11
between = 0.4122	Avg	=	11.0
overall = 0.3594	Max	=	11
	F(8,392)	=	17.85
corr(u_i, Xb) = -0.2810	Prob > F	=	0.0000

DP	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
FA	.2404317	.1123822	2.14	0.033	.0194845	.461379
FS	.0951085	.0298749	3.18	0.002	.0363734	.1538436
LEV	-.1144327	.0429114	-2.67	0.008	-.198798	-.0300675
FP	.4497369	.1135914	3.96	0.000	.2264123	.6730614
IF	.6632801	.1547495	4.29	0.000	.3590373	.967523
ID	.4120933	.1207262	3.41	0.001	.1747415	.6494451
FF	-.6769212	.1690515	-4.00	0.000	-1.009282	-.3445602
FF*IF	-.1073058	.0428599	-2.50	0.013	-.1915698	-.0230418
_cons	-1.439767	.3572313	-4.03	0.000	-2.142095	-.7374377
sigma_u	.18541951					
sigma_e	.14319129					
Rho	.62641764	(fraction of variance due to u_i)				

F test that all u_i=0: F(39, 392) = 10.49 Prob > F = 0.0000

Appendix X: Model 4

Hausman Test :

	---- Coefficients ----			
	(b)	(B)	(b-B)	sqrt(diag(V_b-V_B))
	Fe	re	Difference	S.E.
FA	.2404317	.2213582	.0190735	.0583177
FS	.0951085	.0762253	.0188832	.0199078
LEV	-.1144327	-.1396068	.025174	.0151546
FP	.4497369	.6436555	-.1939186	.0335838
IF	.6632801	.3986817	.2645984	.1279741
ID	.4120933	.2016256	.2104677	.0802646
FF	-.6769212	-.5755026	-.1014187	.0601683
FF*IF	-.1073058	-.1140733	.0067675	.0053427

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg
Test: Ho: difference in coefficients not systematic
chi2(8) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 51.79
Prob>chi2 = 0.0000
(V_b-V_B is not positive definite)

Appendix XI: Model 5

Random-Effects GLS Regression Model

Random-effects GLS regression	Number of obs	=	440
Group variable: FIRMID	Number of groups	=	40
R-sq: within = 0.2736	Obs per group: min	=	11
between = 0.6058	avg	=	11.0
overall = 0.4969	Max	=	11
	Wald chi2(9)	=	228.74
corr(u_i, X) = 0 (assumed)	Prob > chi2	=	0.0000

DP	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
FA	.2487197	.0926596	2.68	0.007	.0671102	.4303291
FS	.0746234	.0210906	3.54	0.000	.0332865	.1159602
LEV	-.1364426	.039146	-3.49	0.000	-.2131673	-.0597179
FP	.6293372	.1067856	5.89	0.000	.4200413	.8386332
IF	.3373531	.0822847	4.10	0.000	.1760781	.4986281
ID	.1630488	.0857319	1.90	0.057	-.0049826	.3310802
FF	-.7344955	.1593048	-4.61	0.000	-1.046727	-.4222637
FF*IF	**-.1010127**	.0419874	-2.41	0.016	-.1833065	-.0187188
FF*ID	-.1702411	.0381628	-4.46	0.000	-.2450389	-.0954433
_cons	-1.037396	.2589363	-4.01	0.000	-1.544902	-.5298907
sigma_u	.10550594					
sigma_e	.14082885					
Rho	.35949514	(fraction of variance due to u_i)				

Appendix XII: Model 5

Fixed-Effects GLS Regression Model:

Fixed-effects (within) regression	Number of obs	=	440
Group variable: FIRMID	Number of groups	=	40
R-sq: within = 0.2928	Obs per group: min	=	11
between = 0.4517	avg	=	11.0
overall = 0.3949	max	=	11
	F(9,391)	=	17.99
corr(u_i, Xb) = -0.2728	Prob > F	=	0.0000

