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EFFECT OF CEO COMPENSATION ON DIVIDEND PAYOUT POLICY

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ABSTRACT: ***Purpose*** *- This study seeks to investigate the association between CEO compensation and dividend payout policy among listed firms in Kenya.* ***Design/methodology/approach*** *- The study used a sample of 40 firms listed in the Nairobi Securities Exchange(NSE) over the period 2009-2019. Data was analysed using fixed and random effect models to test the research hypothesis.* ***Findings*** *- The empirical results show that CEO compensation is significantly and positively associated with dividend payout policy.* ***Practical implications*** *– The study indicates that CEO compensation can be used as a corporate governance mechanism to lower agency conflict. Therefore, the findings offer useful information for managers and regulators in evaluating the effect of CEO compensation on shareholder return.* ***Research limitations/implications*** *- Due to a lack of data on equity compensation, the study cannot conclusively determine the effect of CEO compensation on dividend payout policy.* ***Originality/value*** *- Unlike previous studies that focused on the relationship between CEO compensation and accounting-based measures such as firm performance, this study contributes to the literature by examining the relationship between CEO compensation and dividend payout policy.*

KEYWORDS: CEO, Compensation, Dividend Payout Policy, Shareholder Return.

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INTRODUCTION

Dividend payout policy refers to firms' size and pattern of cash distribution (Baker & Weigand, 2015; Baker *et al.*, 2001). The understanding of dividend payout policy can be applied to a range of financing and investment decision-making processes, given that it has typically been analysed in relation to a firm's financing and investment decisions (Gupta & Banga, 2010; Won *et al.*, 2012). Pinto *et al.* (2019) further posit that dividend payout policy is one of the key financial decisions that CEOs must make as it directly affects a firm's investment and financing decisions. However, it is one of the contentious issues that financial economists must address since it serves a number of usually incompatible roles in financial management in order to address the many capital market flaws that exist in the real world. (Baker *et al.*, 2018; Dhanani, 2005). Despite years of research, studies still do not fully comprehend the factors that affect dividend payout policy and how these variables interact (Bhattacharyya, 2007). Bataineh (2021) further argues that CEOs are torn between retaining the earnings for future investments or paying a fraction of earnings as dividends. Frankfurter & Wood Jr. (2007) asserts that, although mostly symbolic (since dividend yields are only a small portion of current pricing), dividends are essential to satisfy shareholders and are consequently a clear managerial concern. However, it has been suggested that firms use dividends to resolve the agency problem between management and shareholders (DeAngelo *et al.*, 2004; Jensen, 1986). Therefore, financial theorists view dividend payout as one of the best strategies to lessen agency conflicts (Yahya & Ghazali, 2017).

Dividend payout policies differ greatly across countries due to discrepancies in tax systems, the effectiveness of signalling devices, and agency conflicts brought on by informational asymmetries (La Porta et al., 2000; Brockman & Unlu, 2009). Cultural considerations have recently been advanced as a potential additional explanation for this discrepancy (Khambata & Liu, 2005, Fidrmuc & Jacob, 2010, Shao *et al.*, 2010, Bae *et al.*, 2012). Evidence, however, suggests that in countries with weak protection for minority shareholders and a poor legal environment, governments and regulators have chosen to compel publicly listed companies to pay dividends in order to protect minority shareholders and creditors (Al-Najjar & Kilincarslan, 2017). For instance, Farooq and Ahmed (2022) show that firms in emerging economies seem to disperse more earnings as dividends (Bahrain- 54.83%, Morocco - 49.02%, Qatar - 44.83, Oman - 36.84% and Saudi Arabia 34.36%, Kenya - 28.13%) than those in developed nations (Canada - 4.07%, Greece - 5.96, Australia - 7.35%, United States - 7.96% and Bulgaria - 8.88%). Additionally, these firms that operate in countries with weak institutional environments are more likely to utilise dividends as a signal to enhance their reputation.

