EFFECT OF OWNERSHIP STRUCTURE ON DIVIDEND POLICY OF FINANCIAL FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE, KENYA

BY

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UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

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BY
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A Research Project Report Submitted to the School of Business in Partial Fulfilment of the Requirement for the Degree of Master of Business Administration (MBA)

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SPRING 2020
STUDENT'S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University for academic credit.

Signed: ___________________________  Date________________________

Stanley Kamanguya (644001)

This project has been presented for examination with my approval as the appointed supervisor.

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ABSTRACT

The general objective of this study was to determine the effect of ownership structure on dividend policy of financial firms listed at the Nairobi Securities Exchange. The specific objectives of the study were to determine how state ownership, institutional ownership, managerial ownership and foreign ownership affects dividend policy of financial firms listed at the NSE for the period 2012 to 2016.

This study adopted a descriptive research design. It targeted all the 17 listed firms in the financial sector at NSE as at 2016, this included 11 banks and 6 insurance companies. Secondary data for the study period was used and correlation and multiple regression analysis were used to establish the link between different ownership structure and dividend payout.

State ownership was measured as the percentage of total outstanding shares of the firm held by the state. Institutional ownership was measured as the percentage of total outstanding shares of the firm held by the various institutions. Managerial ownership was measured the percentage of shares owned by any employee, manager or a director of the same firm and foreign ownership was measured as the percentage of total outstanding shares of the firm held by foreign institutions and individuals.

In conclusion, the findings presented from the regression analysis showed that the give results of the regression output (r2 and P values for significance) and not coefficients for example: foreign ownership had a positive but insignificant relationship on dividend payout

The study recommended that financial firms should consider infusing management systems and divestiture program to attract more private individuals and institutions to co-own in firms with a majority state share. Secondly, there should be policies set up to ensure that firms grow in age and size and spread out as a way of attracting more skills and competencies among the shareholders that can be tapped to improve firm performance. Thirdly, in addition to incentive pay, the shareholdings of managers should be encouraged as a good incentive mechanism to aid the management and the shareholders to become united to promote the interest of both. Lastly, policy makers should create a conducive environment which will seek to attract more foreign
investors, bearing the fact that foreign investors can bring along firm-specific advantages that may not be easily available to domestic firms.

To enable generalization of the results of effects of ownership structure on dividend policy of firms the study recommends further research that take into account both financial and non-financial goals including stakeholders interests and assess them in firms having different ownership structures, given that this study only focused on financial goals. Further arising from the findings and the gaps in this study, a replica study is recommended in other firms other than financial firms, in order to test whether the conclusions of this study will hold true.
ACKNOWLEDGEMENT

This research project could not have been a reality without the invaluable input of a number of individuals whom I sincerely wish to recognize. Firstly, I would like to thank God the Almighty for granting me good health and sound mind. Special appreciation goes to my supervisor, Dr. Elizabeth Kalunda for her guidance, professional advice and guidance throughout the research project.
DEDICATION

I would like to dedicate this research project to my family members who have supported me and encouraged me throughout my studies, and in completing this Master’s programme. I also dedicate the project to my late grandparents for their invaluable support during my earlier years in life.
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ABBREVIATIONS AND ACRONYMS

CBK  Central Bank of Kenya
CMA  Capital Markets Authority
CDS  Central Depository System
IRA  Insurance Regulatory Authority
NPV  Net Present Value
NSE  Nairobi Securities Exchange
OLS  Ordinary Least Square
SOE  State-owned Enterprises
SPSS Statistical Package for Social Sciences
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Dividends are part of the corporate earnings which are distributed to shareholders for their participation of the firm’s capital. Dividend policy entails making decisions between retaining profits and disbursing profits to shareholders (Baker, 2009). Dividend policy includes making decision on whether the payout should be; high or low, stable or irregular, how frequent the dividends should be paid and whether to announce the policy or not. For decades, the question as to whether firms need to pay dividends has been a subject of conceptual and empirical discussion. Dividend payout policy has been considered as a critical policy in many firms.

Berzins, Bohren and Stacescu (2009) avow that dividend policy is a significant control vehicle that minimizes conflicting interests among managers and the stakeholders. This is because stakeholders are more inclined to get dividends while managers choose to retain earnings. Managers seek to retain earnings so as to maintain a higher level of control over firm resources. Thanatawee (2013) argues that firms can use dividend pay-out policy to counter agency problems. He further argues that when firms decline to pay dividend to stakeholders, managers might use firm resources for their own gains. Dividend policy enables firms to effectively control agency costs. Payment of dividends to stakeholder’s declines management controls over resources. Theories that support dividend policies are Bird-in-hand theory, Dividend Irrelevance theory and Tax-Preference Theory. Bird in hand theory posits that investors attach more value to dividends unlike capital gains when making stock-related decisions (Lintner, 1952).

Dividend irrelevance theory; from an investors viewpoint, if a firm’s dividend is too small, an investor can decide to sell some of company’s stock to replicate the cash flow that he or she anticipated to get. Hence, dividend is irrelevant to investors and investors pay little attention to it. Tax-preference theory posits that taxes are key considerations to the investors. Capital gains are lesser taxed as compared to dividends. As such, investors might prefer capital taxes to dividends (Litzenberger & Ramaswamy, 1999). Payment of dividends is essential for management and investors; managers need to decide on the amount and timing of dividends while investors need to make investment decisions.
Dividend payment is a sign of firm performance and income for investors. Ashanu, Abiola and Bhadmus (2012) explain that the most basic things to consider when considering implementing dividend policy is determining the proportion of income to distribute to the stakeholders and the percentage to re-invest in the business. The executive management and the board of directors have a duty to formulate dividend policy for a company (Baker, 2009). Managers need to return some of the income earned by the firm back to shareholders, as a share of their earnings on their investment without damaging the firm’s profitable position. Nonetheless, by paying dividends the firm has to incur opportunity costs by forgoing several opportunities to invest in new promising projects.

On the other hand, Tsai and Gu (2007) maintain that dividend could be utilized to enhance over investment problems of firms. Not only does dividend policy assist in minimizing agency costs but it also gives information to stakeholders regarding the firm’s valuation. This leads to the question whether dividend distribution increases shareholder wealth or not. Investors need to dissect whether managers are experienced and eligible to make optimal use of invested assets (Ashanu et al., 2012). Similarly, managers should use their experience to invest and make finance decisions. Dividend decisions and information asymmetry problem amongst shareholders and executives has been identified as key elements that are associated with imperfect capital markets. Agency problem emanates from conflicts of interest amongst managers and shareholders (Heenetigala, 2011). In reference to agency theory, the manager is expected to act in the best interest of the shareholders.

Managers prefer retaining dividends so as to invest in projects that promise positive net present values while the shareholders are much concerned about the future of the firm (Lin, Chen & Tsai, 2017). Shareholders have diverse potential in firms, and different rights to manage based on the percentage of their shares. Majority shareholders have a bigger voice and shape minority shareholders, they intervene directly on decisions and execution of activities. Ownership structure is defined by equity distribution in respect to votes and capital as well as equity owners’ identity (Baker, 2009). Dividend payout is influenced by the firm’s ownership structure (Harada & Nguyen, 2011). Dividend payout is influenced by a number of factors, key among them include type of industry, government policies, profitability, tax policy, legal rules and ownership structure. Type of
industry to which the firm belongs has an effect on dividend policy. Industries with stable earnings can adopt a constant dividend policy unlike industries whose earnings are uncertain and uneven.

Harada and Nguyen (2011) posit that a change in government policies also affects dividend policy of a firm because of the imposed changes by the government. Profitability affects dividend policy decisions and according to Berzins et al., (2009) a highly profitability firm pays higher dividends and a firm with little or no profits adopts a conservative dividend policy. On the other hand, tax policy affects dividend policy. Corporate taxes affect dividend policy either directly or indirectly. Heenetigala (2011) explains that taxes directly decrease residual earnings after available tax to the shareholders. Indirectly, the distribution of dividends is taxable after a given limit. Legal rules also affect dividend policy; there several legal constraints on the firms for dividend payments. It is required that a firm should pay dividend only when the capital is abridged post payment. These regulations are meant to shield the interest of the creditors (Holderness, 2009).

Ownership structure influences the activities of the board and arrangement of the board of directors (Desender, 2009). Berzins et al., (2009) opine that ownership structure is a key factor in determining market efficiency by providing information about two important things. First, it depicts the level of shareholders’ risk diversification. Secondly, it will provide information on the possible agency problems facing managers of most firms. There are different types of shareholders, but institutional and managerial stakeholders hold a higher level of control over the firm’s policies compared to other types. Ownership structure is of different types that includes management, family, government and institutions. Avulamusi (2013) indicates that while some company owners are not involved directly in the managing firms, they play a crucial role in appointing managers and board of directors. Different companies have different types of ownership. Ownership structure is described as the nature of majority stakeholders and their influence on management decisions. There several categories of shareholders this include foreign, institutional and domestic investors.

Lee (2008) explains that the structure of ownership can be classified into two namely ownership concentration and ownership identity. Ownership concentration is described as
the distribution of shares owned by majority stakeholders. Ownership identity is the extent to which organizational members identify themselves as genuine company owners. Yang, Chen, Kweh and Chen (2013) indicate that ownership structure can be in the form of state where in such a case, the state is entrusted with resources. For instance, when a firm has a direct state ownership, it works towards achieving political objectives of that firm with a limited focus on minority shareholders (Ang, Cole & Lin, 2009). Naceur, Goaied and Belanes (2006) indicated that the firm’s structure of control influences dividend payout policy, and majority shareholders in a given control structure can earn personal benefits which they might not be willing to share with minority stakeholders.

Fauzi and Locke (2012) have demonstrated the existence of a strong association among dividend policy, structure of governance and market valuation. These views are also echoed by Naceur et al., (2006) who found existence of a relationship between dividend decisions and institutional and foreign types of ownership. Ullah, Fida and Khan (2012) indicate that dividend policy influences firms’ decisions with regard to shareholder interests and the managers. In Nigeria, a study by Bako (2015) on ownership structure and dividend policy, it was concluded that it is not clear whether dividend policy is affected by institutional ownership and state ownership. Kamau (2015) investigated the effect of ownership structure on dividend policy of all firms listed at the NSE and the findings showed that local and foreign ownerships did not influence any changes in dividend policies. Thus, this study expects that ownership structure will have an effect on dividend policy.

NSE is a modern facility where local and international investors can get investment access to Kenyan companies and contribute to the Country’s economic growth. NSE makes a huge contribution towards Kenya’s economic growth by encouraging savings and investments and assisting domestic and international firms to participate in cost-efficient capital. NSE conducts its operations as a securities exchange in Kenya. It gives an automated platform for listing and trading of securities. Examples of these securities include debt securities, equity securities and derivative securities. NSE initiated an automated trading system that matches orders automatically. Currently, this system is integrated with Central bank of Kenya (CBK) and central depository system (CDS) thus enabling automated trading of government bonds. NSE executes its functions through Capital Markets Authority (CMA) jurisdiction. CMA is the government’s regulator that is
charged with the responsibility of licensing and regulating capital markets in Kenya. It makes approvals for initial public offerings and listing securities traded at NSE (CMA, 2017). The financial sector consists of eleven commercial banks (CBK, 2017), and six insurance companies (Insurance Regulatory Authority, 2017) that have been licensed to work and operate within the Kenyan boundaries. Commercial banks are licensed and regulated by CBK while insurance companies are licensed and regulated by Insurance Regulatory Authority (IRA).

Currently, agency conflict is a major problem facing listed firms since they have many shareholders. This problem affects finance and investment decisions including overall firm performance. Mukonyi, Basweti and Kamau (2016) argue that in order to achieve a proper balance between management and control calls for clearly defined ownership structure and payment of dividends to shareholders. It is therefore necessary to find out the effect of ownership structure on dividend policy in the context of listed firms at NSE, as such this will inform the need for striking a balance between ownership and control so as to minimize agency conflicts and address shareholder needs.

1.2 Statement of the Problem

Ownership structure leads to agency problems since majority shareholders have high levels of incentives hence; they monitor the actions of the management and influence decisions. Alipour (2013) avers that ownership structure impact on management decisions and firm performance. Harada and Nguyen, (2011) did an investigation involving ownership structure and dividend policy in Tokyo, Japan and the findings discovered an inverse relationship between foreign ownership and dividend pay-out. On the other hand, institutional, managerial and state ownerships were significantly linked to dividend pay-out. Hamid, Asma and Shafiullah (2012) examined the effect of ownership structure on dividend policy at Karachi Stock Exchange and it was found that foreign and institutional ownership were positively linked to dividend pay-out.

Olu (2012) did an investigation on the link between ownership structure and dividend pay-out of Nigerian listed firms and it was reported that state and foreign ownership had insignificant relationships with dividend pay-out. Institutional ownership had a significant relationship with dividend pay-out. Miko and Kamardin (2015) examined the link between ownership structure and dividend policy of conglomerate firms in Nigeria and
the findings showed a positive connection between dividend-pay-out and institutional ownership while an inverse connection was found with managerial ownership.

In Kenya, Kunga (2014) assessed the effect of ownership structure on dividend pay-out of listed firms in Kenya; the results showed that firm ownership lacked influence on dividend policy. The limitation for this study is that it did not look at the various types of ownership structures (managerial, institutional, public foreign among others) and their effect on dividend policy. Odero (2012) studied the effect of ownership structure on dividend policy of listed firms and the results depicted that managerial and institutional forms of ownership were positively and significantly linked to dividend policy.

The studies above are not conclusive on the effect of ownership structure on dividend policy of a firm. The combinations of variables that affect ownership structure are also not the same and so are the firms under study. This study focused on the NSE and specifically on the financial sector. The studies above are not conclusive on the effect of ownership structure on dividend policy of a firm. The combinations of variables that affect ownership structure are also not the same and so are the firms under study. This study focused on the NSE and specifically on the financial sector.

1.3 General Objective of the Study
The general objective of this study was to determine the effect of ownership structure on dividend policy of financial firms listed at the Nairobi Securities Exchange.