DP	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
FA	.2671504	.1107543	2.41	0.016	.049402	.4848988
FS	.0913526	.0293988	3.11	0.002	.033553	.1491521
LEV	-.1114709	.0422107	-2.64	0.009	-.1944593	-.0284825
FP	.413547	.1121275	3.69	0.000	.1930987	.6339953
IF	.6280815	.1524815	4.12	0.000	.3282953	.9278678
ID	.3909994	.1188657	3.29	0.001	.1573036	.6246952
FF	-.8581579	.1730499	-4.96	0.000	-1.198382	-.5179332
FF*IF	-.0964501	.0422506	-2.28	0.023	-.179517	-.0133832
FF*ID	-.1461333	.0386952	-3.78	0.000	-.2222099	-.0700567
_cons	-1.41868	.3513818	-4.04	0.000	-2.109514	-.7278456
sigma_u	.17863476					
sigma_e	.14082885					
Rho	.6167074	(fraction of variance due to u_i)				

F test that all u_i=0: F(39, 391) = 9.43 Prob > F = 0.0000

Appendix XIII: Model 5

Hausman Test

	---- Coefficients ----			
	(b)	(B)	(b-B)	sqrt(diag(V_b-V_B))
	Fe	re	Difference	S.E.
FA	.2671504	.2487197	.0184307	.0606688
FS	.0913526	.0746234	.0167292	.0204811
LEV	-.1114709	-.1364426	.0249717	.0157904
FP	.413547	.6293372	-.2157902	.0341967
IF4	.6280815	.3373531	.2907284	.1283738
ID4	.3909994	.1630488	.2279506	.0823353
FF2	-.8581579	-.7344955	-.1236624	.0675887
FF*IF	-.0964501	-.1010127	.0045625	.0047089
FF*ID	-.1461333	-.1702411	.0241078	.0063964

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg
Test: Ho: difference in coefficients not systematic
chi2(9) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 14.17
Prob>chi2 = 0.1162
(V_b-V_B is not positive definite)

Appendix XIV: CEO Compensation and Investor Pressure

Fixed-Effects GLS Regression Model

Fixed-effects (within) regression	Number of obs	=	440
Group variable: FIRMID	Number of groups	=	40
R-sq: within = 0.2013	Obs per group: min	=	11
between = 0.1369	avg	=	11.0
overall = 0.1412	Max	=	11
	F(6,394)	=	16.55
corr(u_i, Xb) = -0.0664	Prob > F	=	0.0000

CC	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
FA	.1764005	.0688516	2.56	0.011	.0410381	.3117629
FS	.0908793	.0176432	5.15	0.000	.0561927	.1255659
LEV	.0419712	.026692	1.57	0.117	-.0105054	.0944477
FP	.1890267	.066285	2.85	0.005	.0587102	.3193433
IF	.3138032	.069633	4.51	0.000	.1769044	.4507019
ID	-.1684381	.0542901	-3.10	0.002	-.2751726	-.0617035
_cons	6.143897	.2062189	29.79	0.000	5.738469	6.549324
sigma_u	.31812391					
sigma_e	.08833796					
Rho	.9284116	(fraction of variance due to u_i)				

F test that all u_i=0: F(39, 394) = 134.28 Prob > F = 0.0000

Appendix XV: CEO Compensation and Investor Pressure

Hausman Test

	---- Coefficients ----			
	(b) Fe	(B) re	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
FA	.1764005	.1707357	.0056648	.013502
FS	.0908793	.0949821	-.0041028	.0040688
LEV	.0419712	.0408016	.0011696	.0040161
FP	.1890267	.1848345	.0041922	.0091462
IF	.3138032	.2944125	.0193907	.0241502
ID	-.1684381	-.1595601	-.008878	.0133488

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg
Test: Ho: difference in coefficients not systematic
chi2(6) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 1.83
Prob>chi2 = 0.9346

