

The Influence of Chief Executive Officer Power on Diversity of Gender and Dividend Policy in Kenya

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Abstract

Enterprises management has encountered challenges emanating from internal manager's inability to successfully provide stewardship. The corporation's owners therefore, have to devise processes that guarantee that their stakes are safeguarded. In modern corporation's owners embrace mechanisms like board diversity to mitigate against managers' failures to act in their best interests. This paper's aim is to assess the influence of Chief Executive Officer Power moderation among gender diversity and dividend policy. The research employed an explanatory research design targeting corporations registered on the Nairobi Securities Exchange in time spanning from 2009 to 2015. The research findings indicate a favorable and important outcome on the interactions which implied that CEO power moderated the linkage between diversity of gender and dividend policy amid Kenya's enterprises hence diversity of gender is an important influence in corporation's board. The research forms a basis from which the regulatory authority could use to ensure full compliance to the statutory requirements on gender diversity so as to safeguard the stakes of stockholders in the enterprises.

Key words: Chief Executive Officer Power, Diversity, dividend policy, Gender, Kenya

INTRODUCTION

Dividend policy has been a challenge since the Modigliani and Miller's formative works of 1958 and 1961 (Black, 1976). This study showed that in an economy that is frictionless, when the outlay policy of an enterprise is static, its dividend payments results to poorer revenue reserves and gains on capital and vice versa, leaving aggregate capital of the investors constant. The studies further postulate that countries which practice common law have superior investors safeguards hence make higher dividend pay out to shareholders than the investors in the civil law countries whose legal regimes are weaker. The Capital Market Authority Act, 2002 in Kenya, obliges that board nominating committee considers a mix of skills and expertise, national outlook, gender representation, and should not represent particular community's stakes. Studies indicate that boards that are diverse were probable disbursers of dividends and inclined to disburse enhanced dividends than boards that are not diverse (Soku, Kiyong, & Young, 2016). These research aims to determine the extent to which Chief Executive Officer Power moderates the connection among diversity of gender and dividend policy in Kenya. Majority of investigations on diversity of the board and policy on dividend have been done in the developed economies with direct link between individual components of diversity of the board and policy on dividend. This investigation therefore, introduces Chief Executive Officer (CEO) power as a moderator in the association between diversity of the board and policy on dividend in

an evolving economy. The study attempts to investigate corporate governance mechanisms in terms of board diversity with an aim of determining whether board member's diversity has influence on dividend policies of firms.

Review of Theories

The agency theory is troubled with answering agency challenges. Problems of agency was first advanced by (Smith, 1937) in Panda and Leepsa (2017) in his study on "The Wealth of Nations" where he alluded that where a corporation is under control of an individual or a team of individuals employed by proprietors of the enterprise then there is a possibility that they may not operate in owner's interest. The problem of agency befalls as a consequence of differentiation between administration and proprietorship. Members of the governance organ position themselves amid entity managers and investors. Outlay resolutions are approved by governance organ members and could substitute top executives as representatives to investors (Thomsen & Conyon, 2012). Consequently, a governance body that is more diverse will be superior in addressing the problem of agency. An optimistic association among governance body member's diversity and enterprise returns is anticipated. Agency theory addresses interactions whereby obligation for decision making is entrusted by business owners to managers (Jensen & Meckling, 1976). This happens due to the need to separate control and ownership when the owners (principals) need to appoint managers (agents) to be responsible for everyday activities for the enterprise and need for keeping an eye on their performance so as to guarantee that agents perform responsibilities in greatest stake of vendors.

Resource dependence theory origin owes much to the University of Stanford and University of Illinois due to their contributions to organizational studies (Pfeffer, 2003) in (Davis & Cobb, 2010). The theory answers how a board of directors may ease treasured resources access. Prominence is on an institutions' capability to create networks to shelter admittance to essential assets like suppliers, customer's, cooperative partners or capital (Rondøy, Thomsen, & Oxelheim, 2006). A governance body that is highly diverse would exhibit greater admission to numerous types of resources.