Drawing from Jensen and Meckling's (1976) agency theory, CEO compensation may be used to mitigate the agency problem. Contrarily, Shleifer, and Vishny (1997) contend that CEOs may use a variety of ways, such as influencing majority shareholders to enhance their own pay. However, finance literature offers suggestions for aligning the interest of CEOs and shareholders. Theorists contend that compensation should be tied to corporate performance in light of examples involving financial manipulation and exorbitant CEO compensation (Caliskan & Doukas, 2015). Chang (1993) argues that well-paid CEOs are more likely to pay low dividends if the firm has growth opportunities with positive net present value (NPV). Moreover, Dias et al. (2020) argue that the remuneration package should be designed to increase shareholder wealth and lower the likelihood of managers acting opportunistically. Furthermore, Burns et al. (2015) note that CEO incentive compensation may lower agency costs, especially for growth firms that are in weak institutional environments. Therefore, in

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order to resolve the agency problem between CEOs and shareholders, it is crucial to implement compensation structures that match the CEO's interests with those of the shareholders.

CEO compensation is a mechanism of rewarding decisions that benefit shareholders and is frequently linked to firm performance through salary, bonuses, and stock options (Callan & Thomas, 2014). On the other hand, compensation structures compel CEOs to make suboptimal corporate decisions in order to increase the value of their remuneration packages (Wu & Wu, 2020). Consistent with agency theory, CEO compensation should be aligned with dividend payout (Bhattacharyya *et al.*, 2008). Nevertheless, similar studies examining CEO compensation's effect on dividend payout policy report mixed and inconclusive findings (Anderson *et al*., 2020; Minnick & Rosenthal, 2014; De Cesari & Ozkan, 2015). Furthermore, empirical evidence on the relationship between CEO compensation and dividend payout policy has focused on firms based in developed countries (Pereira & Esperança, 2015). Anderson et al. (2020) also note that these studies are concentrated in developed countries with comparably similar institutional contexts. This suggests that the association between dividend payout policy and CEO compensation may be different from studies that use information from smaller and less established markets. Ullah *et al.* (2019) also observed that CEO compensation in developed markets is measured as the sum of salaries and equity-based compensation. However, the authors noted in emerging countries such as China, the data on equity-based compensation (such as stock options) was either missing or insufficient, which would not be appropriate for conducting a panel study. Moreover, Fan *et al.* (2011) observe that they are yet to know how emerging market managers are compensated. Similarly, like other developing countries, the firms operating in the Nairobi Securities Exchange function in a weaker regulated environment with less investor protection (Abor & Fiador, 2013). According to Musikali (2008), Kenya suffers in its attempts to implement good corporate governance due to the lack of a strong legal framework. Waweru and Prot (2018) attribute this to a lack of culture promoting good governance practices. To the best of our knowledge, this is the first attempt to consider the interaction between CEO compensation and dividend payout policy in the Kenyan context. Therefore, the study sought to determine the effect of CEO compensation on dividend payout policy for firms listed in the Nairobi Securities Exchange.

Institutional Setting

The Kenya's Companies Act 1948, adopted from England and revised in 2015, contains the statutory law governing corporate governance in publicly listed firms in Kenya. The Company Act primarily addresses director duties and shareholder protection. Furthermore, the Capital Markets Authority (CMA) supports the Kenyan Company Act, which issues guidelines on good corporate governance practices for publicly traded companies in Kenya. These guidelines, influenced heavily by the Cadbury Report (1992) and the King Report (2002), were Kenya's first official corporate governance codes, adopted in 2002, and were based on the comply or explain principle (Kimani et al., 2021). The corporate governance codes of 2002 were later revised and replaced with the corporate governance Codes of 2015. Under the 2015 corporate governance code, firms must disclose in their annual reports the following information: directors' remuneration policies, including a breakdown of senior executives/board members' compensation; investors with substantial shareholdings; and exposure on directors' aggregate loans. Outa *et al.* (2017) report that disclosures on compensation policies remain very low using the 2002 corporate governance codes. However, with the mandatory disclosures under the 2015 corporate governance codes, firms are expected to adopt the rule-based approach of apply or explain principle as opposed to the comply or explain principle. The comply or explain