Appendix XVI: Dividend Payout Policy, CEO Compensation and Investor Pressure

Fixed-Effects GLS Regression Model

Fixed-effects (within) regression	Number of obs	=	440
Group variable: FIRMID	Number of groups	=	40
R-sq: within = 0.2263	Obs per group: min	=	11
between = 0.4068	Avg	=	11.0
overall = 0.3417	Max	=	11
	F(7,393)	=	16.42
corr(u_i, Xb) = -0.3344	Prob > F	=	0.0000

DP	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
FS	.0780814	.0303048	2.58	0.010	.0185016	.1376612
FA	.2438609	.1161567	2.10	0.036	.0154945	.4722272
LEV	-.1163939	.044119	-2.64	0.009	-.2031327	-.029655
FP	.6337975	.1099008	5.77	0.000	.4177305	.8498645
IF	.592611	.1587389	3.73	0.000	.2805273	.9046947
ID	.4883591	.1252216	3.90	0.000	.2421712	.7345471
CC	.2435854	.0950449	2.56	0.011	.0567253	.4304454
_cons	-3.148789	.7039452	-4.47	0.000	-4.532758	-1.76482
sigma_u	.18985882					
sigma_e	.14693157					
Rho	.62542222	(Fraction of variance due to u_i)				

F test that all u_i=0: F(39, 393) = 9.87 Prob > F = 0.0000

Appendix XVII: Dividend Payout Policy, CEO Compensation and Investor Pressure

Random-Effects GLS Regression Model

Random-effects GLS regression	Number of obs	=	440
Group variable: FIRMID	Number of groups	=	40
R-sq: within = 0.2072	Obs per group: min	=	11
between = 0.5621	avg	=	11.0
overall = 0.4465	max	=	11
	Wald chi2(7)	=	168.79
corr(u_i, X) = 0 (assumed)	Prob > chi2	=	0.0000

DP	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
FS	.0559548	.0231732	2.41	0.016	.0105363	.1013733
FA	.2322412	.0975776	2.38	0.017	.0409927	.4234897
LEV	-.129534	.0408455	-3.17	0.002	-.2095896	-.0494784
FP	.8165078	.1047758	7.79	0.000	.6111511	1.021865
IF	.3807098	.0872984	4.36	0.000	.2096081	.5518115
ID	.2395538	.0912069	2.63	0.009	.0607915	.418316
CC	.11031	.0547181	2.02	0.044	.0030645	.2175555
_cons	-1.735686	.4209689	-4.12	0.000	-2.56077	-.9106023
sigma_u	.11609199					
sigma_e	.14693157					
Rho	.38433979 (fraction of variance due to u_i)					

Appendix XVIII: Dividend Payout Policy, CEO Compensation and Investor Pressure

Hausman Test

	---- Coefficients ----			
	(b)	(B)	(b-B)	sqrt(diag(V_b-V_B))
	fe	re	Difference	S.E.
FS	.0780814	.0559548	.0221266	.0195291
FA	.2438609	.2322412	.0116197	.0630159
LEV	-.1163939	-.129534	.0131401	.0166775
FP	.6337975	.8165078	-.1827103	.0331696
IF	.592611	.3807098	.2119012	.1325784
ID	.4883591	.2395538	.2488054	.0858006
CC	.2435854	.11031	.1332754	.077714

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg
Test: Ho: difference in coefficients not systematic
chi2(7) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 89.65
Prob>chi2 = 0.0000

Appendix XIX: Dividend Payout Policy, CEO Compensation, Financial Flexibility and Investor Pressure

Fixed Effects GLS Regression Model

Fixed-effects (within) regression	Number of obs	=	440
Group variable: FIRMID	Number of groups	=	40
R-sq: within = 0.2270	Obs per group: min	=	11
between = 0.4474	avg	=	11.0
overall = 0.3755	max	=	11
	F(9,391)	=	12.76
corr(u_i, Xb) = -0.0598	Prob > F	=	0.0000