The research also evaluates CEO Power in view of power circulation theory. Research postulate that power circulation theory was advanced to account for political undercurrents surrounding communal upper class (Michels, 1962), hence expanded in the context of governance of corporations (Ocasio, 1994). This concept exhibits executive level of management of the organization as integrally political associated with continual power scuffle and shifting coalitions (Ocasio, 1994). Power circulation theory designates chief executive officers as unsafe leaders of a commanding managerial coalition (James, David, Alex, & Maura, 2007). This research postulated that CEO power would moderate association amid governance body's gender diversity and dividend policy in Kenyan enterprises registered in NSE. Particularly, chief executive officer power would interact with independent variables (gender diversity) to influence dividend policy of the corporations.

Development of Hypothesis

Corporation's Boards world over experience enhanced provocation to nominate directors who are women (Adams & Ferreira, 2009). States like UK, Sweden, Spain and Norway nomination of women board members to firm's boards has been made mandatory through law (Adams & Ferreira, 2009). Adams and Ferreira (2009),

postulate that female presence on the boards of corporations is anticipated to result in enhanced supervision since they are not part of the “old-girls' club” that places them proximate to members of the board who are independent. This close supervision will minimize the asymmetry of data at the director's board position and hearten more release of information to the public hence restraining managers from using information from inside of the organization for their personal gains (Gul, Shnidhi, & Mg, 2011) subsequently, regulate firm manager's exploitation. The selection of women as members of governance organ is expected to expand independence of the governance body and enhance wealth of shareholders. Prior studies evince that women board members contribute enhanced monitoring and oversight of the corporation's top executives reports and actions by promoting nominating, carrying out audit oversight positions, better board attendance, and committees on corporate governance insistence for significant accountability from corporation's executives for dismal performance (Adams & Ferreira, 2009).

Most research in both emerging and developed countries has investigated the association between diversity of gender and corporate performance. (David, Frank, Betty, & W. Gary Simpson, 2010), in a research on ethnic and members of the board gender diversity in US besides board committees and performance of corporations did not find an important link amid diversity in gender of members of the governance body and economic returns on a selected number in key United State organizations. Abubakr & Muhammad (2017), found a strong and robust support affirming that diversity of gender of the governing body is inversely linked to cash payments of dividend in developing countries. This study also alludes that an inverse link exists among the governing organ gender diversity and payment of dividends which was more notable at the time of financial crisis. Policy on dividend payment is alluded as an attribute of performance of corporations, therefore, this study first aims to evaluate if policy on dividend could have an association with gender diversity in corporations' board hence, the study hypothesis that;

Ho₁: There is insignificant association among diversity of gender and dividend policy in Kenyan's enterprises.

Ho₁: CEO Power does not moderate association between gender diversity and policy on dividend in Kenyan's enterprises.

METHODOLOGY

Research design

John, Hafiz, Robert and David (2007), defined study design as a plan for achieving study goals and respond to study problems. This is a controlling strategy stipulating the procedures and methods for gathering and analyzing the required data. Zikmund, Babin, Car and Griffin (2010), highlights a number of research design approaches as explanatory, descriptive and exploratory. The explanatory investigation design was employed for this research, which was used to scrutinize the causal association between variables (Orodh, 2003). The research motivation was to scrutinize impact of chief executive officer power on gender's diversification and dividend's policy in Kenyan corporations. The research applied a longitudinal review in essence as statistics were assembled for a span of seven years starting in 2009 to 2015 in corporations registered in the Nairobi Securities.

The Study Area

The investigation selected all listed corporations in the NSE. Enterprises enumerated in the NSE were chosen for the research due to its simplicity in accessing of the audited annual reports and financial statements found at Capital Market Authority library so as to enable gathering of statistics and analysis as the corporations were vigorously merchandised and also examined by independent auditors which enhances reliability of data.