1.4 Specific Objectives of the Study
The specific objectives of the study were to:-
1.4.1 Determine how state ownership affects dividend policy of financial firms listed at the NSE
1.4.2 Determine how institutional ownership affects dividend policy of financial firms listed at the NSE
1.4.3 Determine how managerial ownership affects dividend policy of financial firms listed at the NSE
1.4.4 Determine how foreign ownership affects dividend policy of financial firms listed at the NSE
1.5 Importance of the Study

1.5.1 Management of Financial Firms
Dividend policy is vital to shareholders in their efforts to achieve efficient investments considering risks, net yields as well as tax deduction. Dividend policy is also important to investors since they consider dividends not only as an income but also as a measure of assessing firms on the basis of investment. It can also define the firm’s ability to generate positive cash flows. Board of directors and the management of listed firms will find this study worthwhile in improving their understanding on the effect that ownership structure have on the firms’ dividend policy. With reference to the regulation, managerial ownership of commercial banks is limited to 5%. The study seeks to find out whether there exists any difference in managerial ownership of financial institutions and the effect that this have on dividend policy.

1.5.2 Policy Makers
The findings got from this study might be used by policy makers: Capital Markets Authority (CMA) in identifying approaches that they can adopt and implement in maintaining the levels of shareholding to enable state firms to be competitive and attract the public to invest in such firms for growth of the economy. This research might assist decision makers in executing proactive oversight roles as well as ensuring that investors are protected. The study will also clarify the basis on which dividend decisions can be made.

1.5.3 Researchers and Academicians
Researchers will contribute to the relationship between ownership structure and dividend policy. It will also form basis for further research to researchers in this field in order to determine whether as the Kenya economy undergoes transition from emerging to developed market how ownership structure will affect the dividend policy formulation and spillover effects to the economy at large.

1.6 Scope of the Study
The study focused on financial firms listed at the NSE that had been operational over the last 10 years (2007-2016). A census was considered appropriate for this study since the population was small. The choice of these financial firms; banks and insurance firms, was because they are strictly regulated and controlled in terms of their capital holding and liquidity requirements which affect their ownership structure and dividend policy. The
study used secondary sources of data from financial statements of financial institutions listed at NSE which was obtained from Bloomberg Terminal.

1.7 Definition of Terms
1.7.1 State Ownership
Governments and state-owned entities are active investors of the stock market and they now own approximately one fifth of international market capitalization (The Economist, 2010). A firm that is owned by state is defined as an enterprise whereby the state commands more than 10% of the shares.

1.7.2 Institutional Ownership
Institutional ownership consists of institutional investors such as pension funds, banks, financial institutions and insurance firms among other nominee firms that are related to these categories (Koh, 2003). Institutional investors employ strategies such as proxy votes, shareholder proposals and threat of “voting with their feet” to influence firms’ decisions particularly corporate and dividend policies.

1.7.3 Managerial Ownership
Managerial ownership is defined as the sum of proportion of managers, executives, directors as well as their families divided by total capital shares of the firm. In accordance to Ullah et al., (2012) arguments have been raised on whether managerial ownership promotes management interests and shareholders and thus reduce conflicts of interests as fare as maximization of shareholder wealth is concerned.

1.7.4 Foreign Ownership
Foreign direct investment is an investment that is intended to acquire a long-term management interest, mainly 10% of voting stock of a business that is operating in a country other than that of an investor (World Bank, 2010).

Foreign ownership is defined as percentage of net stock by foreigners of the entire stocks of the firm that consists of foreign partners, foreign financial entities and foreign nationalities (Mirzaei, 2012).

1.7.5 Dividend Pay-Out
Dividend pay-out is defined as the percentage of the cumulative amount of dividends paid to stakeholders relative to the firm’s net income. It is the proportion of earnings which is
paid to stakeholders in form of dividends.

1.7.6 Financial Firms

Financial firms are organizations that provide finance related services; they engage in the business of dealing with financial and monetary transactions and include banks, investment companies and insurance companies. For the purpose of this study, the scope is limited to those financial firms that are listed on the Nairobi Stock Exchange.

1.8 Chapter Summary

The following areas of discussion were included as subsections in the introduction chapter. They are as follows; background of the problem, statement of the problem, purpose of the study, research questions, importance of the study, scope of the study and definition of terms. Chapter two included literature review that provided discussions on the objectives for the study using relevant studies and a summary of the review literature. Chapter three has covered research methodology. Chapter four discussed results and findings based on secondary data used and chapter five analyzed discussion, conclusion and recommendation.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter covers the empirical review of this study in line with the study objectives. The empirical review has been discussed using empirical studies carried out in different places, by different authors, and methodologies to show findings and how these findings relate to the study objectives. The section also seeks to identify any controversies among the earlier studies on the effect of ownership structure on firm’s dividend policy. A chapter summary has also been provided to give a brief overview for this study.

2.2 State Ownership and Dividend Policy

State ownership is also referred to as a kind of control in several countries especially in those countries that have poor stakeholder protection (La Porta, Lopez-de-Silanes & Shleifer, 2013). It is true that state firms are mostly inefficient, since they have a habit of using firms to further political ambitions and their losses lead to major deficits in the economy. This is contrary to the purpose of their existence. Further, Margaritis and Psillaki (2010), claim that firms that are controlled by the state have a likelihood of having double principal-agent problem. While citizens are the true owners, they lack a direct control of these firms but they appoint representatives to represent them.

State ownership is described as the proportion of government’s shareholding (Ahmed, Ji and Lu, 2015). According to Ajanthan (2013), most firms that are half-owned by government or where the government has an influential shareholding are subjected to a commercial role whereby the government has a direct control. Bradford, Chen, and Zhu (2013) noted that firms which are owned and controlled by private individuals will end up having less dividend payment whereas, firms which are state owned are more likely to pay more dividend than firms which are individually owned. This is because of use of internal financing rather that debt financing and equity used from external resources.

However, politicians may not robustly or precisely monitor state-owned corporations and these results into even greater principal-agent problems amidst managers and owners of state-owned corporations. In this regard, politicians who are in-charge of running government activities, might develop a strong liking for dividends from state-owned
firms, since payment of dividends is a good sign to proof to the citizens that the corporations is performing well. Additionally, being cognizant of massive failures by state corporations that costs national budgets brings about world-wide reactions commonly known as “privatization” this replaces government control with private cash flow ownership and control. Privatization provides a comparatively effective corporate structure and a significant improvement in performance of firms that are privatized (Thanatawee, 2012).

However, it is likely that privatization might not work well as expected; for example, when firms are privatized without the presence of major shareholders, this gives managers with more discretion. In such a case, agency problems from management control may increase, although inefficiency of government control could decline, problems of managerial decisions could be severe just like those of government control in those corporations (Warrad, Abed, Khriasat & Al-Sheikh, 2012). Government and state-owned institutions have actively been involved in stock-market investment; statistics show that they own an estimated one fifth of global capitalization of the stock market (The Economist, 2012). According to the United Nations Conference on Trade and Development, a firm owned by state could be defined as an entity in which state ownership exceeds 10% of the shares hence rendering the state to be a major stakeholder around the world.

In spite of large-scale privatization programmers of state institutions over the last decades, state-owned firms account for a huge capitalization of local stock markets in developing economies. Privatized firms such as government stakeholders, this type of stakeholders has a significant impact on firm policy decisions such as dividend policy (Ben-Nasr, 2015). The state could also be interested in profitable investments but they are more inclined towards minimizing unemployment, regulating taxes and stabilizing the financial system. Abdelwahed (2014) did an investigation on the link between state ownership and dividend policy in Egypt, the study utilized an explanatory design, panel data was used and a regression equation was employed for data analysis. It was disclosed that a significant and negative relationship existed amidst state type of ownership and dividend pay-out policies. This study limited itself to state ownership.
Al-Shubiri, Taleb and Al-zoued (2012) studied the link between roles of managerial ownership, individual ownership, state ownership, foreign ownership and dividend pay-out of Saudi Stock Exchange. An explanatory design was applied in a duration spanning for five years (2009-2013) and the findings unearthed that state ownership had a significant and positive relationship with dividend pay-out while the link between market power and dividend pay-out was significant but negatively linked. On the other hand, managerial, individual and foreign ownership was insignificantly linked to dividend pay-out. This study was conducted in a globally setting which whose ways of doing things is different with the local setting.

Contrary to this, Bradford et al., (2013) explore the effect of ownership structure on dividend policy: Evidence from China, Panel data was used a regression equation was used for analyzing data. An ordinary least square approach was utilized for data analysis and the results showed that a positive connection between state ownership and paid up dividend. Further, a significant connection was found between firm size and dividend pay-out. In China still, Desender (2009) investigated the impact of state ownership and political affiliations on dividends in China, a correlational design was used, panel data and a regression analysis. The results disclosed that State-Owned Enterprises (SOEs) paid more dividends as compared to non-SOEs. The limitation for this study is that it was done in a global setting whose situations are different from the local settings. However, these findings relied on specific conditions in China. In fact, SOEs in China who are more likely to get loans from state-owned banks, when compared to non-SOEs, experience less pressure on internally generated funds to facilitate growth, which enable them to pay more dividends as compared to non-SOE peers.

This is supported by Ben-Nasr (2015) who argues that firms that have partial state ownership easily access state funds with an implied guarantee of the state when faced by financial distress. State ownership impacts positively on a firm’s decision to either pay or not to pay dividends as well as the extent of dividends payment. In line with signaling theory, dividend payment signals to the stakeholders (i.e. citizens) about the status of performance of the firm. When firms with partial state ownership pay dividends, this is an indication to the stakeholders that privatized firms are performing well. Borisova and Megginson (2011) showed that there exists a positive linkage between state ownership and distribution of dividends showing that firms that incur high costs of agency tend to
pay more dividends so as to build corporate reputation and thus secure attractive contract terms in financial markets to raise capital. Hence, payment of dividends is attractive to firms that have partial state ownership and are characterized by high costs of agency. The relative ease with which these firms secure financing could discourage monitoring and allow problems to develop.

Contrary to this, Lace, Bistrova and Kozlovskis (2013) opine that the main justification as to why state-controlled firms pay higher dividends is because they have adequate capacity to raise capital as compared to firms that are privately-controlled. Firms that pay dividends were dominated by strategic investors or state on the basis of stake of ownership. Principal-agent conflict is high among state-controlled corporations in Austria. It was discovered that state ownership and control recorded a positive impact on dividend pay-outs, and state-controlled corporations in Austria were reluctant in cutting dividends, this was in line with the management set standards regarding agency costs.

Wei, Zhang and Xiao (2011) reported that there existed a significant and a positive correlation amid state ownership and cash dividends in China. The research employed an explanatory design in a population of an estimated 3,052. A hierarchical regression model and descriptive statistics were used. Martilab software was used to analyze data and the findings showed that Chinese firms that attained high levels of state ownership had a high likelihood of paying higher cash dividends. Control variables such as firm size, liquidity and capital to equity ratio recorded an insignificant and positive relationship. Ntolti (2012) investigated the relationship between state ownership and dividend policy in the oil marketing industry in Kenya. The study revealed that state ownership has a positive effect on dividend policy.

Thanatawee (2014) examined ownership structure and dividend policy: Evidence from China. It was concluded that firms that have higher ownership concentration, ownership largest shareholders and government ownership have positive effect on dividend payout. Al-Najjar and Kilincarslan (2016) found that firms with a large proportion of state and foreign ownership are less likely to pay cash dividends while firms with large proportions of other ownership variables, such as family ownership. Kamau (2017) studied the impact of ownership structure on dividend policy of listed banks in Kenya. The study showed that there is a positive correlation between government ownership and
dividend payout. Nidar and Gunawan (2016) examined dividend policy in Indonesia state owned enterprises. It was established that non-listed state-owned companies have an average dividend payout ratio lower than the listed SOEs.

Kurniasih (2018) conducted a research on dividend payment behavior of state-owned enterprise registered in Indonesia stock exchange. The study revealed that most listed state-owned companies always pay dividends to their shareholders. Rafiei and Far (2014) examined effect of state ownership on firm performance and dividend payout policy. It was determined that there is a positive and significant relationship between state ownership and dividend payout. Le and Chizema (2011) in their study on state ownership and firm performance: evidence from Chinese listed firm. It was indicated that state ownership has a positive effect on firm performance and firm value.

According to a study done by Wang and Wang (2011) on ownership structure, control and dividend pay-outs: evidence from PRC listed companies. It was determined that state enterprises that are supervised by lower level state agencies and those that have connection with the government are more likely to pay dividend than firms controlled by private ultimate owners. Siti, Ahmad and Razman (2014) conducted a study on the effects of government and state ownership on dividends. The study revealed that there is no relationship between government ownership and dividends. It was also indicated that when dividend pay ratio is used government ownership could affect dividend policy.

**2.3 Institutional Ownership and Dividend Policy**

Institutional investors are large investors for example insurance firms, banks, investment companies, pension funds among other nominee firms that are associated with these categories (Koh, 2003). Pension funds, insurance firms and collective investment schemes are collectively referred to as institutional investors. The world financial markets have recorded a significant increase in institutional capital ownership. This has created a need to find out why institutional owners behave differently from other stakeholders, and the effect of this on the firm (Wiberg, 2008). Institutional investors are key investors in equities and bond among other financial instruments.
Also, they are important suppliers of investable funds, since they make huge contributions or premiums over time. Institutional investors play a critical role in promoting capital markets development by helping investors to use their savings efficiently and offering funds to state and firms that need these funds for expansion or to cover deficits. These firms mobilize individual savings, pool it together and invest it to provide definite outcomes such as retirement income and protection against risks and savings respectively. Company institutional investors can devise strategies such as proxy votes, stakeholder proposals and threat of “voting with their feet” so as to restrain and influence firms and impact on their corporate policies particularly dividend policy. Considering that their investment time horizon is long-term, institutional investors they take part in monitoring the management (Kim & Sul, 2010).

Payments of dividends push firms to go into exterior capital markets for additional funding and this improves monitoring of the capital markets (Roy, 2015). But, Kim and Sul (2010) opine that institutional Blockholders for example, insurance firms, unit trusts, banks and pension funds might play the monitoring role on the management of the firm, thus lowering the need for pay-outs of high dividends. Institutional stakeholders may not be involved in direct monitoring because of their arm’s length investment outlook. In fact, most institutions prefer encouraging firms to pay-out high dividend, and thus they seek outside capital markets for their future financial needs. Also, Roy (2015) posit that institutions might force firms to pay huge dividends so as boost monitoring by capital markets particularly when they suspect that their own monitoring exercises are ineffective or too expensive. In such a case, a positive connection between institutional ownership and dividend payment is likely. After analyzing the shareholders’ ownership identity on dividend policy.