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approach, which requires companies to either comply with governance standards or explain why they do not, contrasts with the apply and explain approach, recognising that a satisfactory explanation for non-compliance will be acceptable in certain circumstances (CMA, 2015). Moreover, the rule-based approach requires firms to disclose any noncompliance to relevant stakeholders fully and include a firm commitment to progress toward full compliance. Nevertheless, corporate governance studies in the African context have revealed that each African country has unique structural peculiarities and challenges that affect African firms' corporate governance structure and outcomes (Ozili, 2021). For instance, Areneke *et al.* (2019) report that respondents in Kenya believe that corporate governance regulations are still in their early stages of implementation, and evidence suggests that strict corporate governance enforcement is the single most important driver of corporate governance uptake adoption, without which the majority of firms may fail to comply with governance guidelines. Furthermore, Waweru and Prot (2018) state that corporate reporting in Kenya is unsatisfactory and that the lack of good corporate culture that captures the essence of good governance has contributed to recent corporate failures.

This paper is organised as follows. The following section explores the theoretical and empirical literature on CEO compensation and dividend payout policy. The subsequent section discusses the research methodology and measurement of variables. The fourth section presents the results and the discussion. The fifth section concludes. The final section discusses the study's limitations and makes suggestions for further research.

REVIEW OF THEORETICAL LITERATURE

Agency Theory

The conflict of interest between managers/executives and shareholders, known as agency conflicts, is brought on by firms' separation of ownership and control (Fama & Jensen, 1983; Jensen & Meckling, 1976). Pereira and Esperança (2015) posit that this agency conflict originates when a CEO prioritises personal interests over shareholder goals. This could be due to managerial incentives not being entirely aligned with the interests of shareholders (Jensen & Meckling 1976). Additionally, Yahya and Ghazali (2017) contend that there is a widespread perception that CEOs have vested interests and can influence other stakeholders to increase their own pay. However, Husni *et al*. (2020) assert that shareholders can lessen the CEO's self-interests by providing the CEO with suitable incentives and consenting to pay a monitoring fee to avoid agency conflicts. Prior studies on CEO compensation outcomes examined both financial and non-financial parameters. Non-financial outcomes include risk (Boateng *et al.*, 2022; Shah *et al*., 2017), innovation (Zulfiqar & Hussain, 2020; Smirnova & Zavertiaeva, 2017; Sheikh, 2018) and corporate strategic actions (Woo, 2019). Financial outcomes (such as dividend payout policy) primarily relate to various metrics of performance (Al-Shammari, 2021). Jensen & Murphy (1990) assert that CEO compensation is a performance-based incentive that aligns with agency theory's incentive alignment argument. Agency theory advances that CEO compensation can be utilised to diminish CEO opportunism by increasing shareholders' wealth and boosting firm performance. Dias *et al.* (2020) further recommend that CEO compensation should be tailored to increase shareholders' wealth while reducing the likelihood of CEOs engaging in opportunistic behaviour. However, Oehmichen *et al.* (2020) note that performance-based compensation appears to have undesirable outcomes, such as

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fraudulent earnings reporting, product safety problems, and neglect of long-term investment. Priya and Mohanasundari (2016) observe that dividends are frequently seen as a stronger indicator of firm performance in the absence of regular and accurate corporate reporting. Furthermore, agency theory proposes that CEO compensation should be designed to incentivise CEOs to enhance shareholders' wealth. Therefore, a favourable association between the CEO's remuneration and dividend payout policy should be established if CEO compensation is structured in this fashion. However, different CEO compensation plans give distinct CEO incentives to select corporate payout policies. In addition, agency theory assumes that contracting can eliminate the agency problem, but practically it faces many hindrances like information asymmetry, rationality, fraud, and transaction cost (Panda & Leepsa, 2017). It further assumes that CEOs are the principal component of the principal-agent interaction and that their performance largely depends on their ability, motivation, and ideal circumstance.