DP	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
FA	.276852	.1166395	2.37	0.018	.047533	.506171
FS	.1332282	.0338532	3.94	0.000	.0666711	.1997853
LEV	-.1363797	.0443478	-3.08	0.002	-.2235698	-.0491897
FP	.6738688	.1102266	6.11	0.000	.4571578	.8905798
IF	.2640805	.1169817	2.26	0.025	.0340887	.4940723
ID	.3150611	.123507	2.55	0.011	.0722402	.557882
CC	.2615587	.0976655	2.68	0.008	.0695434	.453574
FF	-.0519045	.0188481	-2.75	0.006	-.0889607	-.0148483
CC*FF	-.1161551	.0418176	-2.78	0.006	-.1983707	-.0339396
_cons	-3.2875	.7275742	-4.52	0.000	-4.717947	-1.857053
sigma_u	.17169601					
sigma_e	.14724308					
Rho	.57622155	(fraction of variance due to u_i)				

F test that all u_i=0: F(39, 391) = 9.13 Prob > F = 0.0000

Appendix XX: Dividend Payout Policy, CEO Compensation, Financial Flexibility and Investor Pressure

Random-Effects GLS Regression Model

Random-effects GLS regression	Number of obs	= 440
Group variable: FIRMID	Number of groups	= 40
R-sq: within = 0.2148	Obs per group: min	= 11
between = 0.6063	avg	= 11.0
overall = 0.4774	max	= 11
	Wald chi2(9)	= 180.24
corr(u_i, X) = 0 (assumed)	Prob > chi2	= 0.0000

DP	Coef.	Std. Err.	Z	P>z	[95% Conf.	Interval]
FA	.2522531	.0963365	2.62	0.009	.063437	.4410693
FS	.0975186	.0281728	3.46	0.001	.042301	.1527362
LEV	-.151635	.0408136	-3.72	0.000	-.2316282	-.0716419
FP	.8345524	.1042398	8.01	0.000	.6302461	1.038859
IF	.2413603	.0792215	3.05	0.002	.0860891	.3966315
ID	.0970844	.0224662	5.21	0.018	.0502343	.1108606
CC	.1903014	.0646495	2.94	0.003	.0635906	.3170122
FF	-.0404717	.0160928	-2.51	0.012	-.072013	-.0089304
CC*FF	-.1167222	.0380247	-3.07	0.002	-.1912492	-.0421952
_cons	-2.333752	.4686571	-4.98	0.000	-3.252303	-1.415201
sigma_u	.11576033					
sigma_e	.14724308					
rho	.38198633	(fraction of variance due to u_i)				

Appendix XXI: Dividend Payout Policy, CEO Compensation, Financial Flexibility and Investor Pressure

Hausman Test

	---- Coefficients ----			
	(b)	(B)	(b-B)	sqrt(diag(V_b-V_B))
	Fe	re	Difference	S.E.
FA	.276852	.2522531	.0245989	.0657575
FS	.1332282	.0975186	.0357096	.0187706
LEV	-.1363797	-.151635	.0152553	.0173488
FP	.6738688	.8345524	-.1606836	.0358325
IF	.2640805	.2413603	.0227202	.0860736
ID	.3150611	.0970844	.2179767	.0870482
CC	.2615587	.1903014	.0712573	.0732051
FF	-.0519045	-.0404717	-.0114328	.0098118
CC*FF	-.1161551	-.1167222	.000567	.0174022

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg
Test: Ho: difference in coefficients not systematic
chi2(9) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 332.78
Prob>chi2 = 0.0000

Appendix XXII: CEO Compensation and Foreign Institutional Pressure

Random-Effects GLS Regression Model

Random-effects GLS regression	Number of obs	=	440
Group variable: FIRMID	Number of groups	=	40
R-sq: within = 0.1817	Obs per group: min	=	11
between = 0.1514	avg	=	11.0
overall = 0.1535	max	=	11
	Wald chi2(5)	=	94.77
corr(u_i, X) = 0 (assumed)	Prob > chi2	=	0.0000