Contrary to this, Abdelsalam, El-Masry and Elsegni (2008) reported a positive link amid institutional ownership and dividend policy of Egyptian firms. Correspondingly, Xuan (2015) revealed that the impact of institutional ownership on dividend pay-out ratios of Indian companies was positive, which was contradictory with the argument that the capability of institutions on account of their efficiency in monitoring lowers the need for dividend-induced approach. This was aligned to dividend-induced monitoring preferences of Indian institutions showing an increasing agency problem in developing markets in India and thus resulting into an inefficient institutional direct monitoring. Institutional
owners are arguably considered to have an advantage over information than an average investor because of their capacity and resources for research and analytical skills (Borisova, Brockman, Salas & Zagorchev, 2012). In so doing, they ensure that the management lays more concentration on corporate value maximization as opposed to short-term goals. A mixer of reactions from different scholars has been put forward with regard to institutional dominated shareholding and dividend policy.

Abdelwahed (2014) did a study on the link between ownership structure and dividend pay-out in Malaysia. A correctional type of design was employed in a population of 20 listed firms to find out the link between ownership traits and dividend pay-out. Panel data was utilized and the analysis showed an insignificant relationship amid institutional ownership and dividend policies has been established. Also, Kumar (2003) examined the link between ownership structure and dividend pay-out in Indian National Stock Exchange, an exploratory design was adopted 50-index sampled firms. Panel data was used and analysis was done using OLS methods and an inverse and significant connection was found to exist between institutional ownership and dividend pay-out. This study was carried out in a global setting whose ways of doing things is different from the local setting. The current study has limited itself to financial listed firms only.

Similarly, Al-Shubiri, Al-Taleb and Al-zoued (2012) also recorded an inverse and significant linkage between institutional ownership and dividend per share. When there is a high level of institutional ownership in a firm, there is a minimal likelihood to use dividends as a means to reduce agency costs. This is so because they act as powerful monitors of management since they gain from economies of scale in gathering information and analysis. Institutional invest hire financial analysts to put up an efficient system to assess management decisions. Therefore, this makes it difficult to influence manager’s ideas when institutional stakeholders are present. Hence, there is likelihood to pay dividends and this may decline when institutional investors possess more shares. According to Abdelsalam et al., (2008) there exists a significant and positive connection amid institutional ownership and firm performance as well as dividend pay-out.

Al-Gharaibeh, Zurigat, and Al-Harahsheh (2013) assessed the effect of ownership structure on dividend policy of Jordanian firms, an explorative design was adopted, panel data was used and a regression analysis was used. The results showed that institutional
ownership provided incentive for the board to extend their influence and minimize use of funds in projects that did not promise good returns in turn pay high dividend. Similarly, firms with high levels of institutional ownership pay higher dividends since institutional investors are concerned about the management of the firm in order to protect their interests and this might result into high dividends pay-out. Short, Zhang and Keasey (2002) delved the link between dividend policy and institutional ownership in Asia, the study used an explanatory design, time series data sources and a regression model for data analysis. The results showed a positive alliance amid institutional ownership and dividend pay-out. Further, the results showed that firm size and age of the firm were significantly linked to dividend pay-out. The limitation for this study is that it did not factor in other forms of ownership structures such as managerial, foreign and state ownerships.

Azzam (2010) examines the impact of institutional ownership on dividend policy, returns, and dividend policy in Egypt. The findings discovered that private institutional ownership attained a significant and positive effect on volatility of stocks and no effect on returns. Institutional ownership had an inverse impact on dividend pay-out ratio. It was deduced that institutional ownership led to an increase in volatility of non-dividend paying stocks. Crane, Michenaud and Weston (2016) examined the effect of institutional ownership on dividend policy of Russell, the results exhibited that higher level of institutional ownership induced firms to pay more dividends. The basis for this was based on discontinuity in ownership of Russell index thresholds. It was discovered that a percentage upsurge in institutional ownership led to a corresponding upsurge in dividends. Further, differences in stakeholder proposals and voting trend showed that even non-activist institutions played a significant role in monitoring the behavior of firm. The effect that institutional ownership had on dividends pay-out was found to be stronger for firms that expected higher costs of agency.

Hussain and Khan (2014) assessed the effect that institutional ownership had on dividend policy of joint stock firms, foreign firms, insurance firms, banks and mutual funds. The study sampled 104 firms listed under Karachi Stock Exchange for a duration spanning for 8 years. A fixed-effect model of panel data regression was applied to test the link between institutional ownership and dividend policy. Findings showed that firms that attracted large institutional owners via growth in dividend payment played a critical role in enabling the firms to build stakeholder confidence as well as enhancing firm performance.
and increasing market capitalization. Hofler and Julie (2015) did an investigation on the link between institutional ownership and dividend pay-out of firms in Germany. A propensity scoring approach was applied to control problems of endogeneity. A longitudinal kind of a research design was employed and panel data set covering duration of 25 years. Data analysis was carried out with the help of Matlab software; descriptive statistics and a regression analysis. The results demonstrated that institutional ownership was insignificant in determining dividend pay-outs.

Mehrani (2011) explains that institutional investors in Jordan ponder capital structure, asset structure, asset liquidity, rate of growth, business risk, profitability and size of firm in all their investment decisions. Furthermore, institutional investors in Jordan chose to invest in services as opposed to manufacturing firms. This study did not give any evidence involving existence of a significant link between the firms’ dividend policy and institutional investors. Ramli (2010) explored the partial adjustment model involving 38 Jordanian firms. An explanatory design was employed to find out study relationships. Panel data was utilized and descriptive and inferential statistics were used for data analysis and the results showed that there lacked a significant link between institutional ownership and dividend pay-out. This research was performed in a different country whose situations are different from the local setting.

2.4 Managerial Ownership and Dividend Policy

Managerial shareholding is the sum of proportion of managers, executives, directors and their families’ dividend by the cumulative capital shares of the firm (Ullah et al., 2012). Managerial ownership does not fully have inverse implications. Stulz (2012) discovered a high percentage of managerial ownership with regard to voting rights that minimizes the possibility of hostile takeover. The reason why managers do that, according to Stulz (2012), is because managers are likely to be affected negatively by takeovers as compared to stakeholders. This is because managers have information concerning the future prospects of the firm, and are more likely to know whether the firm is undervalued as such block any forms of takeovers. As a consequence, Stulz drew a conclusion that the larger proportion of managerial ownership on account of voting rights in a sample, the higher the premium that is needed for a takeover the lesser the likelihood of being successful in that takeover (Stulz, 2012).
So as to develop an efficient and large firm, Fama and French, (2011) described the likelihood of split of a security ownership and control into two dissimilar divisions since this minimizes the management problem of incentive. Managerial ownership promotes the interests of the management and stakeholders and this minimizes conflict of interests with respect to shareholder’s wealth maximization. Crutchley and Hansen (1987) indicated that managerial ownership and dividend policy is an important subject since it helps to deal with conflicts of interests that face stakeholders and the management. Mixed perspectives have been put forward by scholars in their review of managerial ownership and dividend policy decisions. Some have associated managerial ownership with high dividend pay-out while others with low dividend pay-out.

Still others have not found any significant relationships between dividend pay-outs and high levels of managerial ownership. When the management of a firm holds a significant proportion of shares of the firm then conflicts of interest might arise between the management and the stakeholders. Managers benefit directly from their own competencies and might face negative consequences from their opportunistic behaviors due to market uncertainties that might result to fluctuation of share market value. Similarly, managerial ownership might bring about convergence of profits of stakeholders and managers and minimize the problem of free cash flows. Thus, managerial ownership could result into more distribution of profits (Mirzaei, 2012).

Shah, Ullah and Hasnain (2011) did an empirical investigation on the impact of ownership structure on dividend policy of firms in Pakistan, an explanatory design and panel data were used for a period spanning for 7 years. Data analysis was done using a regression equation and the results showed that presence of owners in the board of directors could also be associated with payment of high cash dividends. This study limited itself to managerial type of ownership structure while the current study includes foreign, state and institutional ownership structures. Managers choose not divide the stock profit so as to retain their control over cash flows which is considered as distributional. Thus, a reverse relationship is expected amidst managerial ownership and divided profits. Another perspective of low dividend payment when the firm is controlled by owner managers is that agency conflicts problem could be less severe when managers hold relatively key shareholder’s positions (Desender, 2009).
A study by Snellingen and Dye (2012) indicated that management incentives and dividends are compliments other than substitutes, but this still remains to be an area of discussion. They indicated that the management was specifically meant to represent shareholder interest and that is the reason why they made huge allocations on monitoring and supervision costs. They argued that the level of management ownership impacted on dividend pay-out. Knyazeva (2006) demonstrates the effect that corporate governance has on dynamic dividend behavior on a sample of U.S firms, a descriptive design was adopted and time series data was used, the results revealed that weakly governed managers faced a trade-off amid flexibility gains and expected stakeholder reaction to dividend decisions. In the absence of strong corporate governance, dividends can enhance efficient management investments and thus minimize agency problem. Weak governance is related to lack of monitoring incentives. It has been argued that weakly governed managers face immense pressure from the stakeholders in sustaining dividend commitment and making few dividend cuts and engaging in more dividends smoothing.

Dahlquist (2010) examined the effect of managerial ownership and dividend policy of several firms in 37 countries, a longitudinal design was used in a period spanning for ten years and time series data, the findings showed that firms were more likely to pay dividends when the larger shareholders were not insiders. Most of the management preferred to retain their earnings instead of distributing it to the stakeholders in form of dividends with a view of using these resources to grow and expand the business as well as personal benefits. Interestingly, Eckbo and Verma (1994) avowed that dividend declined with respect to high concentration of managerial ownership. He argued was based on the understanding that firms that recorded high levels of managerial ownership reported positive associations with dividend pay-out unlike those firms whose managerial ownerships held low concentration. It was concluded that the level of managerial ownership highly influenced pay-out of dividends.

Also, it was pointed out that firms that were dominated with managerial ownership vested with absolute voting power, cash dividend payment was zero. On the same note, the analysis of Chen, Cheung, Stouraitis and Wong (2005) examined the link between managerial ownership and dividend policy of firms listed at Hong Kong Stock Exchange in Asia. A longitudinal study was used in a period spanning for 15 years. Time series data was used and analysis was done using OLS. The results showed a negative association
between managerial ownership and dividend policy. This study limited itself to managerial ownership and ignored other types of ownership structures. While examining the effect of institutional and managerial ownership on dividend policy in banks in Asia.

Wen and Jia (2010) adopted a descriptive design, panel data was used and analysis was done using a regression equation and correlation analysis. The results revealed that managerial and institutional ownership were negatively associated to dividend policy. This research was executed in a global setting whose situations are different the local settings. Mehrani, Moradi and Eskandar (2011) showed an inverse relationship amidst managerial ownership and dividend payment policy in Tehran Stock Exchange. A correlation form of design was employed and panel form of data. Analysis was done using linear regression and the findings showed that institutional type of ownership was inversely linked to dividend pay-out. Further, the association between managerial ownership and divided policy has been found to be negative in both developed and developing economies.

Shabbir, Safda and Aziz (2013) did an analysis involving the link between managerial structure of ownership and firms’ market value and the findings showed that there was a diverse connection between the firm’s market value and managerial ownership. This is based on the understanding that if Q happens to fluctuate and then it raises the amount of board of directors’ owners will increase in the firm. Espen and Verma (2014) tested the link between types of ownership structure and dividend policy in OMX Stockholm Exchange in Sweden from 2010-2015. An exploratory design was adopted in a population of 310 firms. Panel form of data was used and analysis was done using a hierarchical regression model and descriptive statistics. A statistically significant relationship between managerial ownership and dividend policy was found to be present.

Ullah et al., (2012) investigated the link between ownership structure and dividend policy in Pakistan in the period 2003-2011. The results discovered an inverse link between managerial ownership and dividend pay-outs and positive relationships among institutional and foreign ownerships and dividend pay-outs. The findings also found that control variables such as management competence index and firm size reported a positive connection to dividend pay-out. Yi-Hua, Jeng-Ren and Yenn-Ru (2010) indicated that as the managerial ownership (insider ownership) increases there will be low conflicts of
interest between managers and outside shareholders, subsequently, reducing the agency costs and the need for high dividend payout. Kulathunga and Azeez (2016) claimed that when a large percentage of shares are in the hands of insiders they will have an opportunity to reduce dividend payout and retain cash inside the organization thus, create private benefits such as, increase salary and bonus at the expense of outsiders.

On the contrary, Al-Qahtani and Ajina (2017) noted that high percentage of managerial ownership will lead to an opportunistic behavior among board of directors that will result in high dividend levels to control this behavior. Hommei (2011) examined dividend policy and ownership structure in the Netherlands. The study revealed that there was a negative correlation between managerial ownership and dividend pay-out. Obaidat (2018) investigated ownership structure and dividends policy: Emerging market evidence. It was established that there was a negative relationship between managerial ownership and dividend policy. Nuraddeen and Hasnah (2015) studied ownership structure and dividend policy of conglomerates firms in Nigeria”. The findings revealed that there is a negative relationship between managerial ownership and dividend policy.

Wasike, Mutua and Mganda (2017) studied influence of management ownership on dividend policy of commercial banks in Kenya. It was established that there was a positive relationship between management ownership and dividend policy. The study suggested that investors consider ownership structure when making investment decisions. Kemboi (2018) conducted a research on effect of ownership structure on dividend payout of listed firms at the Nairobi Securities Exchange. The study established that there was a negative correlation between managerial ownership and dividend pay-out.

2.5 Foreign Ownership and Dividend Policy

Foreign direct investment is an investment that is meant to achieve a lasting management interest, in most cases it constitutes 10% of voting stock in a business that is operating in another country different from that of an investor (World Bank, 2010). A direct investment relationship is established when at least 10% of ordinary shares or voting stock is acquired. When ownership is less than 10%, it is termed as portfolio investment. Foreign ownership can also be looked at as the proportion of stock that is reserved by foreigners of all the stocks of a firm that includes foreign investors or foreign nationalities.
and foreign financial entities (Mirzaei, 2012). Le and Le (2017) postulated that foreign shareholders prefer more dividend payments in the weak corporate governance context because they are disadvantageous in terms of information regarding firm’s performance and market changes.