Theories of executive compensation

There are two dominant theoretical perspectives in the literature on executive compensation. First, optimal contracting theory proposes tying top management compensation to company performance as a tool to encourage managers to act in the best interests of shareholders, thereby reducing agency problems (Grossman & Hart, 1983; Holmstrom, 1979). Agency theory best explains the separation of ownership and management, agency conflict, and agency cost. Given the implications of agency theory, shareholders may suspect their managers' activities for agency conflicts and devise compensation and control mechanisms that align the interests of both parties (Fama, 1980). The nature of compensation contracts and the role of senior management are solely explained by optimal contracting theory. It states that shareholders have the ability to persuade the board to enter into performance-based contracts (Zulfiqar & Hussain, 2020). Consequently, based on agency theory, the optimal contracting theory implies a positive relationship between pay and performance, specifically, CEO compensation and dividend payout policy. The managerial power theory, the alternative to the optimal contracting theory, contends that managerial entrenchment and moral hazard could develop if managers have more influence over shareholders (Bebchuk & Fried, 2003). Choe *et al.* (2009) contend that the gist of managerial power theory is that the CEO's influence over the pay-setting process can result in a compensation contract that benefits the CEO at the expense of shareholders. In this case, executive compensation may encourage managerial rent-seeking rather than serving as managerial incentives for greater efficiency and firm performance. As a result, the managerial power theory suggests a negative relationship exists between pay and performance, specifically, CEO compensation and dividend payout policy. Furthermore, optimal contracting theorists attribute skyrocketing executive pay to talent scarcity and the increasing complexity of management duties, whereas managerial power theory credits the rise in executive pay to rent extraction by entrenched executives rather than market forces. (Rogal, 2019; Yarram & Rice, 2017).

From the standpoint of optimal contracting, it is assumed that the board and compensation committee will design managerial compensation to maximise shareholder value (Rahayu *et al.*, 2022). In the familiar principal-agent framework, the optimal CEO pay contract is the solution to a moral hazard problem. While not always perfect, the level and structure of CEO pay are the best available, given incomplete and asymmetric information. However, optimal contracting theory suffers from limitations. First, the optimal contracting theory assumes that shareholders’ and CEOs' interests vary, with shareholders being risk neutral and interested in the return on their investments, whereas the CEO might be risk averse, valuing the growth of

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the firm and utilising firm assets for their personal needs. In other words, the theory assumes that executives do not engage in self-serving behaviour during the contracting process because the misalignment between shareholders and executives is regarded as a cost rather than misbehaviour (Otten & Heugens, 2007). Furthermore, with the separation of ownership and control, the CEO's marginal benefit from his/her labour does not reflect his/her marginal contribution to firm performance. As a result, Van der Laan (2010) contends that efforts may be misdirected toward lavish perks consumption or strategies that benefit the CEO's utility over firm performance. Therefore, setting pay is not a perfect means of solving agency problems. On the other hand, managerial power theory assumes that board-approved compensation arrangements frequently deviate from optimal contracting because board members who are captured or subject to management's influence are sympathetic to management or are simply ineffective in overseeing compensation policies (Tiscini & Raoli, 2013). Managerial power theory has limitations as well, as procedural and psychological factors facilitate rent extraction (Rogal, 2019). First, board decisions are heavily influenced by information provided by executives. Second, directors are more likely to be wealthy, which alters their perception of fair compensation, and they have a tendency to assume that executives' high pay accurately reflects their worth. Third, firms typically delegate the task of recommending compensation levels based on market-rate metrics to independent compensation consultants and committees. The desire for reappointment influences consultants and committee members just as much as it does directors, which renders the compensation subject ineffective. As a result, consultants, committee members, and directors may believe that their personal interests are best served by not opposing the CEO pay package.