CC	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
FS	.0947581	.0173428	5.46	0.000	.0607668	.1287494
FA	.1683468	.0682275	2.47	0.014	.0346234	.3020702
LEV	.0569423	.0261236	2.18	0.029	.005741	.1081436
FP	.1818528	.0663714	2.74	0.006	.0517673	.3119384
IF	.3061891	.0657449	4.66	0.000	.1773315	.4350467
_cons	6.041789	.2083856	28.99	0.000	5.633361	6.450217
sigma_u	.3278339					
sigma_e	.08929729					
Rho	.93093052	(fraction of variance due to u_i)				

Appendix XXIII: CEO Compensation and Foreign Institutional Pressure

Fixed-Effects GLS Regression Model

Fixed-effects (within) regression	Number of obs	=	440
Group variable: FIRMID	Number of groups	=	40
R-sq: within = 0.1818	Obs per group: min	=	11
between = 0.1484	avg	=	11.0
overall = 0.1508	max	=	11
	F(5,395)	=	17.55
corr(u_i, Xb) = 0.0147	Prob > F	=	0.0000

CC	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
FS	.091143	.0178346	5.11	0.000	.0560803	.1262056
FA	.1722823	.0695863	2.48	0.014	.0354764	.3090883
LEV	.0594526	.0263738	2.25	0.025	.0076019	.1113032
FP	.185933	.0669973	2.78	0.006	.0542172	.3176489
IF	.3144965	.0703889	4.47	0.000	.1761128	.4528801
_cons	6.069071	.2070279	29.32	0.000	5.662057	6.476086
sigma_u	.31528919					
sigma_e	.08929729					
Rho	.92574118 (fraction of variance due to u_i)					

F test that all u_i=0: F(39, 395) = 131.95 Prob > F = 0.0000

Appendix XXIV: CEO Compensation and Foreign Institutional Pressure

Hausman Test

	---- Coefficients ----			
	(b) Fe	(B) Re	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
FS	.091143	.0947581	-.0036152	.0041593
FA	.1722823	.1683468	.0039356	.0136848
LEV	.0594526	.0569423	.0025103	.0036246
FP	.185933	.1818528	.0040802	.0091362
IF	.3144965	.3061891	.0083074	.0251437

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg
Test: Ho: difference in coefficients not systematic
chi2(5) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 1.27
Prob>chi2 = 0.9382

Appendix XXV: CEO Compensation and Domestic Institutional Pressure

Random-Effects GLS Regression Model

Random-effects GLS regression	Number of obs	=	440
Group variable: FIRMID	Number of groups	=	40
R-sq: within = 0.1601	Obs per group: min	=	11
between = 0.1655	Avg	=	11.0
overall = 0.1614	Max	=	11
	Wald chi2(5)	=	81.80
corr(u_i, X) = 0 (assumed)	Prob > chi2	=	0.0000

CC	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
FS	.0984601	.0175523	5.61	0.000	.0640581	.1328621
FA	.1877729	.0690133	2.72	0.007	.0525094	.3230365
LEV	.0326488	.0269716	1.21	0.226	-.0202146	.0855121
FP	.2028349	.0671368	3.02	0.003	.0712491	.3344207
ID	-.1744092	.0537261	-3.25	0.001	-.2797103	-.069108
_cons	6.138755	.2121873	28.93	0.000	5.722876	6.554635
sigma_u	.32802692					
sigma_e	.09047131					
Rho	.92930918 (fraction of variance due to u_i)					

Appendix XXVI: CEO Compensation and Domestic Institutional Pressure

Fixed-Effects GLS Regression Model

Fixed-effects (within) regression	Number of obs	=	440
Group variable: FIRMID	Number of groups	=	40
R-sq: within = 0.1601	Obs per group: min	=	11
between = 0.1641	avg	=	11.0
overall = 0.1600	max	=	11
	F(5,395)	=	15.06
corr(u_i, Xb) = 0.1543	Prob > F	=	0.0000