Population of Study

The investigation selected registered enterprises in the Nairobi Securities Exchange. Presently, NSE has 64 registered enterprises. This research examined entirely all the entities enlisted in the NSE among the segments. Secondary statistics collected from audited yearly reports and statements on financial position for registered NSE enterprises were utilized on this study. Data assembled from audited yearly reports and statements of financial situation were used to determine dividend policy decisions of enterprises and indicators of governance organ member's diversity in relation to gender.

Sample Design and Procedure

Census was applied on the research in choosing the population of investigation amongst the enlisted enterprises in the NSE. Census refers to a survey that collects data from all members of a population, whether it's businesses or people (Sekaran, 2003). The study applied census because of small number of the study organizations and to make sure that all members of the population had an equal opportunity for examination. Since there was comparatively small number of enterprises registered on the NSE i.e. sixty-four (64), all corporations were considered for inclusion in the survey but 49 firms qualified for inclusion in the survey. This resulted to 343 firm year observations.

Statistics Gathering Technique and Tools

Document examination procedure was utilized to gather facts from yearly reports and financial statements of companies enlisted in NSE from 2009 to 2015. Facts from yearly reports and financial statements on dependent and independent variables were gathered on all companies selected for the research. The investigator secured an introduction letter from the institution to the CMA library and a research permit, was resort from the issuance authority in Kenya. These permitted investigators to obtain data from CMA library because a number of companies' websites were not updated with the required annual reports and financial statements. Document examination guide was utilized to gather information on the indicators of diversity of gender, corporate size, and leverage and dividend policy. The data assembly was for the time frame of the research. Oso and Onen (2005), allude that document analysis is a tool for assembling discreet statistics. The data to be gathered was of secondary nature hence document examination schedule was used, which would enable the researcher to collect data without interruption and it would save time.

Board members' diversity in form of gender has been evaluated by intellectuals in distinct techniques; Adams and Ferreira (2009) and Gul, Shnidhi, & Mg (2011) evaluated the diversity of members of the board by gender, the proportion of females on the board was calculated by dividing the number of women members by the total number of board members which was also adopted for the current study.

CEO Power was the moderating variable in this research. CEO power was defined as decision making authority converged in the CEO's hand. This study applied the CEO power measures adopted by (Adams, Almeida, & Ferreira, 2005), where the CEO power was measured as a dummy which shows whether the chief executive officer is the only internal employee on entities governance organ. It is expected that when an internal executive assumes the board position on the board he/she is expected to contribute in executive resolution creation with CEO hence it is considered that CEO's of companies with more than one internal executive would have less influence power in the board. An index was developed to enable the researcher make inference on the study using the following formula proposed by (Cooke, 1992);

$$\text{CEO Power Index} = \frac{\sum_{j=1}^n dj}{n}$$

Where $dj = 1$ when CEO is only internal employee on the composition of the board
 $= 0$ if else or more staff members sit on the board
 n = Number of corporations

As a result, the CEO Power was determined as a proportion of tangible score presented for each company to maximum score attainable by all the corporations. The CEO Power indices represented the moderating variable.

Data Processing

Data processing involves coding, cleaning, screening and choosing an appropriate data analysis method for testing the hypothesis. Coding involved assigning a value to each of the items on the document analysis schedule for ease of analysis. The process of screening and cleaning of data involved checking for missing values and confirming if there were any inconsistencies in the data collected.

Data Analysis

Statistics were assembled from audited yearly reports and financial statements of enterprises registered in NSE. Data obtained were dispensed quantitatively. Data analysis on the study was carried out utilizing EViews 7 Statistical package. Descriptive statistics were discharged on dependent and independent variables of this research that were policy on dividends and diversity of gender. These statistics were standard deviation, mean and median.