REVIEW OF THE EMPIRICAL LITERATURE

CEO Compensation and Dividend Payout Policy

Given the ability of dividend payment to reduce agency costs, it suffices to say that effective CEO compensation plans should be devised to encourage appropriate dividend payout policies((Bhattacharyya *et al.*, 2008). Also, the negative consequences of dividend reductions or omissions ensure CEOs commit future cash flows to maintain a specific level of dividend payments (Jensen,1986; Healy & Palepu, 1988; Kallapur, 1994). Therefore, there is a need to align CEOs' incentives and shareholders' interests to maximise firm value. In support of agency theory, several researchers have discovered a beneficial relationship between dividend payout policy and CEO compensation. For instance, White (1996) observed that shareholders are willing to pay more to CEOs who have higher reputations, i.e., pay out greater dividends. Moreover, based on the principal-agent paradigm, Bhattacharyya (2007) developed a framework based on the idea that investors expect CEOs only to make investments with a positive net present value. Investors would prefer that cash be distributed as dividends if such investments were not viable. Therefore, a CEO's remuneration contract encourages high-quality CEOs to retain and invest in firm earnings, while low-quality managers are motivated to distribute profits to shareholders. Other studies that firmly tie CEO compensation to dividend payments include Fenn and Liang (2001) and Lewellen *et al*. (1987).

The link between dividends and CEO compensation has been the subject of considerable similar empirical studies. However, the findings are inconclusive. For instance, using data from New Zealand, Anderson *et al*. (2020) found a significant negative association between dividend

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payout and managerial compensation. Examining all S&P 500 firms, Minnick & Rosenthal (2014) found that CEO compensation is significantly and positively associated with dividend payout. Furthermore, Pereira & Esperança (2015) contend that the majority of the executive compensation literature has focused on firms based in developed capital markets. Additionally, unlike in the UK and the US, and other developed countries, CEOs in Kenya are compensated with salaries, cash bonuses and allowances only. In their study, Hearn *et al.* (2017) report that compensation through stock options was not included because such practices are uncommon in developing countries, particularly in Africa. Furthermore, the problem with equity-based compensation, such as stock options, is that they have been avoided primarily due to the complexity of determining these figures (Ozdemir & Upneja, 2012). Previous studies on CEO compensation and dividend payout policy support the above argument. For instance, Barkley & Pan (2009) used a sample of 1600 from Standard & Poor's Compustat and ExecuComp databases firms and data from 1992 to 2006 to find a positive and significant link between CEO salary and a cash dividend. The authors concluded that CEOs with stock options prefer repurchases rather than distributing dividends. Similarly, using a sample of 2,788 observations from Standard & Poor's Execucomp database from 2008 to 2015, Wu and Wu (2020) revealed that the relationship between payout and compensation is dependent on compensation structure. When corporate payout policies are broken down into dividend payouts and share repurchases, CEOs with large options holdings reduce dividend payments while increasing share repurchases. Furthermore, De Cesari *et al.* (2015) found a positive connection between executive stock-based pay-performance sensitivity and executive shareholdings and the probability and level of dividend payouts and share repurchases from a sample of 6,982 firm-year observations in the U.K., France, Germany, Italy, the Netherlands and Spain. The study utilised data from 2002 to 2009.

Based on the above theoretical and empirical debate study hypothesises: -

H_1. CEO compensation has no significant effect on dividend payout policy.

Control Variables

Literature suggests that firm-specific characteristics such as firm size, firm age, leverage and profitability may have an influence on the firm's dividend payout policy.

Firm size and dividend payout policy

The size of a firm is an important element influencing dividend payout policy, and there is strong evidence from numerous findings showing there is a positive association between firm size and dividend payout policy (Bista *et al.*, 2019; Kumar & Ranjani, 2018; Patra *et al.*, 2012; Adjaoud & Ben-Amar, 2010). Roy (2015) assumes that large firms will use free cash flows to pay out dividends than to invest in growth prospects. Existing research, however, yields mixed results. Harada & Nguyen (2011) report a negative relationship between firm size and dividend payout policy among Japanese firms using data from 1,431 non-financial firms from 1995 to 2007.

Firm age and dividend payout policy

The empirical literature on the relationship between firm age and dividend payout policy yields contradictory results. Boumosleh and Cline (2015) and Al-Najjar and Kilincarslan (2018) contend that firm age is positively and significantly associated with dividend payout policy

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which is consistent with the argument that mature firms have a greater tendency to commit to paying dividends. However, Ofori-Sasu et al. (2017) observe that firms that have been in operation for a considerable period of time tend to lack growth opportunities to finance their operations and are hence more likely to forego dividend payments. As a result, it is assumed that there is a negative relationship between firm age and dividend payout policy.

