

**DETERMINANTS OF DIVIDEND DECISIONS AND THE PERFORMANCE OF  
DEPOSIT TAKING SACCOS IN NORTH RIFT COUNTIES, KENYA**

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Fulfillment of the Requirements for the Degree of Masters in Business  
Administration (Finance) Masinde Muliro University of Science and Technology**

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## CERTIFICATION

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## ABSTRACT

Deposit-taking Saccos in Kenya and the North Rift, in particular, have to adjust their way of doing business in order to maximize shareholder value and increase market share. The most common problem faced by Kenyan Saccos is the determination of dividends and the rationale for those dividends being paid out. The lack of a consensus on the Kenyan dividend policy is evident. Therefore, the main purpose of this study was to establish the determinants of dividends policy decisions on the performance of deposit-taking Saccos' in North Rift Counties, Kenya. Specifically, the study determined the effect of Sacco returns on performance of deposit-taking Saccos, to assess the effect of Sacco size on the performance of deposit-taking Saccos, to establish the effect of business risk on the performance of deposit-taking Saccos' and to evaluate the effect of growth opportunities of Saccos on the performance of Saccos in North Rift Counties in Kenya. The study was guided by Agency, Signaling effect theories, Bird in Hand Theory and Dividend Irrelevance Hypothesis theory. Therefore, the target population was all the nine Saccos that SASRA had registered in the North Rift Region by the end of July 2017. Thus, the respondents included all the management and board members of the deposit-taking Saccos in the North Rift Region. Primary data and secondary data were used, and the data was collected using closed-ended questionnaires. Data were analyzed using both descriptive and inferential statistics. The SPSS Version 24 was used to aid in the data analysis. The study established that Sacco returns a positive and significant effect on the performance of deposit-taking Saccos ( $\beta = 0.287$ ;  $p < 0.05$ ). Secondly, the study found out that Sacco size was positively and significantly affecting the performance of deposit-taking ( $\beta = 0.494$ ;  $p < 0.05$ ). In addition, the study found out that business risk was negatively and significantly affecting the performance of deposit-taking Saccos' ( $\beta = -0.125$ ;  $p < 0.05$ ). Lastly, the study established that growth opportunities of Saccos positively and significantly affect the performance of Saccos in North Rift Counties in Kenya ( $\beta = 0.207$ ;  $p < 0.05$ ). The study's findings were of great significance to managers and policymakers to make policies that enhance the performance of the Saccos. The results also do provide input for future academic works conducted on the Sacco performance. With respect to practical value, the results of the study would reveal association between dividend policies and nearly all other organizational financial decisions. The study recommends the use of signalling Effect Theory with the view that dividend may have a signalling effect. The top management of a firm has more information about the strategy of the firm and can also forecast future earnings of the firm. Thus, people working in the firm have more information compared to other investors and the market in general.

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## **ABBREVIATION AND ACRONYMS**

<b>ASEAN</b>	Association of Southeast Asian Nations
<b>ATM</b>	Automated teller machine
<b>CCS</b>	Cross Currency Swap
<b>DPS</b>	Deposit Pension Scheme
<b>DTS</b>	Deposit-taking Sacco Societies
<b>FOSA</b>	Front Office Services Activity.
<b>GCC</b>	Gulf Co-operation Council
<b>ICT</b>	Information and Communications Technology
<b>NACOSTI</b>	National Council of Science and Technology
<b>NPV</b>	Net present value
<b>NSE</b>	Nairobi Stock Exchange
<b>OCFR</b>	Operating Cash Flow Return
<b>OLS</b>	Ordinary Least Squares
<b>ROI</b>	Return on Investments
<b>SACCO</b>	Savings and Credit Cooperatives
<b>SASRA</b>	Sacco Societies Regulatory Authority
<b>TVET</b>	Technical and Vocational Education and Training
<b>US</b>	United States

## **OPERATIONAL DEFINITION OF TERMS**

**Business Risk:** This refers to uncertainty associated with organization's operating environment and reflected in the variations of operating income and hence, having a negative impact on the profitability of a given organization.

**Deposit Taking Saccos (DTS):** These are those Saccos that besides the basic savings and credit products, also provide basic banking services and are licensed and supervised under the Sacco Societies Act of, 2008.

**Determinants:** These is the factors that cause or influence the dividends decisions of the deposit taking Saccos

**Dividend policy:** This is a set of guidelines a company uses to decide how much of its earnings it will pay out to shareholders.

**Growth Potential:** Growth potential provide an ongoing opportunity to generate income.

**Performance:** This is the effectiveness and efficiency level of how the DTSs are in managing their affairs.

**Sacco Returns:** This is the revenues of the Saccos in a given period.

**Sacco Size:** This is the measure of Natural log of Assets of the SACCO

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background to the Study**

A business entity that makes profits at the end of the financial year is expected to make a decision concerning the portion of the profit to be distributed to the providers of funds (equity shareholders) as dividend and the portion to be retained for future re-investment. The earnings distributed to shareholders are called dividends (Gitman, Juchau & Flanagan, 2015). Hence, dividends are the portion of profits distributed to their shareholders at every financial year. Dividends serve as an indicator of a company's present and future performance, even of its potential susceptibility to risk (Kania and Bacon, 2005). Dividend policy is primarily concerned with the decisions regarding dividend pay-out and retention (Nnadi, Wogboroma & Kabel, 2013). Therefore, Dividend policy can be defined as the guiding principles used by firms to determine the portion of earnings to be distributed to the shareholders as dividends.

Dividend policy is an important financial decision that company managers have to make a wisely (Kadim, Sunardi & Husain, 2020). Dividend policy is important because it has an effect on the shares prices thus returns to investors, the financing of firm's growth and the equity base by retaining finances together with its gearing and leverage (Kinyua, 2013). The importance of dividend is in two respects. First, the long-term financing position of the company. External equity can be raised but it would attract a cost. Payment of dividends reduces funds available to finance profitable opportunities thus dividends can be retained as part of long-term financing decision. Secondly, as a wealth maximization decision where investors prefer dividends rather than future capital gains mostly due to market imperfections and uncertainty. According to Geoffrey, Mbithi and Musiega (2017) dividend policy of a

firm has long been an issue of interest in the financial literature and, despite the vast research on the topic, it remains an open subject.

### **1.1.1 Deposit Taking Saccos in Kenya**

Kenya's SACCO sub-sector is the largest in Africa with over 19,600 co-operative societies and over 14 million members representing 33% of the total population of the country. Of the 19,600 registered co-operative societies, 10,000 of these are Savings and Credit Co-operatives whose core business was to mobilize members to save and advance them low-interest rate credit based on their savings – usually three times their savings for normal loans charged at 1% interest rate per month. The rest are agricultural marketing, housing, handicraft and ranching co-operatives.

The Deposit-taking Sacco Societies (DTSSs) is part of the larger Sacco sub-sector in Kenya which comprises the deposit-taking and the non-deposit taking Sacco Societies. The non-deposit taking segment is composed of those Sacco Societies whose business is limited to mobilization of deposits (non-withdrawable) for purposes of lending to members. The deposits are non-withdrawal in that they may be used as collaterals for loans only and can only be refunded upon the member's withdrawal. (Sacco supervision annual report-2014). There was a total of 164 licensed deposit-taking Sacco Societies (DTSSs) at the commencement of the year 2017. Out of these only 11 are DTSSs in the North Rift Region (SASRA, 2017).

The Deposit Taking Sacco's (DTS) besides the basic savings and credit products, also provide basic 'banking' services (demand deposits, payments services and channels such as quasi banking services commonly known as ATMs), FOSA and are licensed and supervised under the Sacco Societies Act of, 2008. The general trend is that Sacco's start as non-deposit taking Sacco business and grow to deposit taking

Sacco business to expand the range of financial services to members. (Kenya Financial Stability Report 2010).

The Sacco Societies Act (2008) was enacted to provide for the licensing, regulation, supervision and promotion of savings and credit co-operatives by the Sacco Societies Regulatory Authority (SASRA). Thus, this Act provides for the establishment of the Sacco Regulatory Authority whose functions include licensing Saccos to carry out Deposit taking business as well as regulating and supervising Saccos (Buluma, Kung'u & Mungai, 2017). The enactment of the Sacco Societies Act (2008) was part of the developments within the wider scope of on-going reforms in the financial sector and meant to initiate reforms in the Sacco Industry. There were two main objectives for this reform; first being to protect the interest of Sacco members and ensuring there is confidence by public towards the Sacco sub-sector; and secondly to spur Kenya's economic growth through mobilization of domestic savings.

Despite the role of the Saccos in the economy, Deposit-Taking SACCOs continue to face a number of challenges. They face stiff competition for membership from other deposit taking institutions particularly commercial banks (Matumo, Maina & Njoroge, 2013). Saccos also experience efficiency challenges characterized by poor information delivery channels and high operational costs due to inadequate information and communication technologies as noted by Mugambi, Njeru, Momba and Ondabu (2015). In addition, they also face high demands for loans which they are unable to meet due to liquidity shortages and given that they cannot seek credit from the Central Bank of Kenya (CBK) like other commercial banks (Mugambi *et al.*, 2015).



The other significant concern which is facing the deposit taking Saccos is the worry of the members with regard to the issue of dividends, the members' deposit being stolen and failure to refund members deposits and non-remittance of members' deductions by the employers. With the regulation of the SACCO sector especially SACCOs operating FOSAs by SASRA, dividend policy has to be developed to guide distribution of surpluses. The SACCO Societies

Act, 2008 Section 14(4)(d), 68 (2) (a), SACCOs are prohibited from declaring dividends if they have not met the liquidity provisions which stipulate that a SACCO should at a minimum retain 15% of its savings deposits and short-term liabilities in liquid assets and if they have not met other administrative requirements. The liquidity has a direct relationship with dividend policy which stipulates when and how much to distribute and the effects of cash outflows.

The determinants of dividend decisions studied were Sacco returns in terms of the sales and the liquidity of the Saccos. Sacco size basing on asset of the Saccos. While on business risk the study examined financial risk, business risk, political and credit risk as sub constructs of risk and for growth potential the study assess age of the Saccos, the total assets growth of the Sacco's, the sales growth of the Sacco's and the investments opportunities of the Sacco's.

## **1.2 Statement of the Problem**

Savings and credit cooperative societies' organizations (Saccos) plays an important role towards the development of a country (Dunda, 2010). However, deposit taking Saccos in Kenya have seen the performance going down which have resulted to Saccos collapsing and others going into receivership. In 2016 alone SASRA cancelled the licences of five Savings and Credit Cooperative Organizations

(SACCOs) after failing to meet financial obligations among other reasons. The Saccos are Ufundi, Transcom, Nest sacco, Green Hills Sacco (formerly Chebosobon) and Maono Daima sacco were deregistered over serious liquidity and corporate governance issues. The saccos were unable to meet their duties, such as paying members' deposits on time, due to a lack of money. In 2018 Mwalimu, Ekeza and Stima Investment Co-operative, are together estimated to have lost their members upwards of Sh3.6 billion through mismanagement or outright fraud by officials and boards (SASRA 2018). In the North Rift the government has revoked the licence of Moi University Sacco and placed it under liquidation.

The most common problem faced by Kenyan Saccos is the determination of dividends and the rationale for those dividends being paid out. The lack of a consensus on the Kenyan dividend policy is evident. As a result, there are many contentious cases in this area of corporate finance. In addition, the absence of a law requiring specific firms to pay their shareholders a set percentage of their income in dividends can be ascribed to the lack of consensus on a number of topics affecting dividend policy.

According previous studies in financial debate regarding dividend policy is still called for attention. Shibutse et al. (2019) observed that dividend policy is still a mystery in Kenyan Saccos, the most common difficulty. The dividend puzzle identified in (Njeje *et al.*, 2018) has yet to be solved, according to Kiswili (2021), despite numerous attempts to investigate it. Prior research on dividend policy was also mostly confined to rich countries and emerging markets (Brha & Koenda 2018), as were studies in Asia and Africa. Kariuki, (2021) and all of the NSE's listed agriculture companies were the focus of local research (Kavulya *et al.*, 2018). Financial researchers continuously study the topic for the purpose of determining

consistent factors that affect dividend payout and attempting to reach the consensus for both developed countries and developing countries. Studies have established the determinants of dividend policy. However, much of these studies are in the developed economies and in the emerging economies like Malaysia, Thailand, India, Brazil and some in Pakistan. Therefore, the main purpose of this study was to investigate the dividend decisions on performance of deposit taking Saccos in North Rift Counties, Kenya

### **1.3 Objectives of the Study**

The study is divided into two types of objectives general and specific objectives.

#### **1.3.1 General Objective**

To investigate the effect of determinants of dividend decisions on performance of deposit taking Saccos in North Rift Counties, Kenya

#### **1.3.2 Specific Objectives**

Specifically, the study sought;

- i. To assess the effect of Saccos returns on performance of deposit taking Saccos.
- ii. To establish the effect of size of the Sacco on performance of deposit taking Saccos.
- iii. To determine the effect of business risk on performance of deposit taking Saccos.
- iv. To examine the effect of growth potential on performance of deposit taking Saccos.

#### **1.4 Research Hypotheses**

- i. **H<sub>01</sub>** There is no significant effect of Sacco returns on performance of deposit taking Saccos
- ii. **H<sub>02</sub>** There is no significant effect of Sacco Size on performance of deposit taking Saccos
- iii. **H<sub>03</sub>** There is no significant effect of business risk on performance of deposit taking Saccos
- iv. **H<sub>04</sub>** There is no significant effect of growth potential of the Saccos on performance of deposit taking Saccos

#### **1.5 Significance of the Study**

The value of this study was both practical and theoretical. With respect to practical value, the results of the study would reveal association between dividend policies and nearly all other organizational financial decisions. Thus, the management of these Saccos and the policy makers would find this research significant to enhance performance of the Saccos. Decisions regarding the volume of distributed funds affect leverage, the volume of investments, the volume of available cash, mergers and acquisitions, and other factors. In addition, understanding this policy can help elucidate other decisions that company's make, such as those related to capital structures, asset pricing and capital budgets, while also introducing a new perspective on corporate finance and on the protection of minority shareholders. Therefore, the study findings may also help managers to make decisions which would enhance performance of the Saccos. The study findings may help regulators like SASRA to establish policies that will govern the Saccos.

On theoretical grounds, the findings of this study would make a significant contribution to the growing body of literature regarding performance of the Saccos

and its determinants from a Kenyan perspective. Thus, literature was updated by the empirical data provided. Therefore, the study would make an important contribution to literature body of knowledge by providing in-depth understanding of complexities prevailing in dividend decisions.