The statistics on correlations were performed amid research variables that were policy on dividend and diversity of gender, so as to establish their level of relationship. Regression analysis were also performed to evaluate the influence of diversity in gender in policy on dividends. Fixed effect multiple regression examination was carried out utilizing the model below:

$$Y_{ij} = a_0 + \beta_1 X_{1ij} + \beta_2 X_{2ij} + M_{ij} + \varepsilon$$

Where Y_{ij} = Dividend policy

X_{1ij} = Gender

X_{2ij} = CEO Power moderating the link between gender and dividend policy

C = Control variables (corporate size, Leverage)

M_{ij} = M stands for the moderator variable (CEO power)

β = Coefficients of the independent variables

a_0 = the value of Y while all X values are 0 or a constant

ε = an error term, normally distributed around an average of 0.

RESULTS AND DISCUSSIONS

Pearson correlation amid board members' gender's diversity and policies on dividend payment exhibited positivity ($r = 0.255$, $p = 0.000$) and significance. This insinuates that diversity of gender was an essential element in impacting policies on dividend in Kenya's listed organizations in NSE. The Pearson correlation amongst gender's diversity of members of the board and company's magnitude ($r = 0.020$, $p = 0.709$) was positive and not significant. It shows that the variables had no common variability. Pearson correlation among diversity of gender and leverage ($r = 0.091$, $p = 0.092$) was positive and significant implying a common variability among the variables. Study outcomes are as tabulated in Table1 indicating outputs of analysis of Pearson correlation among the variables and their significance level.

Table1: Pearson correlation

Variables	1	2	3	4
1. Dividend Policy	1.00			
2. Corporate Size	-0.101*	1.00		
3. Leverage	0.003	0.108**	1.00	
4. Gender	0.255***	0.020	0.091*	1.00

Source: Survey Data (2020)

Study Diagnostics

Normality test

Gujarati & Porter (2009), potulate that test of normality has to be demonstrated before an investigation could continue with other checks of regression; multicollinearity, autocorrelation and heteroscedasticity. Test of normality asserts that when error term is normally dispersed or otherwise. The investigation applied test of normality using model residuals which showed presence of normality on error terms as in the model Jarque-Bera Statistic was larger than 10% significant level as indicated in Table 2.

Table 2: Test Statistics for Model Residual Normality

Model	Jarque-Bera		Conclusion
	Dividend Policy	Probability	
Model	0.321	0.852	Error terms are normal

Source: Survey Data (2020)

Multicollinearity Test

Multicollinearity is a state when independent variables are greatly correlated with each other to an extent that the real association amongst the independent and dependent variables is affected thus resulting to damaging singularity effect which prevents the estimation of any coefficients, increase standard error, coefficients being incorrectly estimated and wrong signs on the outcomes of analysis of regression. This research utilized one perspective to test multicollinearity problem which was variance inflation factors (VIF). Khalid (2006), indicate that there is no solid and fast tenet about the value of VIF at which multicollinearity results to a difficulty, although some scholars propose that VIF of more than 10.0 confirms existence of problem of multicollinearity. In line with multicollinearity outputs presented in Table 3, there was no multicollinearity problem in the model since all the VIF's were below 10. The largest

VIF was 1.525 and the average VIF 1.31 which is closer to 1 hence this confirms that in the regression model there is no problem of multicollinearity.

Table 3: Multicollinearity Coefficients

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
Corporate Size	0.007466	67.77079	1.525475
Leverage	0.053874	9.530299	1.511800
Gender	0.012186	20.44051	1.153891
CEO Power	0.012914	4.839201	1.059224

Source: Survey Data (2020)

Autocorrelation Test

Autocorrelation refers to the relationship or correlation amongst the quantity of annotations commanded in the period and error term in two intervals (Gujarati & Porter, 2009). The study carried out the test of the relationships on the error terms in the research model and determined whether the terms were constant. Durbin-Watson (DW) test was used to measure autocorrelation. According to (Vogt and Johnson, 2011), Durbin Watson of between 1.5 and 2.5 indicates absence of autocorrelation difficulty. In the study Durbin Watson was 1.651 highlighted in Table 4 hence there was no problem of autocorrelation in the study model.