Shukla (2014) examined the effect of ownership structure and dividend policy: Evidence in India, a descriptive design was used, panel data was used and correlation and regression analysis techniques. It was concluded that firms with higher foreign ownership paid more dividends. Further, it was reported that there existed a positive association between foreign ownership and dividend pay-out. Asset tangibility and age of the firm were found to be insignificantly related to dividend policy. Foreign investors that hold large ownership may efficiently monitor firms in developing markets, because of their experience and skills in setting international standards and practices. Additionally, foreign ownerships enhance the interests of foreign analysis in firms (Thanatawhee, 2012). As such foreign analysis pushes the management to unveil their financial policies, through increasing their level of monitoring on the activities of the management and thus have limited need for the dividend-prompted monitoring tool. This is an indication of a negative association between foreign ownership and dividend pay-outs.

According to Hussain and Khan (2014), many investors from industrialized nations mostly hold stocks for emerging markets to achieve long-term growth however, this is not meant for short-term cash dividend incomes that will be generated, this is also indicative of an inverse correlation amid foreign ownership and dividend policies. While foreign investors have extensive international experience on investments and are better placed to examine the firm’s performance, it is not clear if foreign investors have the advantage to access information on stock trading, being new in the environment as well as differences in political and cultural backgrounds. Thus, monitoring the management in developing markets might be challenging and expensive to foreign investors, this demonstrates the importance and why there is need for dividend-induced capital market to monitor increases especially, increase in the proportion of foreign ownership resulting into a positive effect on foreign share-ownership on dividend policy. As such, there is paucity of evidence in understanding the effect that foreign investors have on dividend policy in developing economies. For instance, Lin and Shiu (2003) did an investigation involving foreign ownership in Taiwan and the results showed that foreign investors held shares
that had little dividend earnings, whereas a strong preference for firms that paid high dividends and thus a large foreign ownership contributed positively towards an improved distribution of dividends in those markets.

Covrig, Lau and Ng (2006) in their research found that foreign fund managers lacked preference for high dividends. Foreign institutional investors that command more than 5% of a company’s share as opposed to the entire foreign shareholders, can impact positively on corporate dividends. The implication of this is that a foreign stakeholder with 5% ownership has a greater influence on dividend decisions as compared to five foreign shareholders with only 1% each. Moreover, the more the shares held by foreign institutional investors the more shares foreign institutional investors have against the preceding year. Thus, foreign institutional investors will have more influence on the firm’s dividend decisions. This is underpinned by the fact that foreign institutional investors monitor the management of institutions by wielding influence over dividend policy toward paying more dividends in emerging markets.

Chai (2010) acclaimed that foreign ownership was positively associated to dividend payment since foreign investors preferred investing in large and profitable firms that paid high dividends as demonstrated at the Korean stock market. Large firms were stable and profitable to invest on as opposed to smaller firms. The reasons given were that smaller firms reported losses and thus were unable to pay dividends as compared to large firms. Thus, majority of foreign investors invested in large firms that were deemed to be profitable in order to get dividend payments. Baba (2009) studied the influence of foreign ownership on dividend pay-out of Japanese firms; an exploratory design was used in a sample of 65 firms. Time series data was used and OLS methods were used for data analysis and the findings revealed that that higher foreign investor ownership was positively linked to higher dividend policy. The study limited itself to foreign ownership.

On the contrary, higher foreign ownership was linked to lower dividend payouts. In their study Lam, Sami and Zhou (2012) explored cross-listing of foreign ownership and state ownership in dividend policy of emerging Chinese markets. A descriptive design and panel data were used. Data was analyzed using Ordinary Least Square method and the results showed a statistically significant and negative relationship between foreign ownership and dividend. This study was carried out in a developed country which is
different from the local setting. Basil Al-Najjar (2016) tested the effect that ownership structure had on dividend policy in Turkey. This took place after monumental reforms in 2003. A descriptive form of design was applied using huge data set panel of 264 firms in Istanbul Stock Exchange that comprised of non-financial and non-utility firms in a duration spanning for 10 years (2003-2012). The empirical findings demonstrated that foreign were associated with a limited likelihood to pay dividends.

Xuan (2015) did an investigation involving the effect of foreign ownership and dividend policy in Vietnam stock market. A descriptive form of research design was employed and a comprehensive data consist of both firm characteristics and market data for 2007-2012. Various econometric approaches for analysis of panel data and a blend of fixed and random effects were applied. GMM estimator will be employed to deal with bias because of endogeneity and other biases that might arise from least squared estimators. The findings showed that foreign investors opted to invest in firms that paid low dividends and when they grew to larger stakeholders, foreign investors forced firm managers to pay smaller dividends and retain high incomes so as to take advantage of developing market opportunities.

Jin, Cheolwoo and Moffett (2011) tested the effect that foreign ownership had on pay-out policy in Korean stock markets. The findings depicted that foreign investors demonstrated a preference to firms that paid high levels of dividends. When they had substantial shareholdings, foreign investors led firms I paying additional dividends. The findings were driven by the fact that majority of the foreign investors in Korean markets were institutional investors, and they had monitoring incentives and dividend clienteles. Though, foreign investors neither show preference to firms which buy back securities, nor are they linked towards encouraging firms to enhance repurchases.

Yi-Chein and Bo-Song (2015) tested the link between dividend pay-out and foreign ownership of Taiwanese listed firms. A longitudinal design was employed for a period spanning for 25 years. Panel data was used and ordinary least square method was employed to test the association amid variables. The findings disclosed that foreign ownership played a vital role for dividend pay-out decisions of the firm. Several firms were found to get their motivation by foreign ownership to pay dividends. Similarly, Sackinc and Gungor, (2015) studied the link between ownership structure and dividend
policy of firms listed at Istanbul Stock Exchange, an exploratory design, panel data and a regression equation. The findings depict a significant and negative connection between foreign ownership composition and dividend. This study limited itself to ownership structure. Accordingly, these results also show that increase in foreign ownership minimizes dividend payout ratios. Foreign shareholders choose not to distribute profits to their stakeholders or distribute a small amount and use net income to invest.

Obaidat (2018) investigated ownership structure and dividends policy: Emerging market evidence. It was established that there was a negative relationship between foreign ownership and dividend policy. Kemboi (2018) conducted a research on effect of ownership structure on dividend payout of listed firms at the Nairobi Securities Exchange. It was revealed that that there was a negative correlation between foreign ownership and dividend pay-out. Kamau (2017) studied the impact of ownership structure on dividend policy of listed banks in Kenya. The study showed that there is a negative correlation between foreign ownership and dividend payout. Afensimi and Famous (2019) examined ownership structure and dividend policy in Nigerian quoted companies. It was suggested that firms should implement the use of diverse ownership structure. The ownership structure should have managerial, foreign, and institutional ownership. This will help a company have a dividend policy decision that is balanced and prevent takeover, address agency issues and put the company in a sustainable path in the long run.

Warrad (2012) studied the effect of ownership structure on dividend payout policy: evidence from Jordanian Context. The study revealed that there was a positive and significant relation between foreign ownership structure and the dividends payout policy. Dandago, Farouk and Muhibudeen (2015) conducted a research on corporate shareholding structure and dividend payout ratio of listed Chemical and Paints Companies in Nigeria. It was established that foreign shareholdings has a positive and strong significant influence on dividend payout ratio. The study recommended that firms should increase the number of shares assigned to institutional shareholders and foreign shareholders through this, the firm will be able to increase payment of dividend to shareholders.
2.6 Chapter Summary

The chapter reviewed literature by several scholars on ownership structure on dividend policy of listed firms. More specifically, the literature was reviewed based on the following research objectives; determine how state ownership affects dividend policy of financial firms listed at the NSE, determine how institutional ownership affects dividend policy of financial firms listed at the NSE, determine how managerial ownership affects dividend policy of financial firms listed at the NSE and determine how foreign ownership affects dividend policy of financial firms listed at the NSE and how they influence dividend decisions and policy and a chapter summary. The next chapter focused on the research methodology that entailed the design for the research, population, sampling, methods of collecting data and analysis.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

The chapter provides the research methodology that was employed by the researcher to address the research questions. Research methodology acts as a guide on how a study will be carried out in order to achieve the objective of the study. This chapter covered the following sub-sections: research design, target population, data collection methods, research procedures, data analysis approaches and chapter summary.

3.2 Research Design

According to Saunders, Lewis and Thornhill (2009), a research design is a set of methods and procedures that are utilized in collecting and analyzing measures of the variables identified in the research problem. This study adopted a descriptive research design. Burns and Grove (2010) define descriptive research as a design that is meant to provide a picture of a situation as it happens naturally. The design may be utilized to justify current practice, make judgment and develop theories. Robson and McCartan (2016), indicate that the main goal of a descriptive research is to demonstrate a clear profile of people, objects, events and situations in an investigation. It is important to have a clear picture of the phenomena on which you intend to collect data before data collection (Saunders et al., 2009). Since the main study variables in this study were clearly defined, the descriptive design was appropriate for this investigation. This position has been supported by Cooper and Schindler (2002), who pointed out that descriptive design, is suitable for a study with clearly stated research questions. Previous researches used descriptive design (Kamau, 2015).

3.3 Population and Sampling

3.3.1 Population

Cooper and Schindler (2008) define population as a whole group of individuals, events or objects that possess similar attributes that fit to a specification. The population of this study included listed firms in the financial sector at NSE as at December, 2016, these included 11 companies listed under banking and 6 companies listed under Insurance category. Listed financial firms were chosen for this study because of their uniqueness in products and services and the nature of operations.
Because of the low number of the companies in the sector, a census was adopted hence no sampling was required. The choice of listed financial institutions was because they had been in existent during the study period of 2012-2016. The financial firms covered in this study are provided in the table below.

**Table 3.1: Target Population**

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<thead>
<tr>
<th>Banking Sub-Sector</th>
<th>Insurance Sub-Sector</th>
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<td>1. Barclays Bank Ltd</td>
<td>1. Jubilee Holdings</td>
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<td>2. Stanbic Holdings Plc</td>
<td>2. Sanlam Kenya Plc</td>
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<td>5. HF Group Ltd</td>
<td>5. Britam Holdings Ltd</td>
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<td>6. KCB Group Ltd</td>
<td>6. CIC Insurance Group Ltd</td>
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<td>8. NIC Group Plc</td>
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<td>9. Standard Chartered Bank Ltd</td>
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<td>10. Equity Group Holdings</td>
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<td>11. Cooperative Bank of Kenya Ltd</td>
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**3.3.2 Sampling Design**

Sampling design is the framework, or road map, that serves as the basis for the selection of a survey sample and affects many other important aspects of a survey (Mugenda & Mugenda, 2003).

**3.3.2.1 Sampling Frame**

A sample frame represents the comprehensive list of study subjects from which the research draws the sample size (Cooper & Schindler, 2002). For a sample frame to be valid, it has to contain holistic representation of the entire population. This study adopted a sample frame from the listed firms in the Nairobi Securities exchange (NSE).

**3.3.2.2 Sampling Technique**

Sampling technique takes two forms in statistics: probability sampling and non-probability sampling (Creswell, 2008). Probability sampling utilizes irregular testing
procedures to make a sample while non-probability sampling strategies utilize non-arbitrary procedures like purposive/judgment procedure, stratified sampling procedure, cluster random sampling, simple random, and multi-stag random sampling among others (Saunders, Lewis & Thornhill, 2013). The present research applied census. It targeted 17 listed firms in the financial sector at NSE as at December, 2012-2016, this included 11 banks and 6 insurance companies.

3.3.2.3 Sample Size
Sample size is the number of subjects included in a sample (Kumar, 2010). Slovin formula is used to calculate the sample size (n) given the population size (N) and a margin of error (e). It's a random sampling technique formula to estimate sampling size. By utilizing a census technique all the 11 banks and 6 insurance firms were considered for the study.

3.4 Data Collection Methods
This study used secondary sources of data to gather information that is suitable to achieve research objectives. Data from financial statements of financial institutions listed at NSE was obtained from Bloomberg Terminal. The data covered a duration spanning 5 years: 2012-2016, this duration was considered sufficient in enabling the researcher to establish a clear and reliable relationship between different types of ownership and their effect on dividend pay-out of listed firms at NSE. A data collection schedule was used to collect the information which included the proportion of common shares held per ownership structure for all the firms in the target population for each year in the study period and the respective dividend payout for the year. Dividend Payout was a calculated ratio obtained from Bloomberg Terminal and is a ratio between dividend paid and net income.

\[
\text{DPR} = \frac{\text{Dividends}}{\text{Net Income}}
\]

3.5 Research Procedures
Data collection schedule was used to collect secondary sources of data from financial statements of listed financial institutions. Data points were determined and all computations was made based on the study variables, seventeen financial institutions and 5-years’ time period. The researcher obtained a letter from Chandaria School of Business to help obtain a NACOSTI certificate.
3.6 Data Analysis Methods

The data collected was cleaned, sorted and coded into a statistical program for processing. Data sets were modeled into time series in line with the objective for this study. Data analysis was carried out through a series of procedures. Upon successful collection of data, the data was verified to ascertain that it is complete and consistent. Descriptive statistics inform of mean and standard deviation was used for interpretation of findings. Trend analysis was utilized in explaining the trend of the study variables. Correlation and regression analysis was used to establish the strength of the relationship between the variables. The focus of this study was establishing whether there existed any relationship between ownership structures and dividend pay-out of listed financial firms. Hence, the researcher regressed ownership structures against dividend pay-out to establish existing relationships between variables.

The equation \( Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + e \) was established as per the coefficient

Where;

- \( Y \) = Pay-out ratio
- \( X_1 \) – Institutional ownership
- \( X_2 \) – State ownership
- \( X_3 \) – Foreign Ownership
- \( X_4 \) – Managerial ownership

To assess the effect of institutional involvement in the dividend payout policy of financial firms, the research measured institutional ownership as the percentage of total outstanding shares of the firm held by the various institutions. Similarly, Al-Qahtani and Ajina (2017) and Al-Najjar and Kilincarslan (2016) also used the same units to measure the same units. The research measured state ownership as the percentage of total outstanding shares of the firm held by the states. Similarly, Al-Qahtani and Ajina (2017) and Al-Najjar and Kilincarslan (2016) also used the same units to measure the same units.

To evaluate the effect of management involvement in dividend policy of financial firm the research measured management ownership as the percentage of shares owned by any employee, manager or a director of the same firm. Al-Qahtani and Ajina (2017) also used the same units to measure the same units. To assess the effect of foreign involvement in
the dividend payout policy of financial firms the research measured foreign ownership as the percentage of total outstanding shares of the firm held by foreign institutions and individuals. Jeon, Lee, and Moffett (2011) and Al-Qahtani and Ajina (2017) used the same units to measure the same units.