Of great significance was the basis in which the current study formed for future research more so on the determinants of dividend decisions. Therefore, forming the foundation on which the future studies will rely on especially in the developing country perspective. Thus, the study is justified because of the collapse and poor performance of Saccos in Kenya include Good Life Sacco Society, New Milimani Sacco Society Ltd, Millionaire Sacco Kenya and Urithi Premier among others in the North Rift region a case in point is the Moi University Sacco.

### **1.6 Scope of the Study**

The study sought to establish the determinants of dividend decisions on performance of deposit taking Saccos in North Rift Counties, Kenya. The independent variables focused in this study were; Sacco returns, Sacco Size, business risk and potential of growth of the Saccos. The dependent variable in the study was Sacco performance measured using efficiency, effectiveness, loan default rate, portfolio and asset base.

The North Rift Counties are found in the northern region of the former rift valley province of Kenya, the region comprises of 6 counties. The study was conducted in Nandi, Uasin Gishu, Transzoia, Elgeyo Marakwet and Baringo Counties. The research design employed were explanatory research design. The target population of the study were 108 management and board members of 9 Deposit Taking Saccos in the North Rift region. Purposive sampling technique was used to select deposit taking Saccos in the North rift region of the Country. The researcher used questionnaires to collect data. The study considered only those Saccos which are

licensed by SASRA in the financial year of 2012-2017. The study was conducted within a period of 8 months from May to December 2019.

### **1.7 Limitation of the Study**

During data collections the researcher was faced the following limitation; some respondents were not ready to give honest information for fear that they were exposing negative performance of their Sacco. However, the respondents were assured of the privacy of their information. Access to secondary information was a limiting factor to the study and the researcher sought permission from the administration before carrying out the study for the access entry.

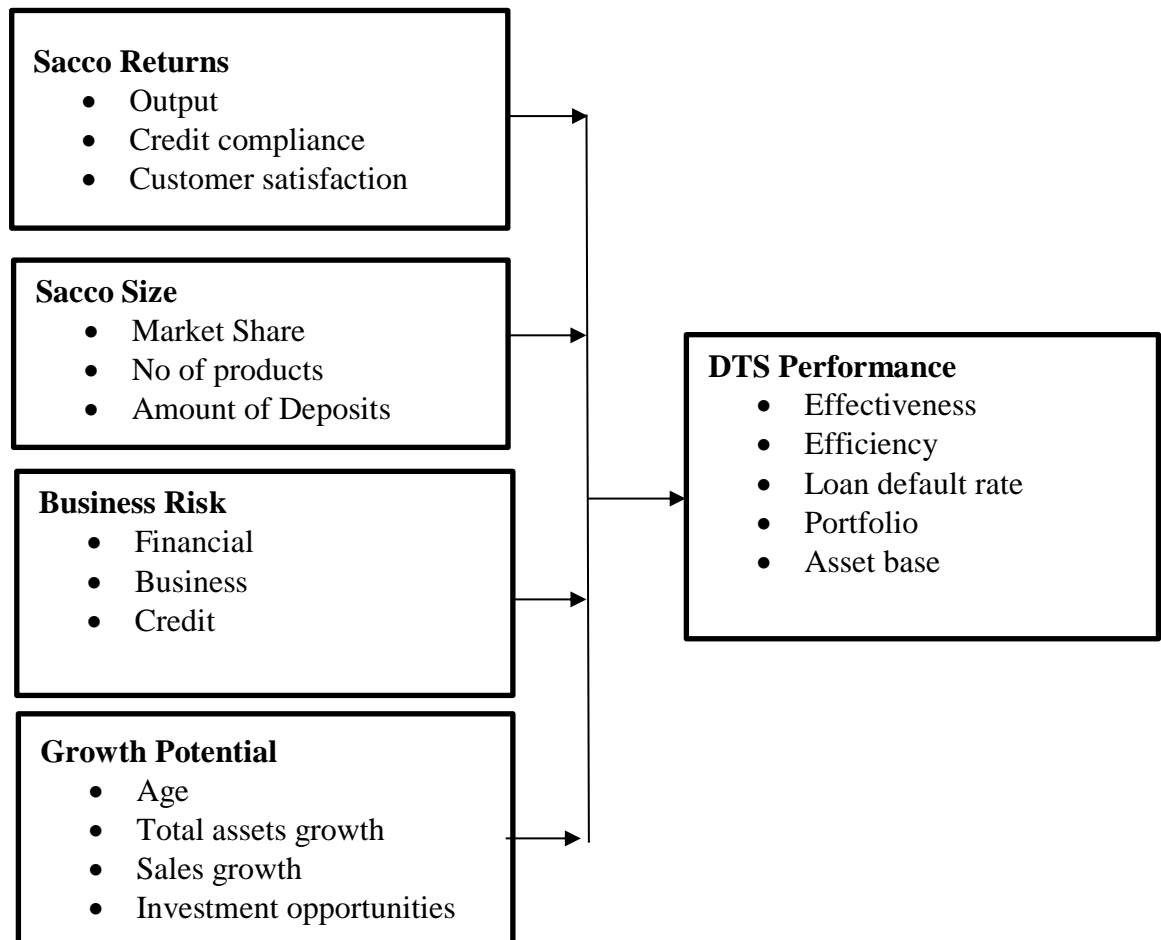
### **1.8 Conceptual Framework**

A conceptual framework is a simple plan which represents the study variables which was presented as a model where research variables and the relationship between them are translated into visual picture to illustrate the interconnections between the independent and dependent variables (Punch & Oancea, 2014).

**Independent variables**

**Dependent variable**

**Determinants of Dividend Policy**



**Source: Researcher (2020)**

**Figure 1.1: Conceptualizing the Relationship between Dividend Decisions Policies and Financial Performance**

The conceptual framework conceptualizes the relationship between the determinants of dividends and the performance of deposit taking Saccos. The determinants considered are Sacco returns, which the researcher looked at the sales and liquidity. Sacco size the study looked at the asset base of the Saccos, while business risk was conceptualized by looking at financial, business, political and credit aspect. For growth potential the study looked at age, total assets growth, sales growth and the

investment opportunities. The dependent variable which was Deposit taking Sacco performance was measured by looking at efficiency, Asset base, Loan pays out, Dividend payout rate, and non-performing loans. The dividend policies were measured by Hybrid, residual, stable and irregular dividends policies. The study looked at dividend decisions policies as an intervening variable. In dividend decisions the study looked at retention and pay out decision.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter covers the overview of dividend decisions, dividend theories that underpin the study, the determinants of dividends decisions, empirical literature, and summary of the research gaps.

#### **2.2 Overview of Dividend Decision**

A dividend policy can be defined as an action plan adopted by directors of a firm in making decisions regarding the essential matters of organization. Dividend policy determines the distribution of the amount of earnings between shareholders (dividend payment) and the company (reinvestment). Dividend policies are designed to suit each firm's requirements which is important to achieve firm's set objectives. The main methodologies are stable and predictable, continuous payout. Dividend policies help a company to give varied payment of dividend from time to time and annually depending on the firm's cash flows and the need to finance its operations (Firth, Shen & Zhang, 2016). Dividend policy, according to Yusof and Ismail (2016) is the practice that management follows in making dividend payout decision or, in other words, the size and pattern of cash distributions over time to shareholders. Dividend payout policy decision is one of the controversial issues in financial management, corporate finance and financial economics. For several years, there are four major topics have been discussed in dividend policy literature that is; the manner of determining dividend pay-out, the relevancy of dividends, inter-country differences in company's dividend distribution and disappearing dividends in emerging markets (Kemsley, Sivadasan & Subramaniam, 2018).

The forms of company pay out policies not only vary over time but also across countries, especially between developed and emerging capital markets. Jabbouri, (2016) also observed low dividend yields for emerging markets. Generally speaking, firms in emerging capital markets face more financial constraints and limited resources to finance their investment opportunities, which may result in more reliance on retained earnings and accordingly result in lower pay-out ratios. But this explanation is largely speculative, since so little research has been done on dividend policy in emerging equity markets.

In the US companies' studies have shown that there have been three different approaches found for the setting of dividend policy. First, there are those companies that target long term pay-out ratio and determine dividend pay-out as a percentage of earning. Secondly, there are firms that have stable dividend payments over time as they believe this is the preference of investors. Lastly, some managers consider the change in level of dividend pay-out being really important because it gives valuable information to the investors (Basri, 2019).

In addition, from the manager's point of view, the current rate of dividend pay-outs is usually used as a bench mark to set the dividend policy (Al-Kahmisi & Hassan, 2018). Since a change in dividend policy in a firm means a change in financial policy of that firm, there are some questions about why firms enact dividend changes, with some companies attempting to reduce dividends while others deciding not to pay dividends to shareholders. As reported by Baker, Kapoor and Jabbouri (2018), changing dividend policy illustrates changes in the firms' earnings. Firms with stable dividend policy are more preferred by investors and managers. On the other hand, as omitting the dividends can be a negative signal to the market which conveys

information about the firms' financial distress; the managers are usually unwilling to omit or reduce the dividends as stated by Chan, Boo and Ali (2021).

According to their extensive study of dividend changes, He and Kyaw (2018) argued that keeping the level of dividends constant is a main concern for investment decisions. In contrast with Lintner's findings, managers are reluctant to increase dividend payment at the same time with any rise in earnings, because they no longer consider dividends as the main decision variable (Nyere & Wesson, 2019).

In terms of dividend policy in emerging markets, one important characteristic of emerging markets has to be considered, i.e., the government exerts a control on the firms' financial decisions through some fiscal policies (Phan & Tran, 2019). Baker, Kilincarslan and Aرسال (2018) supports this view, based on evidence from his study regarding dividend instability in public listed firms in Turkey.

### **2.3 Dividend Theories**

There are three main contradictory theories of dividends. Some argue that increasing dividend payments increases the value of the firm. While another view argue that high dividend payouts reduce firm value. The third theoretical approach asserts that dividends should be irrelevant and all effort spent on the dividend decision is wasted. These views are embodied in three theories of dividend policy: high dividends increase share value theory (or the so-called 'bird-in-the- hand' argument), low dividends increase share value theory (the tax preference argument), and the dividend irrelevance hypothesis. Dividend debate is not limited to these three approaches (Priya & Mohanasundari, 2016).

The study is applicable to this study in that the firm will only pay dividends from residual earnings, that is, from earnings left over after all suitable (positive NPV) investment opportunities have been financed. With the residual dividend policy, the primary focus of the firm's management is indeed on investment, not dividends. Thus the firm's decision to pay the dividends is influenced by: the investment opportunities available to the business, the availability of the internal funds. If the internal funds are excessive and all the investments are financed the residual is paid as dividends (Eka, 2018).

### **2.3.1 Bird in Hand Theory.**

The bird in hand theory was developed by Myron Goldon (1959) and John Lintner (1962). The theory argues that there is a relationship between dividend payments and a firm's value. The bird-in-hand theory asserts that in a world of uncertainty and information asymmetry dividends are valued differently to retained earnings (capital gains). Because of this uncertainty of future cash flow and the risk averseness of the investors the theory argues that investors always put a premium on current returns and discount future returns.

Thus, investors will often tend to prefer dividends to retained earnings. As a result, a higher pay-out ratio will reduce the required rate of return (cost of capital), and hence increase the value of the firm. So, if, investors' value dividends less risky compared to capital gains thus firms have to set a higher dividend pay-out ratio to maximize the share price. To put it differently, high dividends increase the stock price (Lumapow & Tumiwa, 2017). The proponents of this hypothesis argued that due to existence of market imperfections and uncertainty, dividends are valued differently from capital gains. Hence, investors would prefer the "bird-in-hand" (cash dividends) to "two-in-the-bush" (future capital gains).

In view of the fact that the risk of a firm is determined by the risk of its cash flows, which is not changed by dividend policy; therefore, the bird in hand explanation may not hold true. In other words, the risk of a firm cannot be reduced by an increase in the dividend payments (Priya, & Mohanasundari, 2016). Dividend relevance is rejected by most of the financial economics literatures.

### **2.3.2 Dividend Irrelevance Hypothesis**

The theory was put forward by Miller and Modigliani's (1961) on their seminal paper on dividend policy. Given that in a perfect market dividend policy has no effect on either the price of a firm's stock or its cost of capital, shareholders wealth is not affected by the dividend decision and therefore they would be indifferent between dividends and capital gains.

The reason for their indifference is that shareholder wealth is affected by the income generated by the investment decisions a firm makes, not by how it distributes that income. Thus, in M&M's view dividends are irrelevant. M&M argued that regardless of how the firm distributes its income, its value is determined by its basic earning power and its investment decisions. They stated that "given a firm's investment policy, the dividend pay-out policy it chooses to follow will affect neither the current price of its shares nor the total returns to shareholders". That was to say, investors calculate the value of companies based on the capitalised value of their future earnings, and this is not affected by whether firms pay dividends or not and how firms set their dividend policies. M&M further suggested that, to an investor, all dividend policies are effectively the same since investors can create "homemade" dividends by adjusting their portfolios in a way that matches their preferences.

M&M based their argument upon idealistic assumptions of a perfect capital market and rational investors. The assumptions of a perfect capital market necessary for the dividend irrelevancy hypothesis that there are no differences between taxes on dividends and capital gains, no transaction and flotation costs incurred when securities are traded, all market participants have free and equal access to the same information (symmetrical and costless information), no conflicts of interests between managers and security holders and that all participants in the market are price takers.

### **2.2.3 Signalling Effect Theory**

Modigliani and Miller (1961) are of the view that dividend may have a signalling effect. The top management of a firm has more information about the strategy of the firm and can also forecast future earnings of the firm. Thus, people working in the firm have more information compared to other investors and the market in general. Hence, this leads to the problem of information asymmetry. Therefore, firms can use dividends as a signalling mechanism to send information to investors in the market. The information may reflect the strategies that the firm is employing in the short run or long run. Managers of the firm can change the expectations of people with regards to its future earnings through dividends. A firm has several ways is sending information to the market. This can include costly methods which will prevent smaller firms from imitating the signal. The methods refer to increasing the price of dividend; that is increasing dividend pay-out.

However, the firm must also be able to sustain the costs of conveying the information. Miller and Rock (1985) discussed that dividend indeed have a signalling role but there are 'dissipative' costs that are involved and these are the firms' investment decisions. As mentioned previously, a firm who must pay a level of dividend which is high enough to avoid smaller firms to imitate the same strategy.

The increase in dividend should eventually lead a share price increase and similarly, a decrease in the dividend should cause the price of the share to fall. Due to the subjective nature of dividend pay-out, some researchers have found that the relationship between dividend and share price provides support to the hypothesis that dividends do carry information to the market about future expected profits. Nevertheless, though managers use dividend to convey information, dividend changes may not be the perfect signal. According to Aiyabei, Tobias and Macharia (2019), dividend increase may be an ambiguous signal unless the market can distinguish between growing firms and disinvesting firms.