Leverage and dividend payout policy

Leverage may have an impact on dividend payout policy because it can be used to alleviate potential free cash flow problems (Jensen & Meckling, 1976; Farinha, 2003; Renneboog & Trojanowski, 2007). According to the argument, highly leveraged firms will prefer to pay back the principal debt instead of paying dividends (Kumar & Ranjani, 2018). Rozef (1982) points out that the cost of the transactions associated with external financing reduces dividend payouts. Existing research supports the argument. Al-Kayed (2017) report a negative relationship between leverage and dividend payout policy among banks in Saudi Arabia from 2011 to 2014. Labhane and Mahakud (2016) discovered a negative relationship between leverage and dividend payout policy among banks in Indian firms using data from 1994–1995 to 2012–2013. However, Singla & Samanta (2018)found a positive relationship between leverage and dividend payout policy in a sample of 45 listed firms from 2011 to 2016.

Firm Performance and Dividend Payout Policy

Profitability is an essential determinant of dividend payout policy. According to Wahjudi (2020), firms with extremely high performance have the ability to distribute profits to shareholders. Therefore, the greater the profit earned, the greater the ability of the firm to pay dividends. Existing literature support this argument.Wahjudi (2020), Dewasiri *et al.* (2019) and Labhane & Mahakud (2016) identify profitability as a determinant with a positive impact on corporate dividend policy. However, Kaźmierska-Jóźwiak (2015) identify profitability as having a negative effect on dividend payout policy.

Measurement of variables

The dependent variable

The study used dividend policy measured using dividend per share divided by earnings per share (Budagaga, 2020; Wahjudi, 2020; Basri, 2019; Guizani, 2018; Ranajee, Pathak & Saxena, 2018; Patra, Poshakwale & Ow-Yong, 2012)

The independent Variable

The independent variable used in the study is CEO compensation. CEO compensation is calculated as the natural logarithm of total cash (salary plus bonus) compensation (Ozdemir & Upneja 2012)

Control Variable (Firm Size, Firm age, Leverage and Profitability)

Firm size (SIZE) is the logarithm of total assets (Adjaoud & Ben-Amar,2010; Patra *et al.*, 2012). Firm age was measured using *a* firm age foundation or firm age since incorporation (Khan, 2021; Eluyela *et al.*, 2019; Kumar & Ranjani, 2018; Ofori-Sasu *et al.*, 2017). The proxy for leverage was the ratio of long-term debt to total equity, considering 2009 and 2019 as the

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reference point (Basri, 2019; Wahjudi, 2020; Francis et al., 2011). Firm Performance was denoted as the ratio of net profit to total assets (Kaźmierska-Jóźwiak, 2015; Al-Najjar, 2011)

Table 1: Measurement of Variables

Variables	Indicators	Measurement	References
Dependent Variables			
Dividend Payout Policy	DP	This is the ratio of dividends per share to earnings per share for all available years	Budagaga (2020); Wahjudi. (2020); Basri (2019); Guizani, 2018; Ranajee, Pathak & Saxena (2018); Patra, Poshakwale & Ow-Yong (2012);
Independent variable			
CEO compensation	CEOCO	Natural logarithm of total cash (salary plus bonus) compensation	(Ozdemir & Upneja 2012).
Control Variables			
Firm Size	FZ	Natural log of total assets	Adjaoud & Ben-Amar, 2010; Patra, Poshakwale & Ow-Yong,2012)
Firm Age	FA	Logarithm of the number of Years since incorporation	Khan, 2021; Eluyela *et al.*, 2019; Kumar and Ranjani, 2018; Ofori-Sasu, Abor & Osei, 2017
Leverage	LEV	ratio long-term debt to total equity	Basri, 2019; Wahjudi, 2020; Francis, et al., 2011
Firm Performance	FP	ratio of net profit to total assets	Kaźmierska-Jóźwiak,2015; Al-Najjar, 2011

Model specification.