3.7 Chapter Summary

Chapter three of this study provided a research methodology that the researcher adopted to accomplish the objective of this study. The research design was employed to establish the effect of ownership structure on dividend policy of listed financial firms in Kenya. The study used a descriptive research design and secondary sources of data. Data was analyzed using inferential and descriptive statistics. SPSS was used for data analysis. The next chapter covered data analysis and interpretation of the findings. These findings were discussed based on the research questions.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the results and findings attained from the data collected data based on objectives of the research for the period 2012-2016. The data was analyzed using descriptive where the means and standard deviation were computed. Inferential statistics was also applied and in particular Pearson correlation, regression analysis and ANOVA to establish the fitness of the model as well as to determine the link between the various ownership and dividend policy of financial and insurance firms listed at the Nairobi Securities Exchange. This chapter is divided into different sections including; the section on general information on dividend payment as well as, the second, third and fourth sections which presents the findings on how the various ownership structures affects dividend pay-out.

4.2 General Information

4.2.1 Dividend Payment

Analysis of the Payout ratios for the firms in revealed that 2016 had the highest dividend payout average of 32.22, this was followed by 2014 which had 22.50 while 2013 had an average payout of 22.47. The study also revealed that 2015 had an average payout of 21.53 while 2012 recorded the lowest dividend pay-out of 20.45. As shown in Table 4.1.

<table>
<thead>
<tr>
<th>Years</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>17</td>
<td>20.45</td>
<td>20.10</td>
</tr>
<tr>
<td>2013</td>
<td>17</td>
<td>22.47</td>
<td>18.43</td>
</tr>
<tr>
<td>2014</td>
<td>17</td>
<td>22.50</td>
<td>17.93</td>
</tr>
<tr>
<td>2015</td>
<td>17</td>
<td>21.53</td>
<td>36.54</td>
</tr>
<tr>
<td>2016</td>
<td>17</td>
<td>32.22</td>
<td>42.97</td>
</tr>
</tbody>
</table>
4.3 Effects of State Ownership on Dividend Policy of Financial Firms Listed at the NSE

To assess the effect of state involvement in the dividend payout policy of financial firms, the research measured state ownership as the percentage of total outstanding shares of the firm held by the states and the results were as follows.

4.3.1 Descriptive for State Ownership of Listed Banks in the NSE 2012-2016

The findings revealed that out of the 11 listed banks in the NSE only 5 have state ownership. Findings from descriptive statistics revealed that in 2012 state ownership was evenly distributed with the highest mean of 4.32 and a standard deviation of 7.91. The results show that 2016 had the lowest mean of 3.86 and a standard deviation of 8.09. The results also showed that 2013 had a mean of 4.22 and a standard deviation of 7.96, while 2014 had a mean of 4.20 and a standard deviation of 7.93. Results also showed that for 2015 the study recorded a mean of 3.99 and a standard deviation of 7.99.

Table 4.2: Descriptive for State Ownership of Listed Banks in the NSE 2012-2016

<table>
<thead>
<tr>
<th>Years</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>Pay Out Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>11</td>
<td>4.32</td>
<td>7.91</td>
<td>20.45</td>
</tr>
<tr>
<td>2013</td>
<td>11</td>
<td>4.22</td>
<td>7.96</td>
<td>22.47</td>
</tr>
<tr>
<td>2014</td>
<td>11</td>
<td>4.20</td>
<td>7.93</td>
<td>22.50</td>
</tr>
<tr>
<td>2016</td>
<td>11</td>
<td>3.86</td>
<td>8.09</td>
<td>32.22</td>
</tr>
</tbody>
</table>

4.3.2 Descriptive for State Ownership of Listed Insurance Firms in the NSE 2012-2016

The findings revealed that out of the 6 listed insurance companies in the NSE only 3 have state ownership. Findings from descriptive statistics revealed that in 2014 state ownership was evenly distributed with the highest mean of 23.91 and a standard deviation of 12.37. The results show that 2015 had the lowest mean of 10.14 and a standard deviation of 12.37. The results show that 2015 had the lowest mean of 10.14 and a standard deviation of 24.43. 2016 also had the lowest mean 10.14 and a standard deviation of 24.43. The results
also revealed that 2013 had a mean of 12.40 and a standard deviation of 23.91, while 2014 had a mean of 12.37 and a standard deviation of 23.91.

**Table 4.3: Descriptive for State Ownership of Listed Insurance Firms in the NSE 2012-2016**

<table>
<thead>
<tr>
<th>Years</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>Pay Out Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>6</td>
<td>10.11</td>
<td>24.35</td>
<td>20.45</td>
</tr>
<tr>
<td>2013</td>
<td>6</td>
<td>12.40</td>
<td>23.91</td>
<td>22.47</td>
</tr>
<tr>
<td>2014</td>
<td>6</td>
<td>12.37</td>
<td>23.91</td>
<td>22.50</td>
</tr>
<tr>
<td>2015</td>
<td>6</td>
<td>10.14</td>
<td>24.43</td>
<td>21.53</td>
</tr>
<tr>
<td>2016</td>
<td>6</td>
<td>10.14</td>
<td>24.43</td>
<td>32.22</td>
</tr>
</tbody>
</table>

### 4.3.3 Descriptive Statistics of State Ownership for both Banks and Insurance Companies Listed in the NSE 2012-2016

Analysis of the descriptive statistics of the various ownership structures established that in 2013 state ownership was evenly distributed with the highest mean of 7.11 and a standard deviation of 15.31, and a pay-out of 22.47. The results show that 2016 had the lowest mean of 6.07 and a standard deviation of 15.39, and a pay out 32.22. The results also showed that 2012 had a mean of 6.359 and a standard deviation of 15.24 and a pay-out of 20.45, while 2014 had a mean of 7.08 and a standard deviation of 15.30, and a payout of 22.50. Results also showed that for 2015 the study recorded a mean of 6.161 and a standard deviation of 15.35, pay out 21.53. As shown in Table 4.4.
Table 4.4: Descriptive Statistics of State Ownership for both Banks and Insurance Companies Listed in the NSE 2012-2016

<table>
<thead>
<tr>
<th>Years</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>Pay Out</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>17</td>
<td>6.35</td>
<td>15.24</td>
<td>20.45</td>
</tr>
<tr>
<td>2013</td>
<td>17</td>
<td>7.11</td>
<td>15.31</td>
<td>22.47</td>
</tr>
<tr>
<td>2014</td>
<td>17</td>
<td>7.08</td>
<td>15.30</td>
<td>22.50</td>
</tr>
<tr>
<td>2015</td>
<td>17</td>
<td>6.16</td>
<td>15.35</td>
<td>21.53</td>
</tr>
<tr>
<td>2016</td>
<td>17</td>
<td>6.07</td>
<td>15.39</td>
<td>32.22</td>
</tr>
</tbody>
</table>

4.3.4 Effect of State Ownership on Dividend Policy of Listed Financial Firms

The study sought to determine the relationship between state ownership and dividend policy and this was done through correlation and regression analysis as follows.

4.3.4.1 Correlation of State Ownership and Dividend Policy of Listed Financial Firms

A Pearson correlation analysis was done to establish the relationship between the dependent variable (dividend payout) against state ownership. The result established a negative insignificant relationship between the variables ($r=-0.106$, $p$-value=0.685). Therefore, implied that state ownership did not significantly influence dividend payout of Listed Financial Firms.

Table 4.5: Correlation of State Ownership and Dividend Policy

<table>
<thead>
<tr>
<th>Dividend payout</th>
<th>State Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>-.106</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.685</td>
</tr>
<tr>
<td>N</td>
<td>17</td>
</tr>
</tbody>
</table>

4.3.4.2 Regression of State Ownership and Dividend Policy

A regression analysis was also done between dividend payout and state ownership. The results showed that R value was 0.106 implying a weak relationship between the variables. The results also showed that the $R^2$ value was 0.011 hence 1.1% of the
variation in dividend payout was explained by the variations in state ownership, 98.9 \% was explained by other factors not included in the study as illustrated in Table 4.6.

**Table 4.6: Model Summary of State Ownership and Dividend Policy**

<table>
<thead>
<tr>
<th>Model</th>
<th>(R^2)</th>
<th>Adjusted (R^2)</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.106a</td>
<td>0.011</td>
<td>-0.055</td>
<td>0.011</td>
</tr>
</tbody>
</table>

*a. Predictors: (Constant), state ownership*

An ANOVA analysis was done between dividend payout and state ownership at 95\% confidence level, the F critical was 0.171 and the P value was (0.685) therefore state ownership had a statistically insignificant effect on dividend payout and the results are illustrated below in Table 4.7.

**Table 4.7: Anova of State Ownership and Dividend Policy**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>269.069</td>
<td>1</td>
<td>269.069</td>
<td>.171</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>23614.711</td>
<td>15</td>
<td>1574.314</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>23883.780</td>
<td>16</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*a. Dependent Variable: dividend payout  
b. Predictors: (Constant), state ownership*

As per Table 4.8, the equation \(Y = \beta_0 + \beta_1X_1\) becomes:

\[ Y = 31.521 - 0.269X_1 \]

Where \(Y\) is the dependent variable dividend payout

\(X_1\) – state ownership

The simple regression equation illustrated in Table 4.8 established that taking state ownership into account dividend policy had a positive increase of 31.521 units. The findings presented also showed that with all other variables held at zero, a unit change in state ownership would lead to a 0.269 negative change in dividend payout. The variable
was insignificant (p>0.05), therefore in the equation state ownership was not significant in determining dividend payout.

Table 4.8: Coefficients of State Ownership and Dividend Policy

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>31.521</td>
<td>10.528</td>
<td></td>
<td>2.994</td>
</tr>
<tr>
<td>State ownership</td>
<td>-0.269</td>
<td>0.651</td>
<td>-0.106</td>
<td>-0.413</td>
</tr>
</tbody>
</table>

4.4 Effect of Institutional Ownership on Dividend Policy of Financial Firms Listed at the NSE

To assess the effect of institutional involvement in the dividend payout policy of financial firms, the research measured institutional ownership as the percentage of total outstanding shares of the firm held by the various institutions and the results are as follows.

4.4.1 Descriptive for Institutional Ownership of Banks Listed in the NSE 2012-2016

The findings revealed that all 11 banks listed in the NSE all have institutional ownership. Findings on revealed that in 2012 institutional ownership was evenly distributed with the highest mean of 4.32 and a standard deviation of 7.91. In 2016 institutional ownership was evenly distributed with the highest mean of 4.32 and a standard deviation of 8.10. The results also revealed that 2013 had a mean of 8.00 and a standard deviation of 7.96, while 2014 had a mean of 4.20 and a standard deviation of 23.91. Results are shown in Table 4.9.
### Table 4.9: Descriptive for Institutional Ownership of Banks Listed in the NSE 2012-2016

<table>
<thead>
<tr>
<th>Years</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>Pay Out Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>11</td>
<td>4.32</td>
<td>7.91</td>
<td>20.45</td>
</tr>
<tr>
<td>2013</td>
<td>11</td>
<td>4.22</td>
<td>7.96</td>
<td>22.47</td>
</tr>
<tr>
<td>2014</td>
<td>11</td>
<td>4.20</td>
<td>7.93</td>
<td>22.50</td>
</tr>
<tr>
<td>2015</td>
<td>11</td>
<td>4.32</td>
<td>8.00</td>
<td>21.53</td>
</tr>
<tr>
<td>2016</td>
<td>11</td>
<td>3.86</td>
<td>8.10</td>
<td>32.22</td>
</tr>
</tbody>
</table>

### 4.4.2 Descriptive for Institutional Ownership of Insurance Companies Listed in the NSE 2012-2016

It was established that all 6 insurance companies listed in the NSE all have institutional ownership. With regard to institutional ownership the highest mean recorded was 12.40 in 2013 with a standard deviation of 23.91. The study also showed that lowest mean was recorded in 2012 with a figure of 10.11 and a standard deviation of 24.35. It was also established that in 2014 the mean was 12.37, standard deviation 23.91, while in 2015 the mean was 10.14 and a standard deviation of 24.43. The study also shows that in 2016 the mean was 10.14 and a standard deviation of 24.43. As shown in Table 4.10.

### Table 4.10: Descriptive for Institutional Ownership for Insurance Companies Listed in the NSE 2012-2016

<table>
<thead>
<tr>
<th>Years</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>Pay Out Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>6</td>
<td>10.11</td>
<td>24.35</td>
<td>20.45</td>
</tr>
<tr>
<td>2013</td>
<td>6</td>
<td>12.40</td>
<td>23.91</td>
<td>22.47</td>
</tr>
<tr>
<td>2014</td>
<td>6</td>
<td>12.37</td>
<td>23.91</td>
<td>22.50</td>
</tr>
<tr>
<td>2015</td>
<td>6</td>
<td>10.14</td>
<td>24.43</td>
<td>21.53</td>
</tr>
<tr>
<td>2016</td>
<td>6</td>
<td>10.14</td>
<td>24.43</td>
<td>32.22</td>
</tr>
</tbody>
</table>
4.4.3 Descriptive for Institutional Ownership for both Banks and Insurance Companies Listed Financial Institutions

With regard to institutional ownership the highest mean recorded was 61.52 in 2013 with a standard deviation of 22.47. The study also showed that lowest mean was recorded in 2015 with a figure of 57.69 and a standard deviation of 26.82. It was also established that in 2012 the mean was 58.11, standard deviation 26.31, while in 2014 the mean was 59.97 and a standard deviation of 25.86. The study also shows that in 2016 the mean was 60.74 and a standard deviation of 25.47. Results are shown in Table 4.11.

Table 4.11: Descriptive of Institutional Ownership for both Banks and Insurance Companies Listed Financial Institutions

<table>
<thead>
<tr>
<th>Years</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>Pay Out</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>17</td>
<td>58.11</td>
<td>26.31</td>
<td>20.45</td>
</tr>
<tr>
<td>2013</td>
<td>17</td>
<td>61.52</td>
<td>24.80</td>
<td>22.47</td>
</tr>
<tr>
<td>2014</td>
<td>17</td>
<td>59.97</td>
<td>25.86</td>
<td>22.50</td>
</tr>
<tr>
<td>2015</td>
<td>17</td>
<td>57.69</td>
<td>26.82</td>
<td>21.53</td>
</tr>
<tr>
<td>2016</td>
<td>17</td>
<td>60.74</td>
<td>25.47</td>
<td>32.22</td>
</tr>
</tbody>
</table>

4.4.4 Effect of Institutional Ownership on Dividend Policy of Financial Firms Listed at the NSE

To assess the effect of institutional involvement in the dividend payout policy of financial firms, the research measured institutional ownership as the percentage of total outstanding shares of the firm held by the various institutions and the results are as follows.