Nicholls (2020), show that administrators show resistance in increasing dividends when there are good chances of reconsidering this decision. The study considers that, at equilibrium, companies have a dividend policy consistent with their prospects for future growth. Brugni *et al.* (2012) supports this finding that the results of the companies analyzed together with the dividends had better information in predicting prices than when analyzed individually, thus reinforcing the idea that dividends are carriers of an information signal. However, Grullon *et al.* (2002) have a different view of signaling theory, through the “maturity hypothesis”, which argues that dividends do not signal good news, because a company should only pay dividends when their investment opportunities have been exhausted, linking dividends to risk and decrease profits.

## **2.4 Determinants of Dividend Decisions**

### **2.4.1 Sacco Size**

According to agency theory, shareholders are unable to closely monitor firm’s operations because of the ownership dispersion in large firms. Therefore, large firms should distribute dividends to deter agency costs (Mui & Mustapha, 2016). In

addition, Komrattanapanya (2013) revealed that large firms are able to get access to market capital easier and raise funds from external financing with lower costs than small firms do. Hence, large firms prefer paying dividends than small firms. Yakubu (2021) examined the determinants of dividend policies for firms listed in the Stock Exchanges of the Gulf Co-operation Council (GCC) Countries between the years of 1999 and 2003. The study found that firm size is positively related to dividend payout ratio. Moreover, Richard, (2017) asserted that large hospitality firms are mature firms with few new investment opportunities. Furthermore, he found asserted that large Jordanian firms tend to be more diversified than smaller firms, less likely to be sensitive to financial distress, and more able to pay dividends to the shareholders.

The Sacco size is measured by Sacco sales. Sales growth indicates the positive sign of ongoing firms' operations. Increasing sales level consistently means that the Sacco is potentially entering into stage of expansion of business cycle and would expect positive cash earning power in the future year. A firm with high growth then requires a large amount of financing to invest in its projects. Mui and Mustapha (2016) asserts that a growth firm tries to retain internal finance and limit its dividend payment due to the costs of using external borrowings that are commonly higher than costs of using internal funds. Forte, Matonti and NicolÃ (2019) found negative relationship between historical sales growth and dividend payout for entire sample and particularly in service industry.

#### **2.4.2 Business Risk**

Business risk may negatively impact on the operations the Sacco. A firm is impossible to pay high dividend as profits increase with increasing business risk (Waitherero, Muchina & Macharia, 2021). Firms with volatile cash flow are reluctant



to pay more dividends. In addition, Tahir and Mushtaq (2016) stated that the firms with highly business risk are possible to go bankrupt; therefore, the firms may choose to pay lower dividend. Moreover, Yusra, Hadya and Fatmasari, R. (2019) mentioned that during the declining period, dividend payout should be reduced in order to maintain company's equity level.

### **2.4.3 Growth Potential**

Growth potential provide an ongoing opportunity to generate income. Growth was measured with investment opportunities. Following the pecking order theory, a firm that has more investment tends to use their internal finance in order to minimize the costs of external borrowings. Tahir and Mushtaq (2016) empirically found negative relationship between investment opportunities and dividend payout. The scholars asserted that when U.S hospital firms, having fixed assets-intensive, acquire large amounts of new capital, they prefer investing in their projects to paying dividends.

### **2.5 Sacco Performance**

The performance of SACCOs depends on their operational efficiency (Henock, 2019). According to the classic definition, efficiency is the ability to produce the maximum output possible at given level of input (Kočišová & Šugerek, 2021). It is measured as the ratio of output to input in a simple production setting. Performance of SACCOs is greatly hampered by low capacity to operate and manage their activities. There is no standardized performance measurement tool to evaluate the status of SACCOs. The time it takes to facilitate loan demands is another important indicator of efficiency in SACCO performance.

Due to the small size of most SACCOs most of them are managed by managers with limited experience, educational background and training, it is imperative to

investigate the extent to which SACCOs are effective in transforming the assets and other inputs at their disposal into outputs. Therefore, the focus of this study was mainly on the technical and profitability ratio in a framework of efficiency-profitability matrix the different emerging performance patterns in the SACCO industry. Technical efficiency has been selected based on the availability of data. Also, since it is a comprehensive measure of both scale and pure technical efficiency it captures both the effect of scale and management efficiency of the operation of each SACCO. Technical efficiency is estimated using Data Envelopment Analysis: this approach has been selected because of its flexibility in accommodating multiple input and multiple outputs (Coelli *et al.*, 2005; Daraio and Simar, 2007; Zhu, 2014).

Another measure of SACCO performance is the impact of on income and asset position of the SACCO. In spite of capital shortage, SACCOs are generating income and also have increased their assets. However, this may not be felt in the coverage and share of the financial market (Pilbeam, 2018). Literature shows that SACCOs have shown a tremendous change in their assets and income in which most progress is obtained from increase in number of SACCOs and with that membership size.

Loan portfolio is another measure of SACCO performance which relates to the sum total of monies loaned out through various lending products to different borrowers (Kurui & Kalio, 2014). Loan portfolio refers to number of bank customers with loans and the total amount loaned out. According to Murugu (2010) loan portfolio incorporates salary loans, group bonded loans, individual loans and company loans. According to Kurui & Kalio (2014), continued existence of most financial firms relies on their pattern of issuing loans as well as abiding by the customers to the agreements and payment of loans on time. Thus, this study used prior definitions of

loan portfolio to measure Sacco performance. Sacco performance was also measured using the profits and capital adequacy ratios.

In addition, dividend pay-out measured Sacco performance in this study. Dividend pay-out is the proportion of the distributable total earnings of a firm that is paid to the shareholders (Olang & Grace, 2017). This study referred to Olang & Grace (2017) which supports the idea that a firm has to pay dividends to its shareholders if it has not been able to come up with viable investments that brings higher returns. A firm pays only dividends if it performs well financially, therefore the performance determined when, how and how much dividend to be paid out. Dividends are considered important since they will show what earnings a firm generates. For Sacco's to pay dividend they must perform well financially and no viable investments expected by shareholders since management decisions and the firm's condition are the determining factors for dividend payment.

## **2.6 Empirical Literature**

This section reviewed other literatures reviews related to research objectives.

### **2.6.1 Sacco Returns and Performance of Deposit Taking SACCOs**

In the United Kingdom a study was conducted by Alam and Hossain (2012) to examine the dividend policy of UK firms listed in London Stock Exchange. The result revealed no significant relationship between dividends and growth, industrial type, tangibility and gearing ratio. However, a fairly strong relationship was established between the firms' dividends and profit, size and risk. The researchers explain the positive relationship with risk by referring to the signaling theory. They state that riskier firms may want to signal stability and therefore chose to pay dividends to shareholders.

A study conducted in Nigeria by Kajola, Desu and Agbanike (2015) examined the determinants of dividend policy decisions of twenty-five non-financial firms listed on the Nigerian Stock Exchange between 1997 and 2011. The result indicated that profitability, firm size, leverage and changes in the dividend pay-out are significant factors that affect dividend policy decisions among the sampled firms during the period of the study.

Marfo-Yiadom and Agyei (2011) did a study on determinants of performance of Ghanaian Banks. The study established that sales growth is positively related to profitability however the study found out that sales growth is negatively related to dividend payment because they found that Ghana's banks having high growth rather use funds from financing to expand their projects. In other words, they tend to retain a large amount of earnings for future investment, not for dividend payment. In addition, Gill et al. (2010) found negative relationship between historical sales growth and dividend payout for entire sample and particularly in service industry.

A study done in Kenya by Kosgei (2017) aimed to find out the determinants of dividend pay-out policy by listed companies in Nairobi Securities Exchange. The study used a primary data which was collected using a questionnaire to establish the determinants of dividend policy. The findings of the study indicated that there exists a significant relationship between investment decisions and dividend pay-out policies. The study further recommended that managers of listed companies in Nairobi Securities Exchange should ensure effective access to information about the firm's future prospects than potential investors, they should use changes in dividends as a vehicle to communicate information to the financial market about a firm's future earnings and growth.

Sam and Hoshino (2013) conducted a study on performance by analysing sales growth ratio and profitability ratio in ICT industry between Japan and three ASEAN countries. The findings revealed that Japan and ASEAN had no significant difference with each other in their sales growth performance. Meanwhile, ASEAN shows better performance in profitability when comparing with Japan in ICT industry.

Sano and Yamada (2021) did a study on the effects of sales growth rate on inventory turnover using data for 353 public listed US retailers for the period 1985-2003. The study found that with sales growth rate, inventory turnover increases with sales growth rate, but its rate of increase depends on firm size and on whether sales growth rate is positive or negative.

Shibutse, Kalunda and Achoki, (2019) intended to determine the effect of two capital structure determinants; liquidity and dividend payout, on financial performance as measured by Return on Assets of DPS and CCS, in Kenya. The study was grounded on the Pecking order and Free cash flow capital structure theories. The study utilized a mixed research design using primary and secondary data for the period 2013 to 2017. The population of the study was 174 DPS and CCS. Stratified and purposive sampling technique was employed. Descriptive statistics and a regression model were used to analyze the data. Results revealed that liquidity and dividend pay-out had a significant and positive effect on the financial performance of DPS and CCS in Kenya. The study concluded that liquidity and dividend pay-out play a significant role in the financial performance of DPS and CCS.

Njeru (2016) focuses on effect of liquidity management on financial performance of deposit taking SACCOs in Kenya. This study adopted a descriptive survey in soliciting information on effects of liquidity management on financial performance

of deposit taking SACCOs in Kenya. Primary quantitative data was collected by use of self-administered structured questionnaires. The results showed that even though SACCOS undertake strict cash flow forecast, there are external variables that can affect cash management which poses a greater risk in the operations of the institutions. Hence the need to critically review in-depth on the cash management factors both in the external environment and internal environment that can affect cash management in the institution and establish mitigation factors.

Kariuki (2014) did a study to determine the relationship between dividends and the financial performance of Saccos registered by SASRA in Nairobi County. A descriptive research design was employed in this study. A census was conducted on the target population of 43 Saccos registered by SASRA in Nairobi County. Secondary data was collected from the financial statements of target population for the last five years. Regression model was used to find the relationship between the dependent variable (Financial performance) and independent variables (Dividend, leverage and organization growth). From the above regression model, the study found out that there were factors influencing the financial performance of Saccos registered by SASRA in Nairobi County, which are dividends, leverage and organization growth. They influenced it positively.

Opala (2017) sought to establish the effect of financial stability on performance of deposit taking SACCOs in Nairobi County. The study used descriptive research design to examine the determinants of financial performance of Savings and Credit Co-operative Societies in Nairobi County. From the regression model, the study found out that there were factors positively influence the financial performance of Deposit taking Saccos in Nairobi County, including liquidity, capital adequacy, size of the SACCO and management quality. They influenced it positively. The study

found out that the intercept was 2.481 for all years. The four independent variables that were studied (liquidity, capital adequacy, size of the SACCO, management quality) explain a substantial 71.5% of financial performance of Deposit taking Saccos in Nairobi County as represented by adjusted  $R^2$  (0.715).

Keben and Maina (2018) sought to determine the effect of liquidity risk management on financial performance of deposit taking SACCOs in Uasin Gishu County, Kenya. This research was based on liquidity risk theory. Cross-sectional survey research design was used. The study findings indicated that Liquidity risk management ( $t=8.037$ ;  $sig=0.000$ ), was a significant factor that enhance financial performance of SACCOs in Uasin Gishu County, Kenya.

Limo (2018) did a study to determine the effect of financial reporting practices on financial performance of SACCOs in Uasin Gishu County, Kenya. The study findings indicated that there was a significant relationship between disclosure of financials and financial performance; there was a significant relationship between comprehensiveness and financial performance and that there was a significant relationship between audience consideration and financial performance.

### **2.6.2 SACCO Size and Performance of Deposit Taking SACCOs**

In Portugal a study conducted by Gomes, Perreira and Oliveira (2015) was to identify the determinants of non-financial companies' dividend policy of the Portuguese capital market. The results suggest as main indicators for the Portuguese dividend policy the stability, the value of the market, the previous pay-out and the business dimension; which influence positively the amount of dividends distribute through the company. Thus, the opportunities of growing and investment influence negatively the distribution of dividends.

In Ghana a study was done by Yusof and Ismail (2016) on the determinants of dividend policy. The finding of the study indicated a positive association between the dividend pay-out ratio on one hand and cash flows, profitability and corporate tax on the other hand. The study further showed that highly liquid firms pay more dividends compared to illiquid firms. Similarly, a negative relationship was established between growth, market to book value, risk and pay-out ratio in the period of study.

Salim (2012) studied the relationship between bank size and financial performance of commercial banks in Kenya. The study specifically aimed at determining the relationship between bank size factors, namely, total deposits, total loans, and total assets, and financial performance, and went further to investigate the relationship between branch network size and financial performance. The main findings of the study established strong correlations between all the studied factors of bank size. The study was on bank size and performance and the current study looks at the determinants policies of dividends of where by sacco size is a determinant.

Love and Rachinsky (2015) conducted a study on the effect of firm size on firm performance. The study established that larger firms have better performance. Bigger firms are more competitive than smaller firms and they also enjoy the economies of scale hence higher profits are realized. Large firms have easier access to the most important factors of production, including labor and capital and they often get cheaper funding. However, firms can become too large up to a certain level where the size could affect the financial performance of the firm due to bureaucratic reasons.



Sano and Yamada (2021) did a study on the effects of firm size and sales growth rate on inventory turnover using data for 353 public listed US retailers for the period 1985-2003. The study found that with sales growth rate, inventory turnover increases with sales growth rate, but its rate of increase depends on firm size and on whether sales growth rate is positive or negative.

In Nigeria a study by Luqman *et al.*, (2017) investigated the effect of firm size on the performance of firms in Nigeria. The focus is on firm size as the modern-day phenomenon of economies of scale means this is a crucial factor in firm performance. We use a panel data set of 12 non-financial firms operating in Nigeria in the period 2005-2013. The panel data are analysed using a pooled regression model, fixed effects model and random effects model to identify the relationship between firm size and the performance of firms listed on the Nigeria Stock Exchange (NSE). Return on equity is used as a proxy for performance, which serves as the dependent variable. Total assets and total sales are the proxies for firm size, and the control variables are leverage and working capital. The results of the study revealed that firm size in terms of total assets has a negative effect on performance, while in terms of total sales, firm size has a positive effect on the performance of Nigerian non-financial companies. The study looked at the firms in Nigeria as such and the current study is about Saccos and their performance.

A study by Olawale, Ilo and Lawal (2017) re-examines the determinants of firm performance and, in particular, the role that firm size plays in profitability. The study established that a fixed effects dynamic panel data model for over 7,000 US publicly held firms during the period 1987–2006 provides evidence that profit rates are positively correlated with firm size in a nonlinear manner, holding an array of firm and industry specific characteristics constant. In addition, industry specific fixed

effects play a negligible role in the presence of firm specific fixed effects. The study was about profitability and firm size whereas the current study is on sacco performance and the effect of the Saccos' size.

