

A stochastic model of relationship between board demographics and firm diversification strategies in emerging markets: NSE, Kenya

Several researches have been conducted examining or interrogating dividend policies, diversification strategies, and corporate governance in firms. Empirical studies have also shown that agency problem continue to exist where there is lack of alignment of managers interest with those of the shareholders in terms of resource management and returns on the investment. The literature review has revealed that there is no single study that has specifically looked at the board demographics on relationship between firm diversification strategies and dividend payout. This research will be carried out on all firms listed at Nairobi Securities Exchange for the period 2004 to 2014. NSE is targeted since it is a regional investment hub with the highest number of listed firms (63) comparable to other East Africa Region Countries and perfectly fit the definition of emerging markets by Kumar and Tsetsekos, (1999). Firms trading at NSE are regulated by the Capital Markets Authority (CMA), an independent public agency charged with the responsibility of regulating and facilitating the development of orderly, fair and efficient capital markets in Kenya. The study will use panel data relating to the firms' and which will be obtained from the CMA. The study will focus on moderating role of board demographics on relationship between diversification strategies and dividends pay-out in emerging markets: NSE, Kenya. Causal research design will be used in the research. Data will be analysed using hierarchical linear modeling (HLM) for measuring structural differences in financial behavior of firms' and vector autoregression analysis (VAR) a system of dynamic linear relations for aggregate effect of independent variables on the dependent variable. This study will be guided by agency theory, free cash flow hypothesis and RBV theory. The study findings will be important to the managers of listed corporate organizations as it will provide a basis of converging the interest of managers with those of shareholders when pursuing value maximization strategies, to the academic field, it will generate new knowledge to the existing theory of finance and form the basis for future research while to the investors to make informed decision of buying into diversified firms. In addition it will illuminate on the role of corporate governance on adoption of investment opportunities and their effect on dividend pay-out. Lastly it will help the policy makers at CMA and NSE in formulating sound proactive governance policies on the diversification strategies pursued by listed firms in line with the shareholders wealth maximization principle and the realization of government's 2030 vision of making Kenya a middle income economy.