4.4.4.1 Correlation of Institutional Ownership and Dividend Policy of Listed Financial Firms

A Pearson correlation analysis was done to establish the relationship between the dependent variable (dividend payout) against institutional ownership and the result established a weak negative insignificant relationship between the variables (r=-0.027, p-
value=0.919). Therefore, implied that institutional ownership did not significantly influence dividend payout of Listed Financial Firms.

Table 4.12: Correlation of Institutional Ownership and Dividend Policy

<table>
<thead>
<tr>
<th>Dividend payout</th>
<th>Institutional Owner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>-.027</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.919</td>
</tr>
<tr>
<td>N</td>
<td>17</td>
</tr>
</tbody>
</table>

4.4.4.2 Regression of Institutional Ownership and Dividend Policy

A regression analysis was also done between dividend payout and institutional ownership. The results showed that R value was 0.027 implying a weak relationship between the variables. The results also showed that the $R^2$ value was 0.01 hence 0.1% of the variation in dividend payout was explained by the variations in institutional ownership, 99.9% was explained by other factors not included in the study as illustrated in Table 4.13.

Table 4.13: Model Summary of Institutional Ownership and Dividend Policy

<table>
<thead>
<tr>
<th>Mode</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
<th>F</th>
<th>df</th>
<th>df</th>
<th>Sig. F Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.027</td>
<td>0.001</td>
<td>-0.066</td>
<td>39.889</td>
<td>0.001</td>
<td>0.011</td>
<td>1</td>
<td>15</td>
<td>0.919</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), institutional ownership

An ANOVA analysis was done between dividend payout and institutional ownership at 95% confidence level, the F critical was 0.011 and the P value was (0.919) therefore institutional ownership had a statistically insignificant effect on dividend payout and the results are illustrated in Table 4.14.
Table 4.14: Anova of Institutional Ownership and Dividend Policy

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>16.894</td>
<td>1</td>
<td>16.894</td>
<td>.011</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>23866.886</td>
<td>15</td>
<td>1591.126</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>23883.780</td>
<td>16</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: dividend payout
b. Predictors: (Constant), institutional owner

As per Table 4.15, the equation \( Y = \beta_0 + \beta_1 X_1 \) becomes:

\[ Y = 32.219 - 0.041X_1 \]

Where \( Y \) is the dependent variable dividend payout

\( X_1 \) – institutional ownership

The simple regression equation illustrated in Table 4.15 established that taking institutional ownership into account dividend policy had a positive increase of 32.219 units. The findings presented also showed that with all other variables held at zero, a unit change in institutional ownership would lead to a 0.041 negative change in dividend payout. The variable was insignificant (p>0.05), therefore in the equation institutional ownership was not significant in determining dividend payout.

Table 4.15: Coefficients of Institutional Ownership and Dividend Policy

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>32.219</td>
<td>25.791</td>
<td></td>
<td>1.249</td>
</tr>
<tr>
<td>Institutional owner</td>
<td>-.041</td>
<td>.400</td>
<td>-.027</td>
<td>-.103</td>
</tr>
</tbody>
</table>

a. Dependent Variable: dividend payout
b. Predictors: (Constant), institutional owner
4.5 Effect of Managerial Ownership on Dividend Policy of Financial Firms Listed at the NSE

To assess the effect of managerial ownership on the dividend payout policy of financial firms the research measured managerial ownership as the percentage of total outstanding shares of the firm held by the managers and employees of the firm and the results are as follows.

4.5.1 Descriptive for Managerial Ownership of Banks Listed in the NSE 2012-2016

The findings revealed that that all 11 banks listed in the NSE only 4 have managerial ownership. Managerial ownership was evenly distributed with the highest mean of 19.90 in 2012, standard deviation of 23.59. The lowest mean of 14.22 was also recorded in 2016 with a standard deviation of 24.52. The study also established that for 2013 the mean was 19.66 and the deviation was 23.01, while in 2014 the mean was 5.19 with a standard deviation of 14.36 and 2015 had a mean of 18.89 and standard deviation of 21.04. As illustrated in Table 4.16.

Table 4.16: Descriptive for Managerial Ownership of Banks Listed in the NSE 2012-2016

<table>
<thead>
<tr>
<th>Years</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>Pay Out</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>11</td>
<td>19.90</td>
<td>23.59</td>
<td>20.45</td>
</tr>
<tr>
<td>2013</td>
<td>11</td>
<td>19.66</td>
<td>23.01</td>
<td>22.47</td>
</tr>
<tr>
<td>2014</td>
<td>11</td>
<td>17.31</td>
<td>23.57</td>
<td>22.50</td>
</tr>
<tr>
<td>2015</td>
<td>11</td>
<td>18.89</td>
<td>21.04</td>
<td>21.53</td>
</tr>
<tr>
<td>2016</td>
<td>11</td>
<td>14.22</td>
<td>24.52</td>
<td>32.22</td>
</tr>
</tbody>
</table>

4.5.2 Descriptive for Managerial Ownership of Insurance Companies Listed in the NSE 2012-2016

Analysis done on managerial ownership for insurance companies revealed that only 5 insurance companies have managerial ownership. The Findings also showed that Managerial ownership was evenly distributed with the highest mean of 10.43 in 2014, standard deviation of 12.73. The lowest mean of 3.44 was also recorded in 2015 with a

43
standard deviation of 4.54. The study also established that in 2012 the mean was 4.62 and the deviation was 9.62, while in 2013 the mean was 5.53 with a standard deviation of 9.26 and 2016 had a mean of 3.78 and standard deviation of 5.75. As shown in Table 4.17.

Table 4.17: Descriptive for Managerial Ownership of Listed Insurance Companies Listed in the NSE 2012-2016

<table>
<thead>
<tr>
<th>Years</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>Pay Out</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>6</td>
<td>4.62</td>
<td>9.62</td>
<td>20.45</td>
</tr>
<tr>
<td>2013</td>
<td>6</td>
<td>5.53</td>
<td>9.26</td>
<td>22.47</td>
</tr>
<tr>
<td>2014</td>
<td>6</td>
<td>10.43</td>
<td>12.73</td>
<td>22.50</td>
</tr>
<tr>
<td>2015</td>
<td>6</td>
<td>3.44</td>
<td>4.54</td>
<td>21.53</td>
</tr>
<tr>
<td>2016</td>
<td>6</td>
<td>3.78</td>
<td>5.75</td>
<td>32.22</td>
</tr>
</tbody>
</table>

4.5.3 Descriptive Statistics of Managerial Ownership for both Banks and Insurance Companies Listed in the NSE 2012-2016

The results also established that managerial ownership was evenly distributed with the highest mean of 5.38 in 2014, standard deviation of 14.63. The lowest mean of 5.15 was also recorded in 2016 with a standard deviation of 14.30. The study also established that 2012 had a mean of 5.36 and a deviation of 14.80, it was also established that for 2013 the mean was 5.30 and the deviation was 14.60, while in 2015 the mean was 5.19 with a deviation of 14.36. As shown in Table 4.18.
Table 4.18: Descriptive Statistics of Managerial Ownership for both Banks and Insurance Companies Listed in the NSE 2012-2016

<table>
<thead>
<tr>
<th>Years</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>Pay Out</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>17</td>
<td>5.36</td>
<td>14.80</td>
<td>20.45</td>
</tr>
<tr>
<td>2013</td>
<td>17</td>
<td>5.30</td>
<td>14.60</td>
<td>22.47</td>
</tr>
<tr>
<td>2014</td>
<td>17</td>
<td>5.38</td>
<td>14.63</td>
<td>22.50</td>
</tr>
<tr>
<td>2015</td>
<td>17</td>
<td>5.19</td>
<td>14.36</td>
<td>21.53</td>
</tr>
<tr>
<td>2016</td>
<td>17</td>
<td>5.15</td>
<td>14.35</td>
<td>32.22</td>
</tr>
</tbody>
</table>

4.5.4 Effect of Managerial Ownership on Dividend Policy of Listed Financial Firms

The study sought to determine the relationship between managerial ownership and dividend policy and this was done through correlation and regression analysis as follows.

4.5.4.1 Correlation of Managerial Ownership and Dividend Policy of Listed Financial Firms

A Pearson correlation analysis was done to establish the relationship between dividend payout and managerial ownership and the result established a positive but insignificant relationship between the variables (r=0.013, p value =0.961). Therefore, implied that managerial ownership did not significantly influence dividend payout of Listed Financial Firms.

Table 4.19: Correlation of Managerial Ownership and Dividend Policy

<table>
<thead>
<tr>
<th></th>
<th>Managerial Owner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend payout</td>
<td>Pearson Correlation: .013</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed): .961</td>
</tr>
<tr>
<td></td>
<td>N: 17</td>
</tr>
</tbody>
</table>

4.5.4.2 Regression of Managerial Ownership and Dividend Policy

A regression analysis was also done between dividend payout and managerial ownership. The results showed that R value was 0.013 implying a weak relationship between the
variables. The results also showed that the $R^2$ value was 0.000 hence 0% of the variation in dividend payout was explained by the variations in managerial ownership, 100% was explained by other factors not included in the study as illustrated in Table 4.20.

### Table 4.20: Model Summary of Managerial Ownership and Dividend Policy

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
<th>F Change</th>
<th>df1</th>
<th>df2</th>
<th>Sig. F Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.013&lt;sup&gt;a&lt;/sup&gt;</td>
<td>0.000</td>
<td>-0.066</td>
<td>39.9</td>
<td>.000</td>
<td>0.002</td>
<td>1</td>
<td>15</td>
<td>0.961</td>
</tr>
</tbody>
</table>

<sup>a</sup> Predictors: (Constant), managerial ownership

An ANOVA analysis was done between dividend payout and managerial ownership at 95% confidence level, the F critical was 0.002 and the P value=0.961 therefore managerial ownership had a statistically insignificant effect on dividend payout and the results are illustrated in Table 4.21.

### Table 4.21: Anova of Managerial Ownership and Dividend Policy

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>3.938</td>
<td>1</td>
<td>3.938</td>
<td>.002</td>
<td>.961&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>Residual</td>
<td>23879.842</td>
<td>15</td>
<td>1591.989</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>23883.780</td>
<td>16</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<sup>a</sup> Dependent Variable: dividend payout

<sup>b</sup> Predictors: (Constant), managerial ownership

As per Table 4.22, the equation $(Y= \beta_0 + \beta_1X_1)$ becomes:

$Y= 28.060 + .063X_1$

Where $Y$ is the dependent variable dividend payout

$X_1$ – managerial ownership

The simple regression equation illustrated in Table 4.22 established that taking managerial ownership into account dividend policy had a positive increase of 28.060 units. The findings presented also showed that with all other variables held at zero, a unit change in managerial ownership would lead to a 0.063 positive change in dividend
payout. The variable was insignificant \( p=0.961 \), therefore in the equation managerial ownership was not significant in determining dividend payout.

Table 4.22: Coefficients of Managerial Ownership and Dividend Policy

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>28.060</td>
<td>35.445</td>
<td>.792</td>
<td>.441</td>
</tr>
<tr>
<td>Managerial ownership</td>
<td>.063</td>
<td>1.269</td>
<td>.013</td>
<td>.961</td>
</tr>
</tbody>
</table>

4.6 Effect of Foreign Ownership on Dividend Policy of Financial Firms Listed at the NSE

To assess the effect of foreign involvement in the dividend payout policy of financial firms, the research measured foreign ownership as the percentage of total outstanding shares of the firm held by foreign institutions and individuals and the results are as follows.

4.6.1 Descriptive Statistics of Foreign Ownership of Banks Listed in the NSE 2012-2016

It was established that all banks have foreign ownership. Foreign ownership was evenly distributed with the highest mean of 19.90 and a standard deviation of 23.59 in 2012 and lowest mean of 14.22 and a standard deviation of 24.52 in 2016. The study also established that 2013 had a mean of 19.66 and a standard deviation of 23.01, while in 2014 the study recorded a mean of 17.31 with deviation of 23.57. The findings also show that in 2015 the mean was 18.89 and a deviation 21.04. As shown in Table 4.23.
Table 4.23: Descriptive Statistics of Foreign Ownership of Banks Listed in the NSE 2012-2016

<table>
<thead>
<tr>
<th>Years</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>Pay Out</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>11</td>
<td>19.90</td>
<td>23.59</td>
<td>20.45</td>
</tr>
<tr>
<td>2013</td>
<td>11</td>
<td>19.66</td>
<td>23.01</td>
<td>22.47</td>
</tr>
<tr>
<td>2014</td>
<td>11</td>
<td>17.31</td>
<td>23.57</td>
<td>22.50</td>
</tr>
<tr>
<td>2015</td>
<td>11</td>
<td>18.89</td>
<td>21.04</td>
<td>21.53</td>
</tr>
<tr>
<td>2016</td>
<td>11</td>
<td>14.22</td>
<td>24.52</td>
<td>32.22</td>
</tr>
</tbody>
</table>

4.6.2 Descriptive Statistics of Foreign Ownership of Insurance Companies Listed in the NSE 2012-2016

It was established that all insurance companies have foreign ownership. Foreign ownership was evenly distributed with the highest mean of 10.43 and a standard deviation of 12.73 in 2014 and lowest mean of 3.44 and a standard deviation of 4.54 in 2015. The study also established that 2012 had a mean of 4.62 and a standard deviation of 9.62, while in 2013 the study recorded a mean of 5.53 with deviation of 9.26. The findings also show that in 2016 the mean was 3.78 and a deviation 5.75. As shown in Table 4.24.