Alsaharani *et al.*, (2012) did a study in Malaysia determining the role of firm size and the firm performance of 392 listed companies in the Saudi Stock Exchange (Tadawul) during 2007-2010. This study identified two measurements of the firm performance: (1) ROA and (2) ROE. Using the multiple regression, the results of this study showed the likelihood of firm performance (ROA) being significantly affected increases with the firm size.

Otwoko, Maina and Kwasira (2020) investigated the role of the size of DTS on moderating the relationship between interest rate drivers and financial performance. The study used descriptive survey research. Secondary data ranging from 2013 to 2017 was collected. The data was obtained from 74 DTS which were sampled from 176 DTS using Krejcie and Morgan formula. The output before and after moderation revealed that DT SACCOs size moderated the relationship between interest rate drivers and the financial performance of DT SACCOs. The mean of regression coefficients before moderation was -0.105 which increased after moderation to 0.512. Thus, size of the DTS moderated the relationship between interest rate drivers and financial performance positively.

Muriuki (2017) envisaged examining the Tharaka Nithi Teachers SACCO for the effects of these factors on its financial performance. The results show that governance has enormous effects on the performance of the SACCO. Further, the results also indicate that the aspects of education and training play a major role on influencing governance structures.

Kavulya (2018) sought to establish the effects of deposit mobilization strategies on the performance of savings and credit cooperative societies in Kenya. A descriptive research design was employed. The study found out that product development strategy and performance of Saccos are positively and significantly related, marketing strategy and performance of Saccos are positively and significantly related. It was further revealed that technological adoption strategy and performance of Saccos are positively and significantly related and that customer focus strategy and performance of Saccos are positively and significantly related.

Kiama (2014) assessed factors affecting implementation of the public procurement in SACCO societies in Kenya where the main variables include strategic planning, enforcement and organizational culture. Through a descriptive research design, the study targeted procurement officers and general managers working with SACCOs societies which have FOSA. Stratified random sampling technique will be used to select a sample of 20% which makes a sample size of 86 respondents. Quantitative data collected was analyzed by the use of descriptive statistics using SPSS and presented through percentages, means, standard deviations and frequencies. The findings revealed that 55% of the respondent believes that the impact of the regulator on SACCO is high. The findings reveal that on the issue of the SACCO culture favors good procurement procedures, 53% of the respondent strongly agree.

### **2.6.3 Business Risk and Performance of of Deposit Taking SACCOs**

Alrabadi, AlHallaq and AbuAlkhair (2021) conducted a study in Jordan Amman stock Exchange for a period of ten years from 1989-2000. The study by examined the determinants of corporate dividend policy. The results showed the portion of stocks held by insiders and the state significantly affect the amount of dividends to be paid.

The study also established that size, age, and profitability of the firms determine the dividend policy in Jordan.

A study done in Malaysia by Zainudin, Mahdzan and Yet (2018) on the dividend payment behavior of listed firms between 1993 and 2000 showed that dividend payment ratios among different industries are different in Malaysia. The findings indicated that agricultural and consumer product corporations had the highest level of dividend payment, the reason was they had limited investment opportunities and more working capital. The results also point to the fact that profitability, firms' size and investment opportunities affect dividend payments. The results suggested that firms which pay higher dividends are larger and more profitable. Though, firms with profitable opportunities pay fewer dividends.

Business risk is the uncertainty associated with organization's operating environment and reflected in the variations of operating income and hence, having a negative impact on the profitability of a given organization (Madhani, 2011). Business risk may negatively impact on the operations or profitability of a given firm. When current profits and expected future profits are uncertain, a firm confronts to the business risk. Hence, a firm is impossible to pay high dividend as profits increase.

Alshubiri (2011) analysed the impact of financial and business risk on performance in ten industrial sectors of Sultanate of Oman. The population is 47 firms from the period 2009 to 2013. The results indicated that there is a statistically significant impact of earnings growth at business risk on performance at significant level 5% and current ratio and financial leverage at financial risk on performance at significant level 1%. The multiple regressions showed that there is a significant impact of all business and financial risk variables on performance at significant level 10%. The

stepwise regression also showed that the financial risk related to current ratio variable between all independent variables is a significant impact on performance at significant level 1%.

A study by Kiseľáková *et al.*, (2015) analysed the impact of selected systematic and unsystematic risks to performance of the enterprises in Slovak. The study used secondary data of financial statements the selected company, which is representative of the Slovak food industry. Systematic risks were represented as  $\beta$  coefficient, which has been modified to levered  $\beta$  coefficient. In addition to the  $\beta$  coefficient, the study analyzed the impact of market risk and country risk. These systemic risks were compared between the selected countries in the EU. The second group of risks represented risks arising from the internal enterprise environment. The study concluded that the most significant impact on performance of the enterprise has just financial risk.

A study by Blake and Jandhyala (2016) examined the effect of political risk on firm performance. Using a natural experiment and a difference-in-differences approach, the study found support for its argument in the context of telecommunications firms in India. The researchers proposed that firms facing adverse political actions divert significant managerial attention from routine operations to responding to the political challenge.

Noor, and Abdalla (2017) conducted a study on the impact of financial risks on the firms' performance in Kenya. The study looked at credit risk, liquidity risk, foreign exchange risk, market risk and interest rate risk. The findings of the study indicate that financial risks have a great impact on firm's performance. The study was on

financial risks on firms' performance, whereas the current study is on determinants of dividend decisions of sacco's looking at business risk as one of the determinants.

In Pakistan a study by Wakilifard and Oskouei (2014) on the effect of risk on firm performance: Evidence from Automobile companies listed in Tehran stock exchange. This study assessed the effect of risk factors on firm accrual-based and cash flow-based performance measures in Automobile Companies in Tehran Stock Exchange for the period from 2005 to 2010, using Spss19 software, OLS (Ordinary Least Squares) regression method. Financial leverage and operating leverage as risk factors, ROI (Return on Investments) and OCFR (Operating Cash Flow Return) as firm performance measures are considered. Results showed that financial leverage does not have significant effect on ROI and OCFR. Operating leverage affects only on ROI. Operating leverage is negatively related to ROI. This study concluded that accrual-based measure performs better than cash based one.

In Nigeria a study by Kargi (2011) investigated the effect of credit risk on the performance of Nigerian banks. The study used non performing credit portfolios and these significantly contributed to financial distress in the banking sector. Financial ratios as measures of bank performance and credit risk were the data collected from secondary sources mainly the annual reports and accounts of sampled banks from 2004-2008. The author concluded that credit risk has a significant impact on the profitability of Nigeria banks.

#### **2.6.4 Growth Potential and Performance of Deposit Taking SACCOs**

Farooq, Ahmed and Saleem (2015) did a study in Singapore on over investment, growth opportunities and firm performance: evidence from Singapore stock market. The study used a sample of 7 years data (2005 to 2011) of 360 non-financial

companies listed in the Singapore Stock Market. After panel data models appropriation tests (LM test, Hausman test, and no fixed effect test) we employed fixed effect regression methodology in the analysis. The results show that 52% firms in our sample are engaged in proper investment projects, 29% firms are overinvesting, while 19% firms are underinvesting. Maximum overinvestment is taking place in Basic Material sector while maximum underinvestment happening in healthcare sector. Further tests showed that both overinvestment and underinvestment show severe negative impact on firm performance. However, proper investment has positive impact on firm performance in Singapore Stock Market.

In Pakistan a study by Nia, Abednazari and Dadbeh (2014) on the relationship between investment opportunities and firm performance according to corporate life cycle: evidence from Tehran Stock Exchange. The results showed that the investment opportunities have relationship with firm performance for firms in decline but has no relationship with firm performance for firms in growth.

Lordere and Waelchi (2009) investigated that over time, firm's age and slowly lose their ability to compete, as if they were living organisms: Tobin's Q ratios decline and profits fall. This finding cannot be explained by sample selection, firm-age definition, manager or industry age, and time-varying uncertainty. Aging also seems to advance the diffusion of rent-seeking behavior: corporate governance worsens and CEO pay goes up. Overall, firms seem to face a serious aging problem.

Ting *et al.*, (2014) did a study in Malaysia on whether organizational growth on the profitability of Malaysian public listed companies for the period of 2001-2010. The sample consists of a balanced panel data of 240 companies from various sectors listed on the Main Board of Bursa Malaysia. The study develops multiple regression

models to test the impact of organizational growth on firm performance. The results revealed that organizational growth has an impact on profitability.

A study by Rahimian, Ghalandari and Jogh (2012) did a study on the role of growth opportunities in the influence of financial decisions (capital structure and dividend) and ownership structure on firm value for firms listed in Tehran Securities Exchange. Totally, 135 firms were selected for sample and their data for five year (2006-2010) were extracted from their financial statements using software Tadbir Pardaz. Then research hypotheses were tested using combined data and fixed effect model. Finally, the results of data analysis showed that there was a significant relationship between capital structure and dividend and firm value which in the case of presence of growth opportunities, this relationship was negative and significant but in the case of absence of it, that was positive and significant.

Wang, Wang and McLeod (2018) did a study on investment opportunities and financial performance of US hospital firms. The study empirically established that there is a positive relationship between investment opportunities and financial performance. However, the study found negative relationship between investment opportunities and dividend payout. They asserted that when U.S hospital firms, having fixed assets-intensive, acquire large amounts of new capital, they prefer investing in their projects to paying dividends.

Few empirical studies have been carried out in Kenya on DTS and these studies are on performance. For instance, Wambua, Rotich and Anyando (2016) effect of dividend pay-out on the liquidity of licensed non- deposit taking sacco in Nairobi County. The target population was the 13 non-deposits taking Saccos which paid dividends from the year 2012 to 2015. Data analysis was prepared by means of



descriptive and inferential statistics. The study revealed that dividend pay-out plays a major role in the liquidity because of the advanced coefficient as likened to their cash flows and working capital that subsequently the Saccos which posted high profits translated to high dividends paid out to their members.

A study by Wanjiru and Muturi (2015) whose purpose was to establish the factors affecting the financial performance of Sacco's in Kiambu County. This research involved the use of a descriptive design. The research focused on all the 12 Sacco's in Kiambu County licensed by SASRA the regulatory body by the end of 2014. The study found out that dividend policy and membership affected positively the financial performance of Sacco's whereas loan default negatively affected the financial performance. Dividend policy was the most important in influencing Return on Assets since it has the highest beta value. The second most influential is the Loan default with a beta value Membership had the weakest influence on ROA.

Kathuo, Oluoch and Njeru (2020) did a study to establish the factors that determine dividend payout ratio among SACCO'S in Kenya. The data was collected in September 2010. The sample composed of 25 SACCO'S that have a country wide network in Kenya, and they have head offices in Nairobi. The total numbers of the registered SACCO'S in Kenya are 5000. The results were analyzed using Regression method and presented on tables. The study established that SACCO'S Profitability, Growth opportunity, Cash flow and Size variables positively influenced dividend payout ratio, while risk variable negatively influenced dividend payout ratio.

Ahmed and Javid (2018) examined the dynamics and determinants of dividend payout policy of 320 non-financial firms listed in Karachi Stock Exchange during the period of 2001 to 2006. The results consistently support that Pakistani listed non-

financial firms rely on both current earning per share and past dividend per share to set their dividend payments. However, the dividend tends to be more sensitive to current earnings than prior dividends. The listed non-financial firms having the high speed of adjustment and low target payout ratio show the instability in smoothing their dividend payments. To find out the determinants of dividend payout policy dynamic panel regression has been performed. It is found that the profitable firms with more stable net earnings can afford larger free cash flows and therefore pay larger dividends. negative impact on dividend payout policy which shows that the firms prefer to invest in their assets rather than pay dividends to their shareholders.

Kahindi (2020) did a study to establish the factors affecting financial growth of SACCOS in Kilifi County. Descriptive design was used in presenting information and stratified random sampling was used in coming up with the sample size. Primary information was gathered by use of a likert scale questionnaire. Results showed that 79.17% of the SACCOS agreed that loan defaulting was rampant among their members and it has indeed affected financial performance. 68.25% of the respondents agreed that dividend policy affects financial growths of SACCOS. 65.2% agreed that operating cost influences the financial growth of SACCOS and 67% agreed that membership size influences financial growth of the SACCOS in Kilifi County.

Mucheru (2019) sought to assess the effect of the implementation of corporate governance practices on the performance of Savings and credit cooperative Societies. The broader objective of the study was however, to investigate the relationship between corporate governance practices and the performance of organizations. The Study revealed that good corporate governance has a positive effect on the performance of organizations. Lack of it therefore leads to poor performance and

ultimate collapse of organizations. Similarly, the leadership organizations have a key role to play in corporate governance.

Kiaritha, Gekara and Mung'atu (2014) sought to establish the effect of operating costs on financial performance of SACCOs in the banking sector in Kenya. This study adopted a descriptive survey design. Results indicated that the SACCOs have effective policies to manage operating costs. Specifically, results indicated that the employees agreed that salaries, rent and council rates and interest on member deposits were a major cost to their SACCO. The study concluded that there were effective policies at the SACCO to govern the operating cost and running of the SACCO. This is because employees agreed that salaries, rent and council rates and interest on member deposits were a major cost to their SACCO.

El-Maude, Abdul-Rahman and Ibrahim (2017) examined the relationship between bank specific and macroeconomic determinant of non-performing loans in Nigerian deposit money banks over the period of 5 years (2010 to 2014). The findings reveal positive significant relationship between non-Performing loans and Loan to deposit and Bank size; whereas relationship between capital adequacy ratio and Inflation reveals a positive insignificant relationship; whereas return on asset had negative insignificant relationship with the rate of non-performing loans. Based on the findings, it is recommended that CBN for policy purposes should frequently assess the lending habit of deposit money banks in Nigeria. Finally, strengthening securities market will have a positive impact on the general improvement of the banking institutes' thereby increasing the effectiveness of the financial sector.

Otieno *et al.*, (2018) assessed the effect of government's financial regulations on financial performance in SACCOs in Kisii Central, Kenya. The study adopted descriptive research design and purposive sampling method. The research findings indicated that financial regulations contributed only 26.2% to the financial performance of SACCOs in Kisii Central. Some SACCOs pay dividends which are as low as 3.5%. It is not clear why there is a deteriorating trend in most of the societies despite government's financial regulations being in operation since 2004 that were meant to help SACCOs achieve sustainability through growth and financial stability.