$Y= \beta_0 + \beta_2 FZ_{it} + \beta_3 FA_{it} + \beta_4 LEV_{it} + \beta_5 FP_{it} + \beta_1 X_{it} + Ɛ$ ……..…..….H_{01} This was used to test the effect CEO compensation, the dependent variable (Dividend payout policy) while holding constant the control variables.

Where;

B_0 is a constant

FZ Firm size

FA Firm age

LEV Leverage

FP Firm Performance

B_1X_{it} CEO compensation

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FINDINGS AND DISCUSSIONS

Descriptive Statistics

The descriptive statistics, for the raw data, of the research variables are presented in Table 1. This shows the average indicators of variables computed from the financial statements. The average dividend payout policy for the sample was around 0.339 with a range of -0.1778–0.899, implying that Kenyan listed firms pay 34% of the earnings as dividends. The standard deviation of 0.277 indicates that dividend payout policy varies significantly among Kenyan listed firms. CEO compensation, determined as the natural logarithm of total cash compensation, has a mean of 7.448 with a range of 6.107–8.344. The standard deviation of 0.347 indicates that there is no significant difference in the average level of CEO compensation among the listed firms studied. Firm size, given as the natural logarithm of total assets, was 10.411 on average, with values ranging from 8.288 – 11.958 and a standard deviation of 0.713, suggesting low variability in size. Firm age, measured as the logarithm of the number of years a firm has been in existence, has a mean of 1.828 with a range of 0.845-2.21. Firm age has a standard deviation of 0.151, meaning that the listed firms' age has a slight variation. Further, leverage has a mean value of 0.18(minimum = 0.010 and maximum = 1.7758), with a standard deviation of 0.309, meaning that the listed firms' leverage has a considerable variation. The mean firm performance was 0.06 (minimum = -0.3163 and maximum = 0.297), and the standard deviation of 0.1 suggests high variability in firm performance.

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
DV	440	.339	.277	-.1778	.899
CEOCO	440	7.448	.347	6.107	8.344
FS	440	10.411	.713	8.288	11.958
FA	440	1.828	.151	.845	2.210
LEV	440	.189	.309	0.010	1.775
FP	440	.060	.100	-.3163	.297

Correlation Analysis

Table 3 shows the pairwise correlation matrix of the research variables study. Correlation analysis aims to understand the nature and magnitude of the relationship between research variables. The correlation results presented in Table 3 indicate that CEO compensation (r = 0 233, $p < 0.05$) indicates a substantive and significant relationship with dividend payout policy. Firm size, age, and performance are positively and significantly correlated with the dependent variable. However, the correlation between leverage and divided payout policy is negative and significant. Further, the pairwise correlation matrix shows all coefficients below 0.8, confirming no multicollinearity.

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Table 3: Pairwise Correlation Analysis

	DV	CEOCO	FS	FA	LEV	FP
DV	1.000					
CEOCO	0.233*	1.000				
FS	0.141*	0.331*	1.000			
FA	0.323*	0.187*	0.141*	1.000		
LEV	-0.315*	-0.012	0.355*	-0.085	1.000	
FP	0.616*	0.084	0.014	0.175*	-0.356*	1.000