Table 4.24: Descriptive Statistics of Foreign Ownership of Insurance Companies Listed in the NSE 2012-2016

<table>
<thead>
<tr>
<th>Years</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>Pay Out</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>6</td>
<td>4.62</td>
<td>9.62</td>
<td>20.45</td>
</tr>
<tr>
<td>2013</td>
<td>6</td>
<td>5.53</td>
<td>9.26</td>
<td>22.47</td>
</tr>
<tr>
<td>2014</td>
<td>6</td>
<td>10.43</td>
<td>12.73</td>
<td>22.50</td>
</tr>
<tr>
<td>2015</td>
<td>6</td>
<td>3.44</td>
<td>4.54</td>
<td>21.53</td>
</tr>
<tr>
<td>2016</td>
<td>6</td>
<td>3.78</td>
<td>5.75</td>
<td>32.22</td>
</tr>
</tbody>
</table>
4.6.3 Descriptive Statistics of Foreign Ownership for both Banks and Insurance Companies Listed in the NSE 2012-2016

Analysis done on Foreign ownership data established that foreign ownership was evenly distributed with the highest mean of 15.81 and a standard deviation of 20.14 in 2014 and lowest mean of 11.93 and a standard deviation of 20.07 in 2016. The study also established that 2012 had a mean of 14.50 and a standard deviation of 20.81, while in 2013 the study recorded a mean of 14.6 with deviation of 20.15. The findings also show that in 2015 the findings 13.43 and a deviation 18.468. As shown in Table 4.25.

Table 4.25: Descriptive Statistics of Foreign Ownership for both Banks and Insurance Companies Listed in the NSE 2012-2016

<table>
<thead>
<tr>
<th>Years</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>Pay Out</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>17</td>
<td>14.50</td>
<td>20.81</td>
<td>20.45</td>
</tr>
<tr>
<td>2013</td>
<td>17</td>
<td>14.67</td>
<td>20.15</td>
<td>22.47</td>
</tr>
<tr>
<td>2014</td>
<td>17</td>
<td>15.81</td>
<td>20.14</td>
<td>22.50</td>
</tr>
<tr>
<td>2015</td>
<td>17</td>
<td>13.43</td>
<td>18.46</td>
<td>21.53</td>
</tr>
<tr>
<td>2016</td>
<td>17</td>
<td>11.93</td>
<td>20.07</td>
<td>32.22</td>
</tr>
</tbody>
</table>

4.6.2 Effect of Foreign Ownership on Dividend Policy of Listed Financial Firms

The study sought to determine the relationship between foreign ownership on dividend policy and this was done through correlation and regression analysis as follows.

4.6.2.1 Correlation of Foreign Ownership and Dividend Policy of Listed Financial Firms

A Pearson correlation analysis was done to establish the relationship between dividend payout and foreign ownership and the result established a positive but insignificant relationship between the variables ($r=.135$, $p=0.606$). Therefore, implied that foreign ownership did not significantly influence dividend payout of Listed Financial Firms.
Table 4.26: Correlation of Foreign Ownership and Dividend Policy

<table>
<thead>
<tr>
<th>Dividend payout</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Ownership</td>
<td>.135</td>
<td>.606</td>
<td>17</td>
</tr>
</tbody>
</table>

4.6.2.2 Regression of Foreign Ownership and Dividend Policy of Listed Financial Firms

A regression analysis was also done between dividend payout and foreign ownership. The results showed that $R$ value was 0.135 implying a weak relationship between the variables. The results also showed that the $R^2$ value was 0.018 hence 1.8% of the variation in dividend payout was explained by the variations in foreign ownership, 98.2% was explained by other factors not included in the study as illustrated in Table 4.27.

Table 4.27: Model Summary of Foreign Ownership and Dividend Policy

<table>
<thead>
<tr>
<th>Model</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R Square Change</td>
<td>F</td>
<td>df1</td>
<td>df2</td>
</tr>
<tr>
<td>1</td>
<td>.135a</td>
<td>0.018</td>
<td>-0.047</td>
<td>39.539</td>
</tr>
<tr>
<td></td>
<td>0.018</td>
<td>0.278</td>
<td>1</td>
<td>15</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), foreign ownership

An ANOVA analysis was done between dividend payout and foreign ownership at 95% confidence level, the F critical was .278 and the P value was 0.606 therefore foreign ownership had a statistically insignificant effect on dividend payout and the results are illustrated below in Table 4.28.
Table 4.28: Anova of Foreign Ownership and Dividend Policy

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>433.998</td>
<td>1</td>
<td>433.998</td>
<td>.278</td>
<td>.606b</td>
</tr>
<tr>
<td>Residual</td>
<td>23449.782</td>
<td>15</td>
<td>1563.319</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>23883.780</td>
<td>16</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: dividend payout  
b. Predictors: (Constant), foreign ownership

As per Table 4.29, the equation \( Y = \beta_0 + \beta_1 X_1 \), becomes:

\[
Y = 16.885 + .617X_1
\]

Where \( Y \) is the dependent variable dividend payout

\( X_1 \) – foreign ownership

The simple regression equation illustrated in Table 4.28 established that taking foreign ownership into account dividend policy had a positive increase of 25.869 units. The findings presented also showed that with all other variables held at zero, a unit change in foreign ownership would lead to a 0.278 positive change in dividend payout. The variable was insignificant \((p=606)\), therefore in the equation foreign ownership was not statistically significant in determining dividend payout.

Table 4.29: Coefficient of Foreign Ownership and Dividend Policy

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>25.869</td>
<td>12.099</td>
<td>2.138</td>
</tr>
<tr>
<td></td>
<td>Foreign ownership</td>
<td>.272</td>
<td>.516</td>
<td>.135</td>
</tr>
</tbody>
</table>

4.7 Chapter Summary

This chapter has highlighted results and findings based on the effect of ownership structure on dividend policy. The first section provided an analysis of statistics on the payout, the second section dealt with data on state ownership, the third section looked at the data on institutional ownership, and the fourth section covered data on managerial ownership. Lastly, the final section reviewed data on foreign ownership. The data is
presented using mean and standard deviation, in order to show the level of association, the correlation and regression analysis was utilized. In chapter five, results will be discussed and relevant conclusions and recommendations made with regard to effect of ownership structure on dividend policy in financial firms listed at the NSE.
CHAPTER FIVE

5.0 DISCUSSIONS, CONCLUSION AND RECOMMENDATION

5.1 Introduction

The main objective of this study was to investigate the effect of ownership structure on dividend pay-out of listed financial firms at NSE. The study sought to find answers to the following: effect of state ownership on dividend pay-out of listed financial institutions, effect of institutional ownership on dividend pay-out, effect of managerial ownership on dividend pay-out and effect of foreign ownership on dividend pay-out of financial firms listed at the NSE. This chapter covers the summary, conclusion, recommendations and discussion.

5.2 Summary of Findings

The general objective of this study was to determine the effect of ownership structure on dividend policy of financial firms listed at the Nairobi Securities Exchange. The specific objectives of the study were to determine how state ownership, institutional ownership, managerial ownership and foreign ownership affects dividend policy of financial firms listed at the NSE.

This study adopted a descriptive research design and the population of this study included listed firms in the financial sector at NSE as at December, 2016, these included 11 companies listed under banking and 6 companies listed under Insurance category. Listed financial firms were chosen for this study because of their uniqueness in products and services and the nature of operations. A data collection schedule was used to collect the information which included the proportion of common shares held per ownership structure for all the firms in the target population for each year in the study period and the respective dividend payout for the year. The research measured state ownership as the percentage of total outstanding shares of the firm held by the states. Similarly, to assess the effect of institutional involvement in the dividend payout policy of financial firms the research measured institutional ownership as the percentage of total outstanding shares of the firm held by the various institutions. To assess the effect of foreign involvement in the dividend payout policy of financial firms the research measured foreign ownership as the percentage of total outstanding shares of the firm held by foreign institutions and individuals.
Data collection schedule was used to collect secondary sources of data from financial statements of listed financial institutions. The data collected was cleaned, sorted and coded into a statistical program for processing. Data sets were modeled into time series in line with the objective for this study. Data analysis was carried out through a series of procedures. Upon successful collection of data, the data was verified to ascertain that it is complete and consistent. Descriptive statistics inform of mean and standard deviation was used for interpretation of findings. Correlation analysis was used to establish the strength of the relationship between the variables. A regression analysis was adopted to establish the link between ownership structure and dividend policy. Dividend pay-out ratio was regressed against four variables: state ownership, institutional ownership, managerial ownership and foreign ownership.

To assess the effect of state involvement in the dividend payout policy of financial firms, the research measured state ownership as the percentage of total outstanding shares of the firm held by the states and the results revealed that in 2013 state ownership was evenly distributed with the highest mean of 7.11 and a standard deviation of 15.31, and a pay-out of 22.47. Results also showed that for 2015 the study recorded a mean of 6.16 and a standard deviation of 15.35, pay out 21.53.

To assess the effect of institutional involvement in the dividend payout policy of financial firms the research measured institutional ownership as the percentage of total outstanding shares of the firm held by the various institutions and the results showed that institutional ownership the highest mean recorded was 61.52 in 2013 with a standard deviation of 22.47. The study also showed that lowest mean was recorded in 2015 with a figure of 57.69 and a standard deviation of 26.82.

To assess the effect of managerial ownership on the dividend payout policy the findings established that managerial ownership was evenly distributed with the highest mean of 5.38 in 2014, standard deviation of 14.63. The lowest mean of 5.15 was also recorded in 2016 with a standard deviation of 14.35.

To assess the effect of foreign involvement in the dividend payout policy of financial firms the research measured foreign ownership as the percentage of total outstanding shares of the firm held by foreign institutions and individuals and the results showed that
Foreign ownership data established that foreign ownership was evenly distributed with the highest mean of 15.81 and a standard deviation of 20.14 in 2014 and lowest mean of 11.93 and a standard deviation of 20.07 in 2016.

A regression analysis was done and the results showed that institutional ownership and state ownership had a negative but insignificant change in pay-out ratio. However, findings also showed that foreign ownership and managerial ownership had a positive but insignificant change in pay-out ratio.

5.3 Discussions

5.3.1 Effects of State Ownership on Dividend Policy of Financial Firms

To assess the effect of state involvement in the dividend payout policy of 11 banks and 6 insurance firms listed in the NSE 2012-2016. It was revealed that only 5 banks and 3 insurance companies have state ownership. A Pearson correlation analysis was done to establish the relationship between the dependent variable (dividend payout) against state ownership. The result established that state ownership would lead to 0.106 negative change in pay-out ratio. Therefore, this implies that state ownership did not significantly influence dividend payout of listed financial firms. However, contrary to our findings, a study done by Abdelwahed (2014) on the link between state ownership and dividend policy in Egypt, it was disclosed that a significant and negative relationship existed amidst state type of ownership and dividend pay-out policies. This study limited itself to state ownership. Al-Shubiri et al., (2012) also studied the link between roles of managerial ownership, individual ownership, state ownership, foreign ownership and dividend pay-out of Saudi Stock Exchange. An explanatory design was applied in a duration spanning five years (2009-2013) and the findings unearthed that state ownership had a significant and positive relationship with dividend pay-out.

According to a study done by Bradford et al., (2013), on the effect of ownership structure on dividend policy in China. Panel data was used and a regression equation was used for analyzing data. An ordinary least square approach was utilized for data analysis and the results showed a positive connection between state ownership and paid up dividend. Further, a significant connection was found between firm size and dividend pay-out. Ben-
Nasr (2015) noted that state ownership impacts positively on a firm’s decision to either pay or not to pay dividends as well as the extent of dividends payment.

In China still, Desender (2009) investigated the impact of state ownership and political affiliations on dividends in China, a correlational design was used, panel data and a regression analysis. The results disclosed that State-Owned Enterprises (SOEs) paid more dividends as compared to non-SOEs. Borisova and Megginson (2011) also showed that there exists a positive linkage between state ownership and distribution of dividends showing that firms that incur high costs of agency tend to pay more dividends so as to build corporate reputation and thus secure attractive contract terms in financial markets to raise capital. Hence, payment of dividends is attractive to firms that have partial state ownership and are characterized by high costs of agency. The relative ease with which these firms secure financing could discourage monitoring and allow problems to develop. Wei et al., (2011) reported that there existed a significant and a positive correlation amid state ownership and cash dividends in China. The findings showed that Chinese firms that attained high levels of state ownership had a high likelihood of paying higher cash dividends. Control variables such as firm size, liquidity and capital to equity ratio recorded an insignificant and positive relationship.

5.3.2 Effects of Institutional Ownership on Dividend Policy of Financial Firms

To assess the effect of institutional involvement in the dividend payout policy of 11 banks and 6 insurance firms listed in the NSE 2012-2016. The findings showed that all banks and insurance companies have institutional ownership. A Pearson correlation was done to establish the relationship between dividend payout and institutional ownership established a unit change in state ownership would lead to 0.027 negative change in pay-out ratio. Therefore, this implies that institutional ownership did not significantly influence dividend payout of listed financial firms. Similar to our findings, according to a study done by Hofler and Julie (2015) results demonstrated that institutional ownership was insignificant in determining dividend pay-outs. A study done by Mehrani (2011) did not give any evidence involving existence of a significant link between the firms’ dividend policy and institutional investors. Ramli (2010) in his study, results showed that there lacked a significant link between institutional ownership and dividend pay-out. This
research was performed in a different country whose situations are different from the local setting.

In addition, a study done by Al-Shubiri (2012) et al., also recorded an inverse and significant linkage between institutional ownership and dividend per share. When there is a high level of institutional ownership in a firm, there is a minimal likelihood to use dividends as a means to reduce agency costs. This is so because they act as powerful monitors of management since they gain from economies of scale in gathering information and analysis. Institutional invest hire financial analysts to put up an efficient system to assess management decisions. Therefore, this makes it difficult to influence manager’s ideas when institutional stakeholders are present. Hence, there is likelihood to pay dividends and this may decline when institutional investors possess more shares. Azzam (2010) in his study it was revealed that institutional ownership had an inverse impact on dividend pay-out ratio. It was deduced that institutional ownership led to an increase in volatility of non-dividend paying stocks.

In contrary to our findings, a study done by Abdelsalam et al., (2008) reported a positive link amid institutional ownership and dividend policy of Egyptian firms. Correspondingly, Xuan (2015) revealed that the impact of institutional ownership on dividend pay-out ratios of Indian companies was positive, which was contradictory with the argument that the capability of institutions on account of their efficiency in monitoring lowers the need for dividend-induced approach. This was aligned to dividend-induced monitoring preferences of Indian institutions showing an increasing agency problem in developing markets in India and thus resulting into an inefficient institutional direct monitoring.

A study done by Al-Gharaibeh et al., (2013) results showed that institutional ownership provided incentive for the board to extend their influence and minimize use of funds in projects that did not promise good returns in turn pay high dividend. Similarly, firms with high levels of institutional ownership pay higher dividends since institutional investors are concerned about the management of the firm in order to protect their interests and this might result into high dividends pay-out. Short et al., (2002) in their study the results showed a positive alliance amid institutional ownership and dividend pay-out. Further,
the results showed that firm size and age of the firm were significantly linked to dividend pay-out.