Studies have shown that dividend policies differ across companies and sectors, and their effect on company value remains inconclusive among finance researchers. Together, with investment and financing policies, dividend policies form one of the three most important areas of decision making in corporate finance. Identifying factors that determinant firm cash distribution and cash holding decisions is of critical importance to financial managers, investors and market regulatory bodies (Komrattanapanya & Suntrauk, 2013). This study thus sought to examine the Determinants of Dividend Decisions and The Performance of Deposit Taking Saccos In North Rift Counties, Kenya.

**Table 2.1: Showing the Summary of Gaps from Empirical Literature**

<b>Researcher</b>	<b>Title</b>	<b>Research Design</b>	<b>Findings</b>	<b>Gaps</b>
Marfo-Yiadom & Agyei (2011)	Determinants of performance of Ghanaian Banks.	explanatory	established that sales growth is positively related to profitability	The study looked at banks not the SACCOS and used profitability as the only measure of performance.
Sam and Hoshino (2013)	analysing sales growth ratio and profitability ratio in ICT industry between Japan and three ASEAN countries	Exploratory	Japan and ASEAN had no significant difference with each other in their sales growth performance.	The study was done in ICT industry. By looking at profitability as the only measure of performance.
Salim (2012)	Relationship between bank size and financial performance of commercial banks in Kenya.	Descriptive	The study established strong correlations between all the studied factors of bank size.	The study focused on Banks not SACCOS. Performance was in terms of ROA
Love and Rachinsky (2015)	the effect of firm size on firm performance	Explanatory	larger firms have better performance	Used ROA to measure performance.
Gaur and Kesavan (2007)	effects of firm size and sales growth rate on inventory turnover using data for 353 public listed US retailers for the period 1985-2003.	Descriptive	The study found that with sales growth rate, inventory turnover increases with sales growth rate	Used Retail firms. The current study used SACCOS.
Luqman <i>et al.</i> , (2017)	effect of firm size on the performance of	Exploratory	firm size in terms of total assets has a negative effect	Used total assets to measure firm size and ROE for

	firms in Nigeria.		on performance	performance
Alshubiri (2011)	impact of financial and business risk on performance in ten industrial sectors of Sultanate of Oman.	Descriptive	Effect of business and financial risk variables on performance at significant level 10%.	The study used industrial sector not Saccos
Kiseľáková <i>et al.</i> , (2015)	impact of selected systematic and unsystematic risks to performance of the enterprises in Slovak.	Exploratory	There is significant impact on performance of the enterprise has just financial risk	The study did not look at SACCO sector. Performance measures were ROA
Noor, and Abdalla (2017)	impact of financial risks on the firms' performance in Kenya.	Descriptive	Financial risks have a great impact on firm's performance.	The study was on listed firms. And performance measures used were ROA and ROI
Vakilifard and Oskouei (2014)	effect of risk on firm performance: Evidence from Automobile companies listed in Tehran stock exchange.	Descriptive	Results showed that financial leverage does not have significant effect on ROI and OCFR.	Used ROI to measure performance. The industry used is Automobile which is different from the SACCOs. The study used financial leverage as a measure of risk
Farooq, Ahmed and Saleem (2015)	Overinvestment, growth opportunities and firm performance: evidence from Singapore stock market.	Exploratory	Both overinvestment and underinvestment show severe negative impact on firm performance.	Performance measures used are ROA. The study was done on Listed firms different from SACCOs
Lordere and Waelchi	firm's age and their ability to	Descriptive	Organizational growth has an impact on	Tobins Q was used to measure

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(2009)	compete		profitability.	performance.
Rahimian, Ghalandari and Jogh (2012)	role of growth opportunities in the influence of financial decisions (capital structure and dividend) and ownership structure on firm value for firms listed in Tehran Securities Exchange.	Exploratory	Significant relationship between capital structure and dividend and firm value which in the case of presence of growth opportunities, this relationship was negative and significant but in the case of absence of it, that was positive and significant.	The firms were in different industry not SACCOS. The study used Value of the firm not performance
Wanjiru and Muturi (2015)	Factors affecting the financial performance of Sacco's in Kiambu County.	Descriptive	Dividend policy was the most important in influencing Return on Assets since it has the highest beta value	The study researched on performance and the factors that affects it however it did not look at the determinants of dividend policy
Wambua, Rotich and Anyando (2016)	effect of dividend pay-out on the liquidity of licensed non-deposit taking saccos in Nairobi County.	Descriptive	Dividend policy plays out important role on liquidity of the DTS in Nairobi County.	This study did not research on the determinants rather the effect of dividend policy on liquidity

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## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the methodology that was used in the study in order to address the research problem. This chapter covers the research design, population of the study, sample size and sampling technique, data collection instrument, data collection procedure, pre-testing of research instruments, data analysis and processing are also presented.

#### **3.2 Research Design**

A research design generally entails the use of outline for collection, measurement and analysis of data. It guides the entire research process (Sreevidya & Sunitha, 2011). The study used explanatory research design. The primary purpose of explanatory research was to explain why phenomena occur and to predict future occurrences. Explanatory studies are characterized by research hypotheses that specify the nature and direction of the relationships between or among variables being studied. Explanatory study sets out to explain and account for the descriptive information. Thus, explanatory studies seek to ask ‘why’ and ‘how’ questions (Gray, 2014).

It is actually a type of research design which focuses on explaining the aspects of your study in a detailed manner. Explanatory research can be conducted in order to assess impacts of specific changes on existing norms, various processes etc. The researcher starts with a general idea and uses research as a tool which could lead to the subjects that would be dealt with in the incoming future. It is meant to provide details where a small amount of information exists for a certain product in mind of that researcher (Dudovskiy, 2018).



### **3.3 Population of the Study**

Population is defined as a group from which information is sought. The target population is a subset of the target population that reflects specific characteristics and can be practically reached in order to select a representative sample (Mugenda, 2008). The target population of the study were 108 management and board members of 9 Deposit Taking Saccos in the North Rift region. There are 12 board members in each Sacco who formed the unit of analysis for this study. The justification for the board members is that they are the ones who make decisions regarding the dividend policies and issue of loans, thus the general management of the Saccos.

### **3.4 Sampling Technique**

Purposive sampling technique was used to select deposit taking Saccos in the North rift region of the Country. However, since the population is small the entire population was used for the study. Thus, a census survey was used to collect data from all the respondents of the study.

### **3.5 Data Collection Instruments**

Creswell and Designm (2003) define data collection as a means by which information is obtained from selected subjects of investigation. The researcher developed research questions for collecting primary data. The questionnaires were self- administered in order to gather primary data on dividend policies and financial performance of deposit taking Saccos'. Questionnaires eliminate interviewer bias and ensure that the respondent has adequate to respond meaningfully (Kothari, 2004).

### **3.6 Data Collection Procedures**

After testing the validity and reliability of the research questionnaire, the researcher sought the consent of Masinde Muliro University of Science and Technology. The

research questionnaires were then be administered on the respondents by the researcher in person or research assistants.

### **3.7 Validity and Reliability**

The study tested the research instruments in order to determine their validity and reliability before commencing the study.

#### **3.7.1 Validity of the Research Instruments**

Validity is the degree to which an instrument correctly measures a construct or variable (Cooper & Schnilder, 2011). It is the accuracy, truthfulness and meaningfulness of inferences that are based on the data obtained from a tool or a scale for each construct in the study. The study ensured that content validity of research questionnaire by consulting the university supervisor. The study also used content validity. To determine content validity, the researcher considered the following questions: - Does this instrument really contain a real representation of the desired content? What physiological or underlying constructs are being measured? The questionnaires were presented to the experts and supervisors in the department of educational management studies at Masinde Muliro University of Science And Technology who were asked to confirm whether the items captured the required information. Their comments and suggestions were used as a basis to modify the items and make them more adaptable to the study so as to improve the validity of the instruments.

This helped to improve the questionnaire before proceeding to the field to carry out the main study.

### **3.7.2 Reliability of the Research Instruments**

Reliability is the degree to which the research questionnaire can be depended upon to secure consistent results upon repeated application. Cronbach's alpha coefficient was used to test for the internal consistency of the research instrument. If the coefficient is above or equal to 0.70 then the research questionnaire is considered reliable (Sreevidya & Sunitha, 2011).

### **3.8 Data Analysis and Presentation**

After data collection, the data obtained from the field was filled-in and returned questionnaires were edited for completeness, coded and entries made into Statistical package for social sciences (SPSS version 21). Screening was then performed for the following; levels of measurements, sample size, assumptions of normality, linearity, independence of errors and homoscedasticity. Further screening covered outlier detection and establishing presence of multicollinearity. Testing for compliance with statistical assumptions of multivariate analysis provided a pillar for making statistical inferences and results. This ensured that the data are accurate, consistent with other information, uniformly entered, complete and arranged to simplify coding and tabulation. With data entry, the data collected was captured and stored. Descriptive and inferential analysis was conducted.

#### **3.8.1 Descriptive Analysis**

Descriptive analysis involved the use of frequencies in their absolute and relative forms (percentage). Mean and standard deviations were also used as measures of central tendencies and dispersion respectively. The purpose of conducting descriptive statistics was to reduce, summarize data and analyze items and constructs. This provided insights into the characteristics of the samples. Descriptive statistics provided a basis for inferential statistics using correlation and multiple regressions.

### 3.8.2 Inferential Analysis

Inferential analysis was done to determine the dividend decisions on performance of deposit taking saccoes in north rift counties, kenya, thus, testing the hypotheses of the study. Linear Multiple Regression and correlation analysis were used to assess the strength of the relationships between the specified variables. The Linear Multiple Regression analysis was conducted, with the assumption that: variables are normally distributed to avoid distortion of associations and significance tests, which was achieved as outliers were not identified; a linear relationship between the independent and dependent variables for accuracy of estimation, which was achieved as the standardized coefficients were used in interpretation. Various statistics were extracted and interpreted with respect to the various models. The study employed a multiple regression model since to test for moderation, employee commitment was first treated as an independent variable.

### 3.8.3 Multiple Regression Model Description

The study adopted the following multiple linear regression model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \dots \dots \dots \text{Equation 3.1}$$

Where; Y represents performance of deposit taking Saccos in North rift, Kenya

$\beta_0$  represents the y-intercept

$\beta_1, \beta_2, \beta_3, \beta_4$  represent coefficients of determinants of dividend polices

$X_1$  Saccos Returns

$X_2$  Sacco Size

$X_3$  Business Risk

$X_4$  Growth Potential

$\varepsilon$  represent error term

### **3.9 Ethical Issues**

The researcher followed protocols in clearance and approval to conduct the study by sought approval from Institutional Research and Ethics committee of university. The researcher sought approval to execute the research from the National Council of Science and Technology (NACOSTI). The nature and purpose of this study, risks and benefits was explained to the respondents before obtaining a written informed consent. They were assured that their participation is voluntary, and they are free to withdraw from the study at their own will at any time or stage during the study. There was no victimization for any consent decisions made. No direct benefit was to be achieved following participation in the study but the findings from it will benefit Saccos. Confidentiality was maintained, and the information were not shared with unauthorized persons and their names were not disclosed or written anywhere.

## **CHAPTER FOUR**

### **RESEARCH FINDINGS AND DISCUSSIONS**

#### **4.1 Introduction**

This chapter presents the results of the research that was conducted to test both the conceptual model and research hypotheses. First, it provides the response rate, reliability and validity of the research constructs. Secondly, it describes the general background information of the respondents and descriptive analysis of the study variables. Finally, the chapter describes the results of statistical analyses to test the hypotheses and at the same time presents the discussions of the results and conclusions from the findings.

#### **4.2 Response Rate**

The study distributed questionnaires to 108 respondents and managed to collect data from 95 respondents. This represented 87.96 per cent response rate. The unused questionnaires were 13 representing 12.04% of the administered questionnaires. The main reason for the unused questionnaires was that the questionnaires were wrongly filled and in some cases the respondents ticked two answers. However, this response rate was deemed satisfactory as suggested by Field (2013) who recommends 75% as a rule of the thumb for minimum responses.

**Table 4. 1: Response Rate**

<b>Responses</b>	<b>No</b>	<b>Percentages</b>
Usable questionnaires	95	87.96%
Unused	13	12.04%
<b>Administered questionnaires</b>	<b>108</b>	<b>100</b>

**Source: Research data (2020)**

### 4.3 Pilot Study Results

The questionnaire tool was subjected to a pilot study to determine its reliability. The pilot study involved 10% of the sampled respondents hence, 10 respondents were randomly picked from Saccos in North rift Kenya in Eldoret town. The pilot results are presented in Table 4.2;

**Table 4. 2: Reliability Results**

<b>Objective</b>	<b>Alpha value</b>	<b>Number of items</b>
Performance of Deposit Taking Saccos	0.829	5
Sacco Returns	0.717	4
Sacco Size	0.841	4
Business Risk	0.750	4
Growth Potential	0.791	4

**Source; Field Data (2020)**

The pilot results indicated that the reliability of the performance of deposit taking Saccos was 0.829 using Cronbach's alpha test of reliability; the reliability of Sacco returns was 0.717; the reliability of the Sacco size 0.841; the reliability of the business risk was 0.750 and the reliability for growth potential was 0.791. The study results revealed that all the variables gave an alpha test value of greater than 0.70, therefore all the items were regarded reliable. According to Sekaran and Bougie (2011) a Cronbach's alpha of 0.7 and above is considered good. The study ensured

validity of instruments by consulting the university supervisor. The study also used content validity by ensuring that the instruments measured what they ought to measure.

#### **4.4 Demographic Characteristics of the Respondents**

The study sought to establish the general information of the respondents. The study sought to establish the category, gender, years of experience and highest educational level of respondents. The study results are presented in Table 4.3;

##### **4.4.1 Distribution of Respondents by Gender**

This study analyzed how respondents were distributed according to their gender. The results of the analysis are presented in Table 4.3

**Table 4. 3: Gender of the Respondents**

<b>Gender</b>	<b>Frequency</b>	<b>Percent</b>
Male	64	67.4
Female	31	32.6
<b>Total</b>	<b>95</b>	<b>100.0</b>

**Source; Field Data (2020)**

The study findings on the gender of the respondents showed that 67.4% were male while 32.6% were female. This shows that the study managed to collect data from both genders and their opinions were represented in the study.

##### **4.4.2 Distribution of Respondents by Years serving in the Committee**

Respondents were asked to indicate the number of years of experience they have had in the in the real estate sector to assess their familiarity in the field and hence assure validity of their responses, the results are as indicated in Table 4.5.



**Table 4. 4: Respondents Years in the Committee**

<b>Years of Work</b>	<b>Frequency</b>	<b>Percent</b>
1-5 Years	19	20
6-10 Years	63	66.3
11 Years and above	13	13.7
<b>Total</b>	<b>95</b>	<b>100</b>

**Source; Field Data (2020)**

The study results on the respondent's years of experience indicated that 20.0% of the respondents had been in the committee between 1-5 years; while 66.3% had been in the committee of 6-10 years whereas 13.7% had experience of 11 and above years. The findings of this study indicate that the respondents had adequate experience to respond to the questions and are informed the dividend decisions the Sacco.