Table 4: Autocorrelation Test

Model	Durbin-Watson Statistics (D)	Conclusion
Model	1.651	No autocorrelation

Source: Survey Data (2020)

Panel Unit Root Test

Unit root test was administered on all the variables of the study using the Phillips-Perron unit root test. The output and outcomes is highlighted on Tables 5 and 6 below correspondingly where the p-values for the Phillips-Perron Fisher Chi-square statistics were less than 0.05% on all the variables which were dividend policy, corporate size, leverage and gender except for the moderating variable that is CEO Power. The test was carried out to avoid a situation where the regression results would be spurious which could jeopardize testing of the hypothesis (Granger & Newbold, 1974). The study performed the first difference [D (var)] on the CEO Power in order to correct the regression model non-stationarity. The outcomes are presented in Table 6 underneath.

Table 5: Panel Unit Root Test Statistics

Variables	PP - Fisher χ^2	Prob.	Inference
Dividend Policy	207.879	0.0000	Reject H_0
Corporate Size	163.965	0.0000	Reject H_0
Leverage	213.962	0.0000	Reject H_0
Gender	87.6005	0.0044	Reject H_0
CEO Power	3.90589	0.6894	Do not Reject H_0

Source: Survey Data (2020)

Table 6: Panel Unit Root Test Statistics

Variables	PP - Fisher χ^2	Prob.	Inference
Dividend Policy	207.879	0.0000	Reject H_0
Corporate Size	163.965	0.0000	Reject H_0
Leverage	213.962	0.0000	Reject H_0
Gender	87.6005	0.0044	Reject H_0
D(CEO Power)	10.1898	0.0373	Reject H_0

Source: Survey Data (2020)

Poolability and Hausman Tests

The study further, applied poolability and hausman checks evaluate the utmost suitable model between fixed or random effect models. Firstly, poolability refers to the process of determining whether the panel statistics are poolable so as the gradient of the regressors are constant through different firms or periods of time (Park, 2011). The Likelihood Ratio Test was utilized to establish which regression model would be applicable amid fixed effect or pooled OLS models. When outcomes for Likelihood Ratio Test are significant then it means that the model is not poolable hence another test has to be utilized to establish the type of model to be employed towards addressing the investigation. According to this enquiry Likelihood Ratio was significant hence hausman test had to be performed to establish suitability of the model. Hausman test was utilized to relate the coefficient approximations of fixed effect and random effect models (Hill, Graffiths, & Lim, 2011). Hausman test was applied to establish suitability of the model to be utilized for the research. This study outputs showed that the greatly suitable regression method was fixed effect since significance level for the model was below the 10% significance level. The outcomes of the tests are highlighted in Table 7 and Table 8 below.

Table 7: Redundant Fixed Effect Test- Likelihood Ratio

Model	Cross-Section Chi-square	Conclusion
Model	375.379***	Proceed to Hausman Test

Notes: *** Significance at 1%

Source: Survey Data (2020)

Table 8: Hausman Test

Model	χ^2 Statistic	χ^2 d.f.	Prob.	Appropriate Model
Model	40.162	11	0.0000	Fixed effect

Source: Survey Data (2020)

Hypothesis Testing

The outcomes of the H_{01} : There is insignificant association among diversity of gender and dividend policy in Kenyan's enterprises as stipulated in Table 9. The outcomes show that null hypothesis (H_{01}) of the model was not supported by the outputs of the study. The outcome was significant in the Model ($\beta = -0.339$, $p = 0.065$) while the beta was negative suggesting that as imbalance of gender reduced the payment of dividend increased among Kenya's enterprises. These outcomes were compatible with the past findings by (Soku, Kiyoun, & Young, 2016), established that enterprises with boards that are diverse have significant effect on policies on dividend payments. The research additionally, evidence that boards that are diverse help to moderate higher agency hitches concerning free cash flow.