5.3.3 Effects of Managerial Ownership on Dividend Policy of Financial Firms
To assess the effect of managerial ownership on the dividend payout policy of 11 banks and 6 insurance firms listed in the NSE 2012-2016. The findings revealed that only 4 banks and 5 insurance companies have managerial ownership. A Person correlation done to establish the relationship between dividend payout and managerial ownership established that a unit change in managerial ownership would lead to 0.013 positive but insignificantly influence on dividend payout of listed financial firms. According to study done by Shah et al., (2011) it was revealed that managers choose not to divide the stock profit so as to retain their control over cash flows which is considered as distributional. Thus, a reverse relationship is expected amidst managerial ownership and divided profits. Another perspective of low dividend payment when the firm is controlled by owner managers is that agency conflicts problem could be less severe when managers hold relatively key shareholder’s positions (Desender, 2009). Therefore, this implied that managerial ownership did not significantly influence dividend payout of Listed Financial Firms. A regression analysis was also done between dividend payout and managerial ownership. The results showed that R value was 0.193 implying a weak relationship between the variables.

A study by Snellingen and Dye (2012) indicated that management incentives and dividends are compliments other than substitutes, but this still remains to be an area of discussion. They indicated that the management was specifically meant to represent shareholder interest and that is the reason why they made huge allocations on monitoring and supervision costs. They argued that the level of management ownership impacted on dividend pay-out. Dahlquist (2001) examined the effect of managerial ownership and dividend policy of several firms in 37 countries, a longitudinal design was used in a period spanning for ten years and time series data, the findings showed that firms were more likely to pay dividends when the larger shareholders were not insiders. Most of the management preferred to retain their earnings instead of distributing it to the stakeholders in form of dividends with a view of using these resources to grow and expand the business as well as personal benefits.
Interestingly, Eckbo and Verma (1994) avowed that dividend declined with respect to high concentration of managerial ownership. He argued was based on the understanding that firms that recorded high levels of managerial ownership reported positive associations with dividend pay-out unlike those firms whose managerial ownerships held low concentration. It was concluded that the level of managerial ownership highly influenced pay-out of dividends. Knyazeva (2006) in his study results revealed that weakly governed managers faced a trade-off amid flexibility gains and expected stakeholder reaction to dividend decisions. In the absence of strong corporate governance, dividends can enhance efficient management investments and thus minimize agency problem. Espen and Verma (2014) the research revealed a statistically significant relationship between managerial ownership and dividend policy was found to be present.

In difference to our findings, a study done by Chen et al., (2005) results showed a negative association between managerial ownership and dividend policy. A study done by Wen and Jia (2010), results revealed that managerial and institutional ownership was negatively associated to dividend policy. Mehrani et al., (2011) showed an inverse relationship amidst managerial ownership and dividend payment policy in Tehran Stock Exchange. The findings showed that institutional type of ownership was inversely linked to dividend pay-out. Further, the association between managerial ownership and divided policy has been found to be negative in both developed and developing economies. Shabbir et al., (2013) in their study the findings showed that there was a diverse connection between the firm’s market value and managerial ownership. This is based on the understanding that if Q happens to fluctuate and then it raises the amount of board of directors’ owners will increase in the firm. Ullah et al., (2012) in their study, it was discovered an inverse link between managerial ownership and dividend pay-outs and positive relationships among institutional and foreign ownerships and dividend pay-outs. The findings also found that control variables such as management competence index and firm size reported a positive connection to dividend pay-out.

5.3.4 Effect of Foreign Ownership on Dividend Policy of Financial Firms

To assess the effect of foreign involvement in the dividend payout policy of 11 banks and 6 insurance firms listed in the NSE 2012-2016. The study showed that all banks and
insurance companies have foreign involvement. A Pearson correlation done to establish the relationship between dividend payout and managerial ownership established a foreign ownership would lead to 0.135 positive change in pay-out ratio but an insignificant effect. Results concur with a study done by Sackinc and Gungor, (2015) results found that depict a significant and negative connection between foreign ownership composition and dividend. A study done by Lam et al., (2012) results showed a statistically significant and negative relationship between foreign ownership and dividend. However, Basil (2016) in his study, empirical findings demonstrated that foreign were associated with a limited likelihood to pay dividends. Shukla (2014) examined the effect of ownership structure and dividend policy: Evidence in India, a descriptive design was used, panel data was used and correlation and regression analysis techniques applied. It was concluded that firms with higher foreign ownership paid more dividends. Further, it was reported that there existed a positive association between foreign ownership and dividend pay-out. Asset tangibility and age of the firm were found to be insignificantly related to dividend policy.

Lin and Shiu (2011) in their study, results showed that foreign investors held shares that had little dividend earnings, whereas a strong preference for firms that paid high dividends and thus a large foreign ownership contributed positively towards an improved distribution of dividends in those markets. Chai (2010) acclaimed that foreign ownership was positively associated to dividend payment since foreign investors preferred investing in large and profitable firms that paid high dividends as demonstrated at the Korean stock market. Large firms were stable and profitable to invest on as opposed to smaller firms. The reasons given were that smaller firms reported losses and thus were unable to pay dividends as compared to large firms. Thus, majority of foreign investors invested in large firms that were deemed to be profitable in order to get dividend payments.

Baba (2009) in his study findings revealed that that higher foreign investor ownership was positively linked to higher dividend policy. A research done by Xuan (2015) established that foreign investors opted to invest in firms that paid low dividends and when they grew to larger stakeholders, foreign investors forced firm managers to pay smaller dividends and retain high incomes so as to take advantage of developing market opportunities. Jin et al., (2011) in their study the findings depicted that foreign investors demonstrated a preference to firms that paid high levels of dividends. When they had
substantial shareholdings, foreign investors led firms paying additional dividends. The findings were driven by the fact that majority of the foreign investors in Korean markets were institutional investors, and they had monitoring incentives and dividend clienteles. Though, foreign investors neither show preference to firms which buy back securities, nor are they linked towards encouraging firms to enhance repurchases.

Yi-Chein and Bo-Song (2015) in their study, the findings disclosed that foreign ownership played a vital role for dividend pay-out decisions of the firm. Several firms were found to get their motivation by foreign ownership to pay dividends. Covrig et al., (2006) who found that foreign fund managers lacked preference for high dividends. Foreign institutional investors that command more than 5% of a company’s share as opposed to the entire foreign shareholders, can impact positively on corporate dividends. The implication of this is that a foreign stakeholder with 5% ownership has a greater influence on dividend decisions as compared to five foreign shareholders with only 1% each. Moreover, the more the shares held by foreign institutional investors the more shares foreign institutional investors have against the preceding year. Thus, foreign institutional investors will have more influence on the firm’s dividend decisions. This is underpinned by the fact that foreign institutional investors monitor the management of institutions by wielding influence over dividend policy toward paying more dividends in emerging markets.

Hussain and Khan (2014), many investors from industrialized nations mostly hold stocks for emerging markets to achieve long-term growth however, this is not meant for short-term cash dividend incomes that will be generated, this is also indicative of an inverse correlation amid foreign ownership and dividend policies. While foreign investors have extensive international experience on investments and are better placed to examine the firm’s performance, it is not clear if foreign investors have the advantage to access information on stock trading, being new in the environment as well as differences in political and cultural backgrounds. Thus, monitoring the management in developing markets might be challenging and expensive to foreign investors, this demonstrates the importance and why there is need for dividend-induced capital market to monitor increases especially, increase in the proportion of foreign ownership resulting into a positive effect on foreign share-ownership on dividend policy. As such, there is paucity of
evidence in understanding the effect that foreign investors have on dividend policy in developing economies.

5.4 Conclusions
5.4.1 Effects of State Ownership on Dividend Policy of Financial Firms

The findings presented showed that states ownership varies over time and for this study period, 2013 had the highest mean while the study recorded the lowest in 2016. The findings presented from the regression analysis showed that with all other variables held at zero, a unit change in in state ownership would resulted into a negative change in pay-out ratio, this thus implied that there was a negative relationship between government ownership and dividend payout.

5.4.2 Effects of Institutional Ownership on Dividend Policy of Financial Firms

The results indicated that majority of the firms have institutional shareholders and this ensures improved performance. This is because institutional investors have a better incentive and capabilities to collect and evaluate information pertaining to their investments on a regular basis. They also possess the capacity and capability to amend or bring up clauses that may act as deterrents, bring changes and caution management when the firm performs inadequately.

5.4.3 Effect of Managerial Ownership Dividend Policy Of Financial Firms

The findings presented also showed that with all other variables held at zero, a unit change in managerial ownership would lead to a positive but insignificant change in pay-out ratio. Managerial ownership promotes the interests of the management and stakeholders and this minimizes conflict of interests with respect to shareholder’s wealth maximization.

5.4.4 Effect of Foreign Ownership on Dividend Policy of Financial Firms

The findings presented also showed that a unit change in foreign ownership would lead to positive but insignificant change in pay-out ratio. This implied that firms tend to increase their dividend payout according to foreign ownership. This indicated that firms tend to adjust their financial strategies according to the possible internationalization of ownership structure. This is a factor that may be attributed to the fact that foreign-owned firms can
possess firm-specific advantages in form of better technological, financial, human expertise, experience, or resources, which give them more credibility and a stronger reputation than local firms enhancing them to achieve superior performance. Foreign ownership enhances the interests of foreign analysis in firms and as such foreign analysis pushes the management to unveil their financial policies, through increasing their level of monitoring on the activities of the management and thus have limited need for the dividend-prompted monitoring tool.

5.5 Recommendations

5.5.1 Recommendation for Improvement

5.5.1.1 Effects of State Ownership on Dividend Policy of Financial Firms

The findings presented also showed change in state ownership would have an inverse effect on pay-out ratio. There is a generally accepted view that state owned institutions are inefficient due to lack of separation of ownership and control making it very difficult to monitor managers. This study thus recommends that the financial firms should consider infusing management systems and divestiture program to attract more private individuals and institutions to co-own in firms with a majority state corporations share. Further the government should consider incorporating trainings on entrepreneurial skills and business acumen to make government owned firms to have advantage in terms of management, retaining some ownership in foreign and local firms to enhance shareholder’s confidence, protection of investments and managerial monitoring.

5.5.1.2 Effects of Institutional Ownership on Dividend Policy of Financial

The findings presented institutional ownership had a negative effect on the pay-out ratio. The study recommends that there should be policies set up to ensure that firms grow in age and size and spread out as a way of attracting more skills and competencies among the shareholders that can be tapped to improve firm performance. Further, the firms should consider adopting a combination of different ownership structure as a strategy to gain competitive advantage both in domestic and foreign markets. Different investors should also be incorporated to bring on board a wide variety of skill and resources which can significantly impact on their financial performance financial firms.
5.5.1.3 Effect of Managerial Ownership on Dividend Policy of Financial Firms

The Stakeholder’s theory emphasizes that shareholders and management must engage each other in making managerial decision as part of the strategic planning process which is imperative to successful long-term planning. Therefore, the study recommends that in addition to incentive pay, the shareholdings of managers should be encouraged as a good incentive mechanism to aid the management and the shareholders to become united to promote the interest of both so that the managers will devote more time in the development of long-term interests of the firm therefore contributing to achievement of the contract objectives.

5.5.1.4 Effect of Foreign Ownership on Dividend Policy of Financial Firms

The study recommends that policy makers should create a conducive environment which will seek to attract more foreign investors, bearing the fact that foreign investors can bring along firm-specific advantages that may not be easily available to domestic firms. Foreign investors may also share better technological, financial, or human expertise, experience, or resources, which instead will offer stronger reputation for the local firm. Due to the changing business environment coupled with global competition, foreign investors should open opportunities for investors globally, the study recommends that there is need of having investor across all the economy ranging from Government, Foreigners and even local investors.

5.5.2 Areas for Further Research

The study only reviewed a sample of publicly listed firms and did not cover private or small firms. Therefore, the study recommends a further study to be carried out to include private and small firms to enable generalization of the results of effects of ownership structure on Dividend policy of firms. The study focused only on the Dividend policy of firms and ignored the non-financial goals which can be of critical importance to ownership structures. Therefore, the study recommends future study to take into account both financial and non-financial goals and assess them in firms having different ownership structures. The study only collected information and views from the company’s financial statements and ignored interested stakeholders and therefore the study recommends that future studies should incorporate the views of stakeholders and investors as they play a significant role in the performance of the company. The study
found out that different ownership structures did not significantly influence dividend policy of firms but did not come up with any minimum threshold of different ownership structures that can guide regulatory bodies in forming a policy of the required minimum threshold of different shareholding required for a firm to be listed. Further studies should be carried out to establish minimum required threshold of different ownership structure for to enhance dividend policy of listed firms. Further arising from the findings and the gaps in this study, a replica study is recommended in other firms in order to test whether the conclusions of this study will hold true.
REFERENCES


### APPENDIX I: DATA COLLECTION SCHEDULE

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<td>Years</td>
<td>Proportion of common shares held by state divided by total shares in issue.</td>
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<td>Years</td>
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<tr>
<td><strong>Years</strong></td>
<td>Proportion of common shares held by management divided by total shares in issue.</td>
<td>Ratio of dividend pay-out</td>
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<tr>
<td><strong>Years</strong></td>
<td>Proportion of common shares held by foreign investors divided by total shares in issue.</td>
<td>Ratio of dividend pay-out</td>
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APPENDIX II: LISTED FINANCIAL INSTITUTIONS AS AT 31ST DECEMBER, 2016

Banking

12. Barclays Bank Ltd
13. Stanbic Holdings Plc
14. I&M Holdings Ltd
15. Diamond Trust Bank Kenya Ltd
16. HF Group Ltd
17. KCB Group Ltd
19. NIC Group Plc
20. Standard Chartered Bank Ltd
21. Equity Group Holdings
22. Cooperative Bank of Kenya Ltd

Insurance

7. Jubilee Holdings
8. Sanlam Kenya Plc
9. Kenya Re-Insurance Corporation Ltd
10. Liberty Kenya Holdings Ltd
11. Britam Holdings Ltd
12. CIC Insurance Group Ltd
This is to certify that Mr. Stanley Kamanguya of United States University, has been licensed to conduct research in Nairobi on the topic: Effects of Ownership Structure on Dividend Policy of Financial Firms listed at the Nairobi Securities Exchange for the period ending: 18/December/2020.

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