#### **4.4.4 Distribution of Respondents by Highest Education Level**

Respondents were asked to indicate their highest education level. This item was to assess their level of skills and to establish whether they were in a position to answer the questionnaire accurately and the results were as indicated in Table 4.5.

**Table 4. 5: Distribution of Respondents by Education Level**

<b>Educational Level</b>	<b>Frequency</b>	<b>Percent</b>
Certificate	5	5.3
Diploma	21	22.1
Bachelor's Degree	49	51.6
Post-graduate	20	21
<b>Total</b>	<b>95</b>	<b>100</b>

**Source; Field Data (2020)**

The study findings on the education level of the respondents indicated that 5.2% were certificate level, 22.1% were diploma graduates; 51.6% were bachelor's degree graduates; 21.0% were post-graduate. This implies that the respondents were

knowledgeable and therefore understood the study questions and this could be interpreted to mean that they gave a true and fair view of the study questions.

#### **4.5 Descriptive Statistics**

The descriptive statistics are presented in the section that follows; the information was sought in relation to the study objectives. In this section the study used descriptive statistics, which include mean, standard deviation and variance. The evaluation of mean was done in accordance to Aggresti (2009) who indicated that a mean of 1.00 to 2.49 is evaluated to be very weak, 2.50 to 3.49 Weak, 3.50 to 4.49 Strong and 4.50 to 5.00 Very Strong, while for standard deviation of greater than 0.5 was evaluated to indicate homogeneity and a standard deviation less than 0.5 indicates heterogeneity of data.

##### **4.5.1 Sacco Returns and Performance of Deposit Taking Saccos**

The study sought to establish the effect of sacco returns on performance of deposit taking saccos in the North Rift Counties. The study findings were presented in Table 4.6.

**Table 4. 6: Sacco Returns and Performance of Deposit Taking Saccos**

Statements		SA	A	U	D	SD	Mean	Std Dev
i. The SACCO has been able to achieve its service targets over the years	F %	31 32.6	39 41.1	12 12.6	8 8.6	5 5.1	3.8	1.047
ii. Financial liquidity influences SACCO'S dividend policy	F %	29 30.5	38 40	14 14.7	14 14.7	0 0	3.79	1.074
iii. Through adequacy ratio the SACCO has been able to influence its dividend policy	F %	21 22.3	59 61.9	13 13.7	2 2.2	0 0	4.04	0.342
iv. Services volume has an influence on the Sacco's liquidity position.	F %	40 41.7	27 28.1	16 17.3	8 7.9	4 5	3.93	0.346

**Source; Field Data (2020)**

The study findings revealed that 73.7% were of the view that financial liquidity influences SACCO'S dividend policy while 13.3% disagreed and other 12.6% undecided. This was further supported by (mean=3.80; Std Dev 1.047). These findings indicated that financial liquidity of the Saccos is very important when it comes to financial performance and dividend policy. The study findings agree with the study findings of a research done by Shibutse, Kalunda and Achoki, (2019) who found that liquidity and dividend pay-out had a significant and positive effect on the financial performance of DPS and CCS in Kenya. Further the study findings agree with the study done by Njeru (2016) and Sam and Hoshino (2013) who found out that even though SACCOS undertake strict cash flow forecast, there are external variables that can affect cash management which poses a greater risk in the operations of the institutions. Hence the need to critically review in-depth on the cash management factors both in the external environment and internal environment that can affect cash management in the institution and establish mitigation factors.

The respondents were further requested to give their view on whether through adequacy ratio the Sacco has been able to influence its dividend policy. Majority, 69.8% of the respondents agreed while 19.4 disagreed. This was further supported by (mean=3.79; Std Dev 1.074). these findings indicates that financial adequacy is important when it comes to Saccos decisions on dividend polices. The study findings agree with the study done by Kariuki (2014) and Opala (2017) who found that there were factors positively influence the financial performance of Deposit taking Saccos in Nairobi County, including liquidity, capital adequacy, size of the SACCO and management quality. They influenced it positively.

In addition, the respondents were requested to give their opinions on whether services volume has an influence on the Sacco's liquidity position. Majority of the respondents 84.2% of the respondents agreed while 22% disagreed. This finding was further supported by (mean=4.04; Std Dev 0.342). From the results it can be deduced that services volume does have influence on the Saccos performance. The study findings disagree with the study done by Keben and Maina (2018) who found out that Liquidity risk management has a significant factor that enhance financial performance of SACCOs in Uasin Gishu County, Kenya.

Lastly, the researcher sought the respondents' opinion on whether Sacco returns generally influence the dividend policy. While majority of the respondents agreed 69.8% of the respondents agreed a few of the respondents 12.9% disagreed. This was further supported by (mean=3.93; Std Dev 0.346). The results imply that Sacco returns enhance financial performance of the Saccos. The study findings agree with the study done by Limo (2018) who found that there was a significant relationship between disclosure of financials and financial performance; there was a significant relationship between comprehensiveness and financial performance and that there

was a significant relationship between audience consideration and financial performance. The study findings disagree with the study done by Lee (2009) who established that industry specific fixed effects play a negligible role in the presence of firm specific fixed effects.

#### 4.5.2 Sacco Size and Performance of Deposit Taking Saccos

The study sought to determine the effect of Sacco Size and Performance of Deposit Taking Saccos in the North Rift Kenya. The study responses were presented in Table 4.7.

**Table 4. 7: Sacco Size and Performance of Deposit Taking Saccos**

Statements		SA	A	U	D	SD	Mean	Std Dev
i. The Sacco's has a market share which influences her dividend policy it will follow.	F	60	25	10	0	0	4.52	1.165
	%	62.6	26.6	10.8	0.0	0.0		
ii. The number of products the SACCOs offers enables it to have penetrate to the market	F	60	25	10	0	0	4.51	0.275
	%	62.6	26.6	10.8	0.0	0.0		
iii. The amount of deposits the SACCO has influences the dividend policy	F	57	28	10	0	0	4.48	0.45
	%	59.7	29.5	10.8	0.0	0.0		
iv. The Sacco has policies and procedures that have helped in ensuring management directives are carried out.	F	40	44	8	3	0	4.28	0.273
	%	42.4	46	8.6	2.9	0.0		

**Source; Field Data (2020)**

The study results on the effect of Sacco Size and Performance of Deposit Taking Saccos indicated that majority of the respondents 90.4% were of the opinion that the Sacco's has a market share which influences her dividend policy it will follow. No

one disagreed. This was further supported by (mean=4.52; Std. Dev 1.165). These findings implied that market share of the Saccos play a key role on dividend policy. The study findings agree with the study done by Otwoko, Maina and Kwasira (2020) who found out that SACCOs size moderated the relationship between interest rate drivers and the financial performance of DT SACCOs.

With regard to whether to the number of products the Saccos offer whether it enables to penetrate to the market, majority of the respondents 89.2% agreed while none disagreed. This was further supported by (mean=4.51; Std Dev 0.275). The implication of this finding is that the number of products being offered by the Saccos play a key role in penetrating the markets and hence its performance. The study findings disagree with the study done by Muriuki (2017) who found that governance has enormous effects on the performance of the SACCO. Further, the results also indicate that the aspects of education and training play a major role on influencing governance structures. The study findings never indicated any effect of number of products affecting SACCOs performance.

In addition, the respondents were asked on whether the number of deposits the Sacco influences the dividend policy. Majority of the respondents 90.2% were of the opinion that deposit amount influences dividend policy of the Saccos, while 10.8% disagreed. This was further supported by (mean=4.48; Std Dev 0.450). These findings thus imply. that deposits of the Saccos affects its performance. The study findings disagree with the study done by Kavulya (2018) product development strategy and performance of Saccos are positively and significantly related, marketing strategy and performance of Saccos are positively and significantly relate and not number of deposits in the saccos.

Lastly majority of the respondents 89.6% were of the opinion that Sacco has policies and procedures that have helped in ensuring management directives are carried out. This was further supported by (mean=4.28; Std Dev 0.273). This implies that Sacco policies play a key role in helping management to carry out their directives.

#### 4.5.3 Business Risk and Performance of Deposit Taking Saccos

The study sought to determine the effect of business risk and Performance of Deposit Taking Saccos in the North Rift Kenya. The study responses were presented in Table 4.8.

**Table 4. 8: Business Risk and Performance of Deposit Taking Saccos**

Statements		SA	A	U	D	SD	Mean	Std Dev
i. The financial risk of Sacco determines the dividend policy of the Sacco.	F	27	40	15	8	5	4	1.187
	%	28.1	42.4	15.8	8.6	5		
ii. Business risk influences dividend policy of the Sacco	F	8	57	14	12	4	3.55	0.969
	%	7.9	60.4	15.1	12.2	4.3		
iii. Political risks determine the dividend policy of the Sacco	F	8	57	14	12	4	3.55	0.764
	%	7.9	60.4	15.1	12.2	4.3		
iv. The Sacco's dividend policy is determined by credit risk the Sacco faces	F	10	48	19	16	2	3.16	0.606
	%	10.8	50.4	20.1	16.5	2.2		

**Source; Field Data (2020)**

The study results on the effect of financial risk of Sacco determine the dividend policy of the Sacco. Majority of the respondents 80.0% were of the opinion that financial risk of Saccos is affecting dividend policy of the Saccos. This was further supported by (mean=4.00; Std Dev 1.1187). These findings were thus implying that the financial risk influences the performance of Saccos in the north Rift region. The

study findings agree with the study done by Alshubiri (2011) who established that there is a statistically significant impact of earnings growth at business risk on performance at significant level 5% and current ratio and financial leverage at financial risk on performance at significant level 1%. Further the study agrees with the study done by Noor, and Abdalla (2017) who established that financial risks have a great impact on firm's performance

Further majority of the respondents 71.0% were of the opinion that business risk influences dividend policy of the Sacco while 16.5% of the respondents disagreed. This was further supported by (mean=3.55; Std Dev 0.969). In addition, majority of the respondents 71.0% were of the opinion that political risks determine the dividend policy of the Sacco while 16.5% disagreed. This was further supported by (mean=3.55; Std Dev 0.764). These results imply that when the country faces political turmoils and uncertainty Saccos dividend policy is affected. The study findings agree with the study done by Blake and Jandhyala (2016) who found that firms facing adverse political actions divert significant managerial attention from routine operations to responding to the political challenge.

Lastly, majority of the respondents 70.5 were of the opinion that the Sacco's dividend policy is determined by credit risk the Sacco faces while 2.2% disagreed. This was further supported by (mean=3.16; Std Dev. 0.606). From these findings it implies that credit risk in the Saccos dividend policy of North Rift Saccos. The study findings agree with the study done by Kimari (2018) who indicated that there was sufficient evidence that the credit risk is useful in explaining the financial performance (ROE) of Kenyan SACCOs as it was significant at 95% confidence level ( $p=0.002$ ).



#### 4.5.4 Growth Potential and Performance of Deposit Taking Saccos

The study sought to determine the effect of growth potential on performance of deposit taking Saccos in the North Rift Kenya. The study responses were presented in Table 4.9.

**Table 4.9: Growth Potential and Performance of Deposit Taking Saccos**

Statements		S. A	A	N	D	S. D	Mean	Std. Dev
i. The Number of years of the Sacco in operation affects its dividend policy	F	42	32	6	5	10	3.72	1.265
	%	44.2	33.6	6.4	5.2	10.5		
ii. Total assets growth of the Sacco is a determinant of the Sacco's dividend policy	F	33	37	10	6	15	3.25	1.107
	%	34.7	38.9	10.5	6.4	15.8		
iii. The total service growth of the Sacco's helps them to determine the dividend policy to follow.	F	42	37	10	1	5	3.24	1.139
	%	44.2	38.9	10.5	1.1	5.2		
iv. The Sacco's investment opportunities influence its dividend policy	F	13	27	8	32	15	3.04	1.3
	%	40	28.2	8.6	33.6	15.8		

**Source; Field Data (2020)**

The study respondents were requested to give their opinions in regards to whether there is number of years of operations affects the dividend policy of the Sacco. The results in Table 4.8 indicates that majority of respondents 74(77.6%) agreed that number of years of the Sacco in operation affects its dividend policy on the other hand 15(15.7%) of the respondents disagreed with the statement. The results showed a (mean=3.72, std. Dev. =1.265). The study findings agree with the study done by Kathuo, Oluoch and Njeru (2020) who found that SACCO'S Profitability, Growth opportunity, Cash flow and years of the Saccos positively influenced dividend payout ratio, while risk variable negatively influenced dividend payout ratio.

In regard to total assets growth of the Sacco is a determinant of the Sacco's dividend policy was further established to dividend policy respondents were requested to give their opinions in regards to whether there is risk evaluation in regard to revenue collection. Table 4.8 indicates that majority of respondents 70(73.6%) agreed that total assets is a determinant of policy on other hand 21(22.2%) of the respondents disagreed with the statement. Total assets were further established to determine dividend policy in north rift counties with (mean=3.25, std. Dev. =1.107). The study findings agree with the study done by Ahmed and Javid (2018) who found that the profitable firms with more stable net earnings can afford larger free cash flows and therefore pay larger dividends. negative impact on dividend payout policy which shows that the firms prefer to invest in their assets rather than pay dividends to their shareholders.

The respondents were asked whether the total service growth of the Sacco's helps them to determine the dividend policy to follow. Results in table 4.8 indicates that majority of respondents 79(83.1%) agreed that total service growth of the Sacco's helps them to determine the dividend policy. Contrary to this 6(6.3%) of the respondents disagreed with the statement. Total service growth of the Sacco's helps them to determine the dividend policy with (mean=3.24, std. Dev. =1.138). The study agrees with the study done by Kahindi (2020) who found that 79.17% of the SACCOS agreed that total service growth of the Sacco has indeed affected financial performance. 68.25% of the respondents agreed that dividend policy affects financial growths of SACCOS. 65.2% agreed that operating cost influences the financial growth of SACCOS and 67% agreed that membership size influences financial growth of the SACCOS in Kilifi County.

In regard to whether investment opportunities respondents were requested to give their opinions in regards to whether it influences its dividend policy. The study findings in Table 4.8 indicates that less than half of respondents 40(38.8%) agreed that investment opportunities influence its dividend policy while 47(49.3%) of the respondents disagreed with the statement. Investment opportunities was further established to influence dividend policy with (mean=3.04, std. Dev. =1.300). The study agreed with the study findings of a study done by Abednazari (2014) who found that the investment opportunities have relationship with firm performance for firms in decline but has no relationship with firm performance for firms in growth.