CC	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
FS	.0947641	.0180477	5.25	0.000	.0592825	.1302456
FA	.1838853	.0704938	2.61	0.009	.0452954	.3224753
LEV	.0362243	.0273054	1.33	0.185	-.0174578	.0899063
FP	.2049992	.0677887	3.02	0.003	.0717275	.338271
ID	-.1692232	.0556009	-3.04	0.002	-.278534	-.059912
_cons	6.181151	.2110293	29.29	0.000	5.766269	6.596032
sigma_u	.31688824					
sigma_e	.09047131					
Rho	.92463337 (fraction of variance due to u_i)					

F test that all u_i=0: F(39, 395) = 128.74 Prob > F = 0.000

Appendix XXVII: CEO Compensation and Domestic Institutional Pressure

Hausman Test

	---- Coefficients ----			
	(b)	(B)	(b-B)	sqrt(diag(V_b-V_B))
	Fe	Re	Difference	S.E.
FS	.0947641	.0984601	-.003696	.0041994
FA	.1838853	.1877729	-.0038876	.0143715
LEV	.0362243	.0326488	.0035755	.0042565
FP	.2049992	.2028349	.0021643	.0093781
ID	-.1692232	-.1744092	.0051859	.0143168

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg
Test: Ho: difference in coefficients not systematic
chi2(5) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 1.62
Prob>chi2 = 0.8993

Appendix XXVIII: Moderated Mediation

Random-Effects GLS Regression Model

Random-effects GLS regression	Number of obs	=	440
Group variable: FIRMID	Number of groups	=	40
R-sq: within = 0.2813	Obs per group: min	=	11
between = 0.5612	avg	=	11.0
overall = 0.4700	max	=	11
	Wald chi2(9)	=	213.67
corr(u_i, X) = 0 (assumed)	Prob > chi2	=	0.0000

DP	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
CC	.0989342	.0508345	1.95	0.052	-.0006997	.1985681
FS	.0700345	.0230508	3.04	0.002	.0248557	.1152133
FA	.1950389	.0943186	2.07	0.039	.0101779	.3798999
LEV	-.1509136	.0392148	-3.85	0.000	-.2277732	-.0740541
FP	.6522494	.1066804	6.11	0.000	.4431597	.8613392
IF	.326551	.0673385	4.85	0.000	.19457	.458532
FF2	-.7945602	.1684696	-4.72	0.000	-1.124754	-.4643659
IF*FF	-.1061763	.0416451	-2.55	0.011	-.1877992	-.0245534
CC*FF	-.9335437	.3212929	-2.91	0.004	-1.563266	-.3038213
_cons	-1.546327	.4016617	-3.85	0.000	-2.33357	-.7590848
sigma_u	.12228622					
sigma_e	.1403937					
Rho	.4313924	(fraction of variance due to u_i)				

Appendix XXIX: Moderated Mediation

Fixed-Effects GLS Regression Model

Fixed-effects (within) regression	Number of obs	=	440
Group variable: FIRMID	Number of groups	=	40
R-sq: within = 0.2972	Obs per group: min	=	11
between = 0.4550	Avg	=	11.0
overall = 0.3921	Max	=	11
	F(9,391)	=	18.37
corr(u_i, Xb) = -0.4436	Prob > F	=	0.0000

DP	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
CC	.1475018	.071777	2.05	0.041	.0063846	.288619
FS	.0773921	.0299408	2.58	0.010	.0185271	.1362572
FA	.223886	.1108564	2.02	0.044	.0059368	.4418352
LEV	-.1546079	.041641	-3.71	0.000	-.2364762	-.0727395
FP	.4708862	.11172	4.21	0.000	.2512391	.6905333
IF	.5777517	.1141778	5.06	0.000	.3532725	.8022309
FF	-.9048498	.1768481	-5.12	0.000	-1.252542	-.5571576
IF*FF	-.0968377	.0422555	-2.29	0.022	-.179914	-.0137614
CC*FF	-.9725014	.3315572	-2.93	0.004	-1.624359	-.3206436
_cons	-2.091155	.5632926	-3.71	0.000	-3.198616	-.9836939
sigma_u	.19283451					
sigma_e	.1403937					
Rho	.65356878 (fraction of variance due to u_i)					