Regression Analysis

The study uses panel data, which uses panel data analysis techniques. The study's hypothesis is tested using the fixed effect regression results as supported by the results of the Hausman test (shown in Table 4). Based on the findings, CEO compensation has a positive and significant effect on dividend payout policy ($\beta = 0.221$, $\rho < 0.05$), implying that CEO compensation is associated with the increase in the listed firms' dividend payout policy; consequently, H_1 is rejected. The findings are consistent with White's (1996) findings, which show that dividend provisions in compensation agreements encourage CEOs to reduce cash monitoring costs. This also means that these firms experience slower-than-expected growth, leading to high monitoring, thus compelling these firms to tie CEO's pay to dividend payments. Furthermore, the dividend payout policy is regressed against four control variables. The results indicate a statistically significant and positive relationship between firm size and the dividend payout policy($\beta = 0.067$ and $\rho < 0.05$). The findings are consistent with previous studies that reported that the larger the firm, the higher the dividend payout (Bista *et al.,* 2019; Kumar & Ranjani, 2018; Patra *et al.,* 2012; Adjaoud & Ben-Amar, 2010). However, they contradict those of Harada and Nguyen (2011), who suggest a negative association between firm size and dividend payout. Hence, the study points out that larger firms pay more dividends than smaller ones. Firm age positively and significantly affected dividend payout policy($\beta = 0.276$ and $\rho < 0.05$). The findings are consistent with those of Boumosleh and Cline (2015) and Al-Najjar and Kilincarslan (2018), who argue that older firms are more likely to pay dividends than younger ones. However, they contradict Ofori-Sasu et al. (2017), who reported a negative association. Leverage had a negative and statistically significant effect on dividend payout policy ($\beta = -0.153$ and $\rho < 0.05$). The association suggests that highly leveraged firms pay less dividends. Labhane and Mahakud (2016) reported similar findings; however, Singla & Samanta (2018) found a positive relationship. Further, the association between firm age and dividend payout policy is positive and significant ($\beta = 0.682$ and $\rho < 0.05$), suggesting that highly profitable firms tend to pay high dividends than less profitable ones. This result agrees with Wahjudi (2020), Dewasiri *et al.* (2019) and Labhane & Mahakud (2016). However, they contradict Kaźmierska-Jóźwiak (2015), who found a negative association.

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Table 4: Regression results

DV	Fixed effect	Random effect	VIF	1/VIF
CONSTANT	-2.518(0.701)**	-1.854(0.418)**	-3.59	0.000
CEOCO	.221(0.096)**	.131(0.055)**	1.37	0.728
FS	.067(0.031)**	.054(0.024)**	1.36	0.738
FA	.276(0.119)**	.347(0.096)**	1.20	0.836
LEV	-.153(0.045)**	-.158(0.041)**	1.17	0.856
FP	.682(0.112)**	.860(0.106)**	1.08	0.927
R-squared	0.374	0.442		
No. observation	440	440		
No. groups	40	40		
Hausman chi2(5)		38.67		
Prob>chi2		0.000		

CONCLUSION

This study examines the effect of CEO compensation on the dividend payout policy of listed companies in Kenya. The analysis is performed using data derived from the financial statements of firms listed on the Nairobi Securities Exchange during an eleven-year period. The study adopted the FE and random effect models through the use of the Hausman test to test the hypotheses. The findings show that CEO compensation is positively and significantly associated with dividend payout policy. The evidence is consistent with White's (1996) findings that support the hypothesis that dividend provisions in compensation agreements allow a reduction of monitoring costs. Thus, CEO compensation is tied to dividend payments. This contradicts Bhattacharyya's (2007) model, which contends that managers with lower productivity (i.e., managers with less access to positive NPV projects) are encouraged to distribute more of their available earnings or cash as dividends, whereas managers with access to positive NPV projects are encouraged to invest more of their available earnings or cash in productive ventures, leaving less for dividend distribution. As a result, Bhattacharyya's (2007) model predicts that dividend payout policy is negatively related to managerial productivity.

On the basis of these findings, managerial, policy and theoretical implications can be drawn. First, the study suggests that CEO compensation can be used as a corporate governance mechanism to reduce agency conflict. Second, policymakers can oblige or incentivise firms to use dividend payout policies to reduce distortions caused by myopic or selfish managers when using accounting-based measures. Finally, only a handful of studies have discussed the relationship between CEO compensation and dividend payout policy, especially in emerging markets. Therefore, this study provides empirical evidence on the role of dividends and CEO compensation in mitigating agency costs in an emerging economy such as Kenya. The main limitation of this study is the lack of transparency in CEO equity disclosure, which means that the main estimation of the relationship between dividend payout policy and CEO compensation is achieved using cash compensation measures. Future research efforts in this area should consider how CEO compensations affect dividend payout policy in other emerging capital

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markets. The study is based in Kenya. Therefore, other countries in the region might validate the study's conclusions.

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