#### 4.5.5 Performance of Deposit Taking Saccos

The study finally sought to determine the indicators of performance of Deposit Taking Saccos in the North Rift counties. The study results were as tabulated in Table 4.10.

**Table 4. 10: Performance of Deposit Taking Saccos**

Statements		S. A	A	N	D	S. D	Mean	Std. Dev
i. The share capital of the Sacco is adequate	F	22	8	13	27	25	3.72	1.265
	%	23.2	8.4	13.7	28.4	26.3		
ii. The Sacco has adequate Asset Base	F	28	22	5	32	18	3.25	1.107
	%	29.5	23.2	5.3	33.7	18.9		
iii. The amount of non-performing loans is manageable	F	26	34	8	10	17	3.24	1.139
	%	27.3	35.7	8.4	10.5	17.9		
iv. The dividend pay rate is adequate to the shareholders	F	6	16	12	32	30	3.04	1.300
	%	6.4	16.4	12.3	32.8	31.6		

**Source; Field Data (2020)**

The study results on indicators of performance revealed that 30(31.6%) of the respondents were of the view that saccos declares profits annually while 52(54.7%) of the respondents disagreed with this statement that saccos declares profits annually. This was further supported by (mean=3.72; Std Dev 1.265). These findings implied that not all Saccos declare dividend in annual basis in the North Rift Region. The study findings disagree with the study done by Mucheru (2019) who found that good corporate governance has a positive effect on the performance of organizations. Lack of it therefore leads to poor performance and ultimate collapse of organizations. Similarly, the leadership organizations have a key role to play in corporate governance.

In addition, the respondents were asked as to whether the Sacco has adequate asset base 50(52.7%) of the respondents were of the view that Saccos have adequate asset base within them, on the contrary 50 (52.7) of the respondents disagreed with the statement that Saccos in the north rift have adequate asset base. This was further supported by (mean=4.49; Std Dev 0.606). These findings were thus implying that Saccos in the north rift have inadequate asset base. The study agrees with the study done by Kiaritha, Gekara and Mung'atu (2014) who indicated that the employees agreed that salaries, rent and council rates and interest on member deposits were a major cost to their SACCO.

In another question the respondents were asked to give their view regarding whether the amount of non-performing loans is manageable. The results indicated that 60 (63.2%) of the respondents agreed with this statement. While 27(28.4%) of the respondents disagreed with this statement. This was further supported by (mean=3.24; Std Dev 1.139). The implication of this finding is that Saccos in the North Rift Counties have manageable non-performing loans. The study disagrees

with the study done by El-Maude, Abdul-Rahman and Ibrahim (2017) who revealed a positive significant relationship between non-Performing loans and Loan to deposit and Bank size; whereas relationship between capital adequacy ratio and Inflation reveals a positive insignificant relationship; whereas return on asset had negative insignificant relationship with the rate of non-performing loans

Lastly when the respondents were asked whether dividend pay rate is adequate to the shareholders 22 that is 22.8% of the respondents agreed that the dividend rate is adequate. On the other hand, 61 of the respondents that is 64.6% disagreed with this statement. This was further supported by (mean=3.04; Std Dev 1.300). This is an implication that majority of the Saccos do not pay dividends rates which are adequate. The study findings disagree with the study done by Otieno *et al.*, (2018) its findings never indicated any inadequacy of dividends. The research findings indicated that financial regulations contributed only 26.2% to the financial performance of SACCOS in Kisii Central.

#### **4.6 Assumptions of Regression Model**

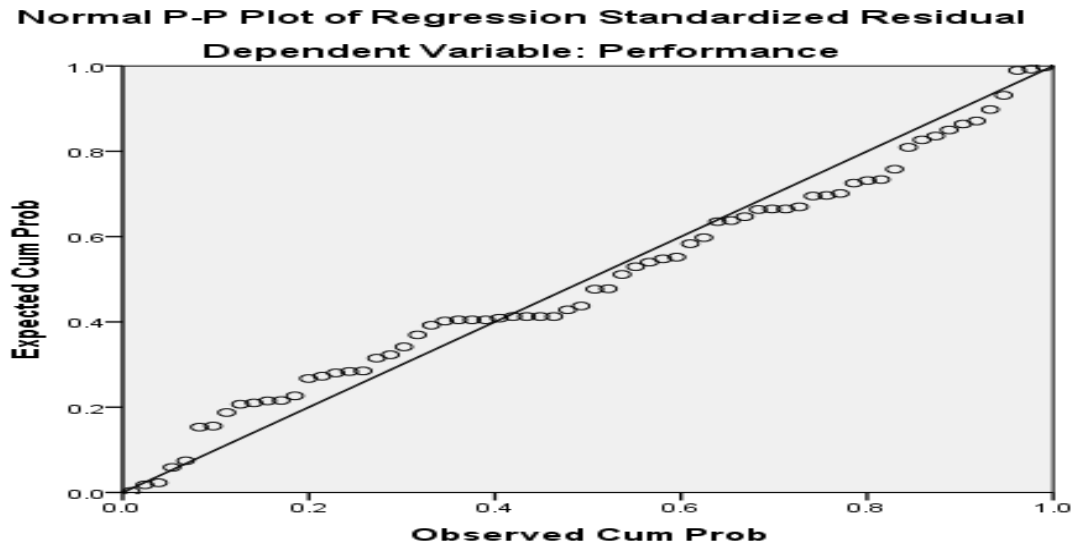
To provide unbiased estimates of the study parameters, various assumptions of regression were tested. These include linearity assumption, normality assumption, Heteroscedasticity and multi-collinearity assumption of the independent variables.

##### **4.6.1 Linearity Assumption**

Linearity is the assumption that a straight-line relationship exists between two variables (Tabachnick & Fidell, 2013). Testing for linearity is deemed necessary since linearity is an assumption of regression which must be satisfied. The bivariate P-P plot was used to assess the degree of linear relationship. Linearity assumption

accurately estimates the relationship between dependent and independent variables.

This is presented in Figure 4.1.



**Figure 4. 1: Linearity Test**

Findings in Figure 4.1 showed that the plots in the normal P-P as presented clearly shows a normal distribution along the diagonal line, the distribution is not skewed to either side. Thus, the assumption that the data was linear was attained.

#### **4.6.2 Normality Assumption**

Regression assumes that variables have normal distributions. Non-normally distributed variables can distort relationships and significance tests. Shapiro –Wilk (W) test was used to test normality. Shapiro –Wilk (W) Test for normality was used because the size of respondents is small (72 respondents). Shapiro – Wilk (W) test is appropriate where the size is between 7 to 2000 respondents (Shapiro & Wilk, 1965). For large samples of between 2000 and 5000 respondents, Kolmogorov – Smirnov (D) test is appropriate (Ghasemi & Zahediasl, 2012). From the results if the significance value is less than 0.05, the data is not normally distributed, else if

significance value greater than 0.05, the data is normally distributed (Garson, 2012).

The results are presented in Table 4.11.

**Table 4. 11: Normality Test**

<b>Variables</b>	<b>Statistic</b>	<b>Sig.</b>
Saccos returns	0.61	0.13
Size of the Sacco	0.6	0.252
Business risk	0.84	0.275
Growth potential	0.732	0.247

**Source; Field Data (2020)**

The test results in Table 4.12 revealed that the Shapiro-Wilk significance value for Saccos returns was  $0.130 > 0.05$ . Shapiro-Wilk significance value for size of the Sacco was  $0.252 > 0.05$ . Shapiro-Wilk significance value for business risk was  $0.275 > 0.05$ . Shapiro-Wilk significance value for growth potential was  $0.247 > 0.05$ . This implied that all the study variables were not significant ( $p > 0.05$ ) indicating that the distribution of the data was normal.

#### **4.6.3 Homoscedasticity Assumption**

Homoscedasticity assumes that the dependent variable shows an equivalent level of variance across the range of predictor variable. Homoscedasticity is one of the assumptions required for multivariate analysis. Levene's test was used to test for homoscedasticity of the data as showed in Table 4.12.

**Table 4.12 Levene's Test of Equality of Error Variances**

<b>F</b>	<b>df1</b>	<b>df2</b>	<b>Sig.</b>
1.341	51	27	.207

**Source; Field Data (2020)**

Homoscedasticity test results in Table 4.14 showed that ( $p > 0.05$ ) there is no difference between the variances in the population. Thus, there was no heteroscedasticity problem.

#### 4.6.4 Multicollinearity Assumption

The assumption of multicollinearity implies that there is no correlation between independent variables. The standard issue in multicollinearity is that, the standard errors and thus the variances of the estimated coefficients are inflated when multicollinearity exists (Lind, Marchal & Wathen, 2012). Test for multicollinearity among study variables was conducted using Tolerance and Variance Inflation Factor (VIF). The threshold for rejecting existence of multicollinearity was therefore set at a maximum value of “5” (Ringle, Sven & Michael, 2015). If there is no multicollinearity, then the Variance Inflation Factor (VIF) was 1.

A VIF above one was an indication that the independent variables are moderately correlated while a VIF between 5 and 10 indicates severe multicollinearity, which is problematic based on this rule of the thumb, there was no collinearity among the independent variables. From the results, inspection of the Variance Inflation Factors (VIFs) showed that multicollinearity was not a concern. No variable was observed to have VIF value more than 5 and no tolerance statistic were low 0.100 (Ringle, Sven & Michael, 2015). This led to a conclusion that no predictor had a strong linear relationship with any of the predictor(s). This is presented in Table 4.13.

**Table 4.12: Multicollinearity Test**

Variables	Collinearity Statistics	
	Tolerance	VIF
Saccos returns	0.209	4.787
Size of the Sacco	0.181	5.526
Business risk	0.928	1.077
Growth potential	0.529	1.891

**Source; Field Data (2020)**



Multicollinearity test results in Table 4.13 revealed that Saccos returns had the correlation with other independent variables (tolerance=0.209; VIF= 4.787). Size of the Sacco had the correlation with other independent variables (tolerance=0.181; VIF=5.526). Business risk had the correlation with other independent variables (tolerance=0.928; VIF=1.077). Growth potential had the correlation with other independent variables (tolerance=0.529; VIF=1.891). Multicollinearity test indicated that no independent variable was removed from the analysis. A VIF greater than 10 or tolerance below 0.10 implied serious multicollinearity problem (Craney & Surles, 2002).

#### **4.7 Inferential Statistics**

This section presents the results of correlation and multiple regression analysis in line with the specific objectives of this study.

##### **4.7.1 Correlation Analysis**

This section puts into perspective the effect between the independent variables and the dependent variable. The section outlines the results of both correlation the decision rule for correlation was in accordance to Saunders (2003) who postulated that that  $r=1$  shows a perfect linear correlation,  $0.9 < r < 1$  indicates Positive strong correlation,  $0.7 < r < 0.9$  Positive high correlation  $0.5 < r < 0.7$  positive moderate correlation,  $0 < r < 0.5$  Weak correlation  $r=0$  No, relationship and  $-1 < r = < 0$  Negative relationship.

**Table 4.13: Overall Correlation Analysis Between Determinants of Dividend Decisions and Performance of Deposit Taking Saccos**

		<b>Sacco performance</b>	<b>Sacco returns</b>	<b>Sacco size</b>	<b>Business risk</b>	<b>Growth Potential</b>
<b>Sacco performance</b>	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	95				
<b>Sacco returns</b>	Pearson Correlation	.871**	1			
	Sig. (2-tailed)	.000				
	N	95	95			
<b>Sacco size</b>	Pearson Correlation	.909**	.889**	1		
	Sig. (2-tailed)	.000	.000			
	N	95	95	95		
<b>Business risk</b>	Pearson Correlation	-.188	-.098	-.136	1	
	Sig. (2-tailed)	.049	.346	.189		
	N	95	95	95	95	
<b>Growth Potential</b>	Pearson Correlation	.711**	.611**	.663**	.080	1
	Sig. (2-tailed)	.000	.000	.000	.439	
	N	95	95	95	95	

\*\*Correlation is significant at the 0.01 level (2 tailed)

**Source; Field Data (2020)**

From the study the results indicate that all the study variables had positive high correlation to performance of Saccos in the North Rift Counties. From the correlation Table 4.10 it was indicated by Sacco returns ( $r=0.871$ ,  $p < 0.01$ ) sacco size ( $r=0.909$ ,  $p < 0.01$ ). also, the study findings revealed that there was a negative correlation between business risk and performance of Saccos in the North Rift Counties ( $r=-0.188$ ,  $p < 0.05$ ). Further, the study results revealed that there is positive correlation between growth potential and risk and performance of Saccos in the North Rift

Counties ( $r=0.711$ ,  $p < 0.01$ ). This implies that sacco returns, size, business risk and growth potential have a significant relationship with sacco performance. This would mean that when the sacco returns, sacco size, growth potential variables increase performance of the saccos also increases increase and vice versa. However, when business risk increase performance of the saccos decreases and vice versa

This concurs to the findings by Gill et al. (2010) found negative relationship between historical sales growth and dividend payout for entire sample and particularly in service industry. In addition, furthermore, Al-Shubiri (2011) found asserted that large Jordanian firms tend to be more diversified than smaller firms, less likely to be sensitive to financial distress, and more able to pay dividends to the shareholders. The study findings concurred with Pandey (2004) that a business entity that makes profits at the end of the financial year is expected to make a decision concerning the portion of the profit to be distributed to the providers of funds (equity shareholders) as dividend and the portion to be retained for future re-investment. The earnings distributed to shareholders are called dividends. Kania and Bacon (2005) also noted that dividends are the portion of profits distributed to their shareholders at every financial year. Dividends serve as an indicator of a company's present and future performance, even of its potential susceptibility to risk. Dividend policy is primarily concerned with the decisions regarding dividend pay-out and retention (Nnadi, Wogboroma & Kabel, 2013).

The study findings further agreed with Baker and Powell (1999) that Dividend policy is an important financial decision that company managers have to make a wisely. Dividend policy is important because it has an effect on the shares prices thus returns to investors, the financing of firm's growth and the equity base by retaining finances together with its gearing and leverage (Kinyua, 2013). Furthermore, the study

findings disagreed with Alam and Hossain (2012) results that there is no significant relationship between dividends and growth, industrial type, tangibility and gearing ratio.

#### 4.7.2 Multiple Regression Analysis

Multiple regression analysis is a powerful technique used for predicting the unknown value of a variable from the known value of two or more variables. In this study multiple regressions helped predict the combined effect of Sacco returns, size, business risk and growth potential, on Deposit Taking Saccos performance in in North Rift Counties. The results of multiple regression analysis shown in Table 4.15.