F test that all u_i=0: F(39, 391) = 10.80 Prob > F = 0.0000

Appendix XXX: Moderated Mediation

Hausman Test

	---- Coefficients ----			
	(b)	(B)	(b-B)	sqrt(diag(V_b-V_B))
	fe	Re	Difference	S.E.
CC	.1475018	.0989342	.0485676	.0506734
FS	.0773921	.0700345	.0073576	.0191078
FA	.223886	.1950389	.0288471	.0582507
LEV	-.1546079	-.1509136	-.0036942	.0140064
FP	.4708862	.6522494	-.1813632	.033176
IF	.5777517	.326551	.2512007	.0922068
FF	-.9048498	-.7945602	-.1102896	.053789
IF*FF	-.0968377	-.1061763	.0093386	.0071561
CC*FF	-.9725014	-.9335437	-.0389577	.0818599

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg
Test: Ho: difference in coefficients not systematic
chi2(9) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 31.60
Prob>chi2 = 0.0002
(V_b-V_B is not positive definite)

Appendix XXXI: Moderated Mediation

Random-Effects GLS Regression Model

Random-effects GLS regression	Number of obs	=	440
Group variable: FIRMID	Number of groups	=	40
R-sq: within = 0.3745	Obs per group: min	=	11
between = 0.3933	Avg	=	11.0
overall = 0.3867	Max	=	11
	Wald chi2(9)	=	261.21
corr(u_i, X) = 0 (assumed)	Prob > chi2	=	0.0000

DP	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
CC	.1816552	.0476596	3.81	0.000	.088244	.2750663
FS	.0384468	.0221164	1.74	0.082	-.0049006	.0817942
FA	.3936975	.0876425	4.49	0.000	.2219214	.5654735
LEV	-.131977	.0380647	-3.47	0.001	-.2065824	-.0573717
FP	.5635728	.1050263	5.37	0.000	.3577249	.7694206
ID	.3446026	.0548857	6.28	0.000	.2370285	.4521766
FF	-.783297	.163691	-4.79	0.000	-1.104125	-.4624685
ID*FF	-.1745378	.0380674	-4.58	0.000	-.2491485	-.099927
CC*FF	-.7274262	.3227091	-2.25	0.024	-1.359924	-.0949281
_cons	-2.247804	.3748682	-6.00	0.000	-2.982532	-1.513075
sigma_u	.10367147					
sigma_e	.12710321					
Rho	.3995009	(fraction of variance due to u_i)				

Appendix XXXII: Moderated Mediation

Fixed-Effects GLS Regression Model

Fixed-effects (within) regression	Number of obs	=	440
Group variable: FIRMID	Number of groups	=	40
R-sq: within = 0.4240	Obs per group: min	=	11
between = 0.0992	avg	=	11.0
overall = 0.1632	max	=	11
	F(9,391)	=	31.98
corr(u_i, Xb) = -0.4239	Prob > F	=	0.0000

DP	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
CC	.2818675	.0635315	4.44	0.000	.1569615	.4067735
FS	.0679662	.027068	2.51	0.012	.0147493	.1211832
FA	.2702517	.0998845	2.71	0.007	.0738737	.4666296
LEV	-.0739245	.0385882	-1.92	0.056	-.1497909	.0019418
FP	.2474161	.103679	2.39	0.017	.0435779	.4512542
ID	.6472259	.0618312	10.47	0.000	.5256626	.7687891
FF	-.7363984	.1616153	-4.56	0.000	-1.054142	-.4186547
ID*FF	-.1278418	.0362602	-3.53	0.000	-.1991312	-.0565523
CC*IF	-.8585132	.3111139	-2.76	0.006	-1.470179	-.2468478
_cons	-3.200262	.5070218	-6.31	0.000	-4.197092	-2.203431
sigma_u	.24962057					
sigma_e	.12710321					
Rho	.79411085 (fraction of variance due to u_i)					