Based on the model the hypothesis which state CEO Power do not moderate a link amongst diversity of gender and dividend policy in Kenyan's enterprises were rejected. The regression results in Table 9, although negative and significant ($\beta = -0.339$, p -value = 0.065) for independent variables in the model. This model presented positive and significant results for the interactions ($\beta = 128.8$, p -value = 0.074) which indicate that CEO power moderate the association linking diversity of gender and dividend policy in Kenya's businesses. The result therefore, is compatible with prior enquiry by Fama & Jensen (1983), who recognized the role of managers monitoring managers and the legal duty of boards in overseeing managers for the purposes of protecting the stakes of investors. As a result, nations like UK, Norway, Spain and Sweden have made the engagement of women membership of boards of corporation's compulsory through law (Adams & Ferreira, 2009).

In a study on influential CEOs and their effect on firm performance, it was alluded that security returns were variable for corporations run by influential CEOs which suggested that interactions between executive attributes and organization variables has significant results for enterprise performance (Adams, Almeida, & Ferreira, 2005). These studies posit that CEO power would impact the association between board diversity variables more so diversity in form of gender and dividend policy of enterprises. This study therefore explains the relevance of agency, resource dependency and power circulation theories on entities management. Agency theory would apply in the sense that the organization requires powerful chief executive officers who will give clear direction on the strategic goals and facilitate controls and/or systems relevant in the achievement of the strategies.

Table 9: Regression Coefficients

Predictor Variables	Model
Constant	(1.462)** (-2.039)
Log corporate size	0.490*** -3.194
Leverage	0.382** -2.482
Log gender	(0.339)* (-1.852)
CEO power	-26.104 (-0.125)
Log gender*CEO power	128.802* -1.795
R ²	0.72
R ² Adjusted	0.662
S. E.	0.387
Sum squared residual	42.493
Log likelihood	-128.538
F-statistic	12.346
Prob. (F - statistic)	.000
Durbin - Watson stat	1.651

Source: Survey Data (2020)

CONCLUSION

The study examined effect of diversity of gender on the board and chief executive officer power on dividend policy in Kenya's enterprises. The research was guided by

power circulation, agency and resource dependency philosophies. In accordance with this study results it is determined that diversity of gender was a highly essential variable in ascertaining link among diversity of the governing body and policy on dividend resolutions amid Kenyan enterprises. Outputs of the research agreed with the verdict by (Soku, Kiyong, & Young, 2016), who alluded that boards diversity of gender aids to ease against agency problem of free cash flow. Adams, Almeida, & Ferreira (2005), in a study on influential CEOs and their effect on firm performance, it was posited that security yields were variable for corporations run by influential CEOs which proposed that interactions between executive attributes and organization variables has significant outputs for business performance. These studies postulated that CEO power would impact association between diversity of the board variables more so diversity in terms of gender and dividend policy of enterprises.

RECOMMENDATIONS

Implication to Practice and Policy

Board appointments for firms listed on the Nairobi Security Exchange have always been guided by the Capital Market Authority Act. This research contributes valuably to the industry by investigating whether the Capital Market Authority Act is adhered to in appointment of board members hence the findings gives insights on current practice in Kenya. The study did not exhibit high level of diversity of gender due to the level of significance experienced. This would also enhance image of the firm through improved market segments particularly, the women.

Contribution to Theory

This research has enhanced the body of knowledge on diversity of members of the board and policy on dividend framework by providing empirical evidence on how CEO Power moderate linkage amid members of the board diversity and policy on dividend. This theory has always isolated the analysis of diversity of board members to dividend policy association which limits generalization in the context of chief executive officer power as a moderator of association. With the incorporation of CEO power as moderator in the diversity of boards besides dividend policy analysis, the study has widened the scope on the theoretical prism on board diversity effects. The study has also improved on existing literature on board diversity, dividend policy and chief executive officer power which provide a reference point for academic discourse and further research. The research also recommends that similar investigation be done on privately owned entities and small and medium enterprises. The entities were not part of this study. This would give more insights on the current practice on diversity of members of board's.

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