F test that all u_i=0: F(39, 391) = 14.86 Prob > F = 0.0000

Appendix XXXIII: Moderated Mediation

Random-Effects GLS Regression Model

	---- Coefficients ----			
	(b)	(B)	(b-B)	sqrt(diag(V_b-V_B))
	fe	Re	Difference	S.E.
CC	.2818675	.1816552	.1002124	.0420096
FS	.0679662	.0384468	.0295195	.0156057
FA	.2702517	.3936975	-.1234458	.0479136
LEV	-.0739245	-.131977	.0580525	.0063349
FP	.2474161	.5635728	-.3161567	.
ID	.6472259	.3446026	.3026233	.0284721
FF	-.7363984	-.783297	.0468986	.
ID*FF	-.1278418	-.1745378	.046696	.
CC*FF	-.8585132	-.7274262	-.131087	.

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg
Test: Ho: difference in coefficients not systematic
chi2(9) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 100.15
Prob>chi2 = 0.0000
(V_b-V_B is not positive definite)

Appendix XXXIV: Document Analysis Guide

This documentary analysis guide will be used to guide the researcher while analyzing companies document and from the companies themselves.

Company	Foreign Institutional Ownership	Domestic Institutional Ownership	CEO Compensation	Financial Flexibility	Dividend Payout Policy
Barclays Bank of Kenya Limited					
CFC Stanbic of Kenya Holdings Ltd					
Diamond Trust Bank Kenya Limited					
Equity Group Holdings Limited					
Housing Finance Group Limited					
I&M Holdings Limited					
KCB Group Limited					
National Bank of Kenya Limited					
NIC Group PLC					
Standard Chartered Bank Kenya Ltd					
The Co-operative Bank of Kenya Ltd					
Eaagads Limited					
Kakuzi Limited					
Kapchorua Tea Factory Limited					
Limuru Tea Kenya Limited					
Sasini Limited					
Williamson Tea Kenya Limited					
Rea Vipingo Plantations Limited					
Car and Gen					
Sameer Africa					
Marshalls (E.A.) Ltd					
Ken Gen Company Limited					
Kenol Kobil Limited					
Kenya Power & Lighting company Ltd					

Total Kenya Limited					
Umeme Limited					
Britam Holdings Limited					
CIC Insurance Group Limited					
Jubilee Holdings Limited					
Kenya Re insurance Corporation ltd					
Liberty Kenya Holdings Limited					
Sanlam (formerly Pan Africa Insurance Holdings Ltd)					
Safaricom Limited					
Real Estate Investment Trust (					
Stanlib Fahari I-Reit					
Centum Investment Company Ltd					
Home Afrika Limited					
Kurwitu Ventures Limited					
Olympia Capital Holdings Limited					
Trans-Century Limited					
Nairobi Securities Exchange Limited					
B.O.C Kenya Limited					
British American Tobacco Kenya Ltd					
Carbacid Investments Limited					
East African Breweries limited					
Eveready East Africa limited					
Flame Tree Group Holdings Limited					
Kenya Orchards Limited					
Mumias Sugar Company Limited					
Unga Group Limited					
Atlas African Industries Limited					
Express Kenya Limited					
Kenya Airways limited					
Longhorn Publishers Limited					

Nairobi Business Ventures Limited					
National Media Group Limited					
Standard Group Limited					
TPS Eastern Africa Limited					
Uchumi supermarket Limited					
WPP Scan Group Limited					
Deacons East Africa PLC					
Hutchings Biemer Ltd					
Athi River Mining Cement Limited					
Bamburi Cement Limited					
Crown Paints Kenya Limited					
E.A. Cables Limited					
E.A. Portland Cement Company Ltd					
New Gold Issuer (RP) Limited					

Appendix XXXV: Research License

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Date of Issue: **14/June/2022**

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