**Table 4. 14: Multiple Regression Model Summary**

<b>R</b>	<b>R Square</b>	<b>Adjusted Square</b>	<b>R</b>	<b>Std. Error of the Estimate</b>
.936 <sup>a</sup>	.875	.870		.35270

**Source; Field Data (2020)**

From Table 4.15, R-Squared is used to evaluate the goodness of fit of a model. In regression, the R square coefficient of determination is a statistical measure of how well the regression line approximates the real data. It measures the proportion of the variation in dependent variable in this case performance of deposit taking Saccos, explained by independent variables. The adjusted R-squared is a modified version of R-squared that has been adjusted for the number of predictors in the model. The adjusted R-squared increases only if the new term improves the model more than would be expected by chance. It decreases when a predictor improves the model by less than expected by chance while the standard error of the estimate is a measure of the accuracy of predictions.

From the results on model summary  $R = 0.936$ ,  $R\text{-square} = 0.875$ , adjusted  $R\text{-square} = 0.870$ , and the  $SE = 0.35270$ . The coefficient of determination also called the  $R\text{-square}$  is  $0.875$ . This implies that the effect of the predictor variables (Sacco returns, size, business risk and growth potential) explains 87.5% of the variations in performance of Saccos taking deposits in the north rift Counties. This implies that a 1 unit change in the predictor variables (Sacco returns, size, business risk and growth potential) has a strong and a positive effect on performance of Saccos taking deposits in the North Rift Counties.

This study therefore assumes that the difference of 12.5% of the variations is as a result of other factors not included in this study. The standard error(S) of the regression provides the absolute measure of the typical distance that the data points fall from the regression line. S is in the units of the dependent variable. This indicates that the regression model is precise using the units of the dependent variable. Sam and Hoshino (2013) findings revealed that Japan and ASEAN had no significant difference with each other in their sales growth performance. Meanwhile, ASEAN shows better performance in profitability when comparing with Japan in ICT industry. A study by Kiseľáková *et al.*, (2015) concluded that the most significant impact on performance of the enterprise has just financial risk.

### **Assessing the Fit of the Multiple Regression Model**

Multiple regression analysis was conducted to test the influence among predictor variables on performance of Saccos taking deposits in the north rift Counties. All the four null hypotheses were tested using F statics. The test results are shown in Table 4.16.

**Table 4. 15: ANOVA Results**

	<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression	78.519	4	19.630	157.795	.000 <sup>b</sup>
Residual	11.196	90	.124		
<b>Total</b>	<b>89.714</b>	<b>94</b>			

**Source; Field Data (2020)**

The findings of the study in Table 4.16 showed that there was a statistically significant relationship between the independent variables and the dependent variable ( $F= 157.795$ ;  $p=0.000$ ). This therefore indicates that the multiple regression model was a good fit for the data. It also indicates that Sacco returns, size, business risk and growth potential all influence performance of Saccos taking deposits in the North Rift Counties.

**Regression Coefficients**

The study employed multiple regression analysis was to test the hypotheses. Multiple regression analysis was conducted to test the influence of predictor variables on performance of Saccos taking deposits in the north rift Counties. This was done with a significance level of 0.05, such that when the significance value is less than the 0.05 the null hypothesis is rejected and when it is above 0.05, we fail to reject the null hypothesis (Ringle, Sven & Michael, 2015). These results were presented in Table 4.17.

**Table 4. 16: Regression Coefficients**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.684	.232		2.948	.004
Sacco Returns	.287	.081	.290	3.554	.001
Sacco Size	.494	.087	.495	5.652	.000
Business Risk	-.125	.044	-.109	-2.831	.006
Growth Potential	.207	.049	.215	4.189	.000

**Source; Field Data (2020)**

The first null hypothesis  $H_{01}$  stated that; Sacco returns has no significant effect on performance of Sacco in the North rift region. The study findings indicated that there was a statistically significant effect of Sacco returns on DTS performance ( $\beta= 0.287$ ;  $p < 0.05$ ). The study therefore rejected the null hypothesis at 95% level of significance and accepted the alternative hypothesis. This finding implies that when the Sacco returns are high the Sacco's performance is enhanced. These findings concur with the findings of Alli, Khan, and Ramirez (1993) examined determinants of corporate dividend policy by using the sample of 105 all firms listed on the New York Stock Exchange. The findings indicated that the firms with high cash flow have low systematic risk, which is the signal of high quality to pay more dividends. The study concurred with Marfo-Yiadom and Agyei (2011) that sales growth is positively related to profitability. However, the study findings disagreed with Gill et al. (2010) who found negative relationship between historical sales growth and dividend payout for entire sample and particularly in service industry.

The second null hypothesis  $H_{02}$  postulated that; Sacco size has no significant effect on performance of DTS performance in the North rift region. The study findings indicated that there was a positive statistically significant effect of Sacco size on

DTS performance ( $\beta = 0.494$ ;  $p < 0.05$ ). The study therefore rejected the null hypothesis at 95% level of significance. This could imply that big Saccos are performing well compared to small Saccos. The reasoning behind this thinking is that huge Sacco are able to invest diversely and hence earnings accruing is enhanced. The findings of this study are in line with a study by Komrattanapanya (2013) which revealed that large firms are able to get access to market capital easier and raise funds from external financing with lower costs than small firms do. Hence, large firms prefer paying dividends than small firms. Salim (2012) which established strong correlations between bank size and performance

The third null hypothesis  $H_{03}$  indicated that business risk has no significant effect on performance of deposit taking saccos in the north rift counties. However, the study findings indicated that there was a negative and significant effect of business risk on performance of performance of deposit taking saccos ( $\beta = -0.125$ ;  $p < 0.05$ ). The study therefore rejected the null hypothesis at 95% level of significance and accepted the alternative hypothesis. This implies that when the risk of the business is higher the performance of deposit taking Saccos is affected. This could mean that Sacco's performance is affected by business risk.

These study findings are in line with Noor, and Abdalla (2017) study on the impact of financial risks on the firms' performance in Kenya. The findings of the study indicate that financial risks have a great impact on firm's performance. The study was on financial risks on firms' performance, whereas the current study is on determinants of dividend decisions of saccos looking at business risk as one of the determinants. In addition, it is similar to a study by Kargi (2011) in Nigeria. The study concluded that credit risk has a significant impact on the profitability of Nigeria banks. Alshubiri (2011) who indicated that there is a statistically significant



impact of earnings growth at business risk on performance at significant level 5% and current ratio and financial leverage at financial risk on performance at significant level 1%.

Lastly, the  $H_{04}$  indicated that growth potential has no significant effect on the deposit taking sacco's performance ( $\beta = 0.207$ ;  $p < 0.05$ ). The result showed a positive and significant effect. Hence, the null hypothesis was rejected and the alternative was accepted. This implies that growth potential of the deposit taking Saccos enhances the performance. The reason behind this is that when the Saccos have potential of growth, investment opportunities enhance performance.

The study findings are same as a study by Nia, Abednazari and Dadbeh (2014) on the relationship between investment opportunities and firm performance according to corporate life cycle: evidence from Tehran Stock Exchange. The results showed that the investment opportunities have relationship with firm performance for firms in decline but has no relationship with firm performance for firms in growth. Also, the findings are same as study by Ting *et al.*, (2014) in Malaysia. The study develops multiple regression models to test the impact of organizational growth on firm performance. The results revealed that organizational growth has an impact on profitability.

The findings further showed that the regression coefficients of the independent variables (Sacco returns, Sacco size, business risk and growth potential) were significant predictors of performance of Deposit Taking Saccos in the North Rift Counties. Thus, the regression equation becomes;

$$Y = 0.684 + 0.287X_1 + 0.494X_2 - 0.125X_3 + 0.207X_4 \dots\dots\dots \text{Equation 4.1}$$

From the regression equation and the results in Table 4.12, the coefficients refer to the slope of the regression line and amount of variance each predictor contributes to the general regression equation. Therefore, adjusting Sacco returns by 1 unit would lead to 0.287 units change on performance of deposit taking Saccos in the North Rift Counties. It was also noted that changing 1 unit of Sacco size would lead to 0.494 units change on performance of deposit taking Saccos in the North Rift Counties. In addition, a 1-unit change in business risk would lead to -0.125 units change on performance of deposit taking Saccos in the North Rift Counties. Lastly, a 1-unit change in growth potential would lead to 0.207 units change on Performance of Deposit taking Saccos in the North Rift Counties. Hence, all variables are statistically significant predictors of the dependent variable.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter provides a discussion on the thesis summary based on the earlier established research objectives. It further discusses major findings, conclusions and eventually provides directions in the form of recommendations.

#### **5.2 Summary of Findings**

This study was designed to find out the effect of determinants of dividend decisions on performance of deposit taking Saccos in North Rift Counties, Kenya. A sample of 95 respondents was engaged in the study. Questionnaire with a 5-point likert scales was used to collect data. After the data had been collected, it was analyzed using both descriptive and inferential statistics and was presented using tables.

The first objective of the study sought to examine the effect of effect of Saccos returns on performance of deposit taking Saccos in the North rift Saccos. The study indicated that there was a significant relationship between Saccos returns and the performance of deposit taking Saccos in the North rift Saccos. This implied that the saccos returns is a factor for performance of deposit taking Saccos. These findings meant that the null hypothesis was rejected.

The second objective sought to examine the effect of Sacco Size on performance of deposit taking Saccos. The study indicated that there was a significant relationship between the size of the saccos and performance. This implied that sacco size affects performance of deposit taking saccos in the North rift Counties. These findings meant that the null hypothesis was rejected.

The third objective sought to assess the effect of business risk on performance of deposit taking Saccos in the North rift counties. The study indicated that there was a significant and negative effect of business risk and performance of deposit taking Saccos. This implied that savings business risk is a predictor for performance of deposit taking saccos. These findings meant that the null hypothesis was rejected.

Lastly, the study sought to examine the effect of growth potential on performance of deposit taking Saccos in the North rift counties. The study indicated that there was a significant and positive effect of growth potential and performance of deposit taking Saccos. This implied that savings growth potential is a predictor for performance of deposit taking saccos, these findings meant that the null hypothesis was rejected.

### **5.3 Conclusions**

From the findings, the following conclusions can be established;

First, Sacco returns enhances performance, thus there is need for the Saccos to establish more sources of returns as it enhances performance. In addition, more returns will make the saccos to increase its dividends to the members.

Secondly, it was also concluded that Sacco size enhances performances of the deposit taking Saccos. Hence, small firms are less likely to make dividends to the shareholders. In addition, bigger firms were in a position to pay returns to the members.

Thirdly, it was concluded that business risk negatively affects Sacco performance. Hence, it was concluded that the deposit taking Saccos in the North rift should ensure that they manage the risks in order to boost growth. More so the Saccos need to diversify the ventures in order to reduce the risks that affects them.

Lastly, the study concluded that the with growth potential opportunities to the Saccos they are in a position to enhance performance. Hence, those Saccos with growth opportunities are in apposition to pay dividends to the members. Thus, Saccos should determine opportunities for growth as it affects growth.

#### **5.4 Recommendations**

Based on the results, findings and conclusions the following recommendations have been made:

##### **5.4.1 Recommendation for Policy and Practice**

This study recommends that the government through the SASRA should establish and implement policies that enhance performance of the Saccos. In addition, the Sacco managers should establish policies and guidelines which will promote the best interest of the members. The study recommends the SACCOs to come up with more strategies which will ensure increase in their returns. Since Saccos returns is a factor for performance of deposit taking Saccos. The study recommends Saccos to expand their size in terms of market share and growth. This will increase their market share which will play a key role on dividend policy.

Since the business risk affects the performance of deposit taking Saccos in the North rift counties negatively the study recommends that the Saccos should ensure that the mitigate risk in order to improve their performance. The Saccos should establish means of reducing risks which are likely to affect performance of the Saccos.

The study recommends that Saccos should focus on total service growth of the Sacco's which helps them to determine the dividend policy to follow. In this sense there is need for the Saccos to increase investments for the returns to increase.

#### **5.4.2 Recommendations on Theories**

The study recommends the use of signalling Effect Theory with the view that dividend may have a signalling effect. The top management of a firm has more information about the strategy of the firm and can also forecast future earnings of the firm. Thus, people working in the firm have more information compared to other investors and the market in general. Hence, this leads to the problem of information asymmetry. Therefore, firms can use dividends as a signalling mechanism to send information to investors in the market. The information may reflect the strategies that the firm is employing in the short run or long run. Managers of the firm can change the expectations of people with regards to its future earnings through dividends. A firm has several ways is sending information to the market. This can include costly methods which will prevent smaller firms from imitating the signal. The methods refer to increasing the price of dividend; that is increasing dividend pay-out.

#### **5.5 Suggestions for Further Research**

From the regression output, it was revealed that the study variables explain 73.9% of the variations in Deposit taking Saccos in North rift Saccos. This study therefore assumes that the difference of 26.1% of the variations is as a result of other factors not included in this study. Further research is therefore advocated for to focus on other factors that affect performance of real estate in Kenya. These factors include political, legal, social, economic and geographical factors. Secondly, future studies need to be carried out to establish the role of government policies in the performance of Saccos. Also, further studies can establish the role of corporate governance on performance of deposit taking Saccos.

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## APPENDICES

### APPENDIX 1: QUESTIONNAIRE

#### SECTION A: BACKGROUND INFORMATION

1. Gender; Male  Female
  2. Age bracket; 18-29 years  30-39 years  40-49 years  Over 51 years
  3. For how long have you been employed in the SACCO?  
Below 5years  between 5 – 10 Years  10 years and above
  4. Education level; Certificate  Diploma  Undergraduate  Masters  Other
- specify.....

#### SECTION B: SPECIFIC INFORMATION

##### Q1. SACCO RETURNS

In your own opinion do you agree to the following statements on Sacco returns and performance of Deposit taking SACCOS in North rift Counties?

(**SA:** Strongly Agree; **A:** Agree; **UD:** Undecided; **D:** Disagree **and SD:** Strongly Disagree)

Statements	SA	A	UD	D	SD
Financial liquidity influences SACCO'S dividend policy					
Through adequacy ratio the SACCO has been able to influence its dividend policy					
Services volume has an influence on the Sacco's liquidity position.					
Sacco returns generally influence the dividend policy					

## Q2 SACCO SIZE

In your own opinion do you agree to the following statements on Sacco Size and performance of Deposit taking SACCOS in North rift Counties?

(SA: Strongly Agree; A: Agree; UD: Undecided; D: Disagree and SD: Strongly Disagree)

Statements	SA	A	UD	D	SD
The Sacco's has a market share which influences her dividend policy it will follow.					
The number of products the SACCOS offers enables it to have penetrate to the market					
The amount of deposits the SACCO has influences the dividend policy					
The sacco has policies and procedures that have helped in ensuring management directives are carried out.					
Corporate governance is observed in management of the Saccos					

Other

specify.....



### Q3. BUSINESS RISK

In your own opinion do you agree to the following statements on Business Risk and performance of Deposit taking SACCOS in North rift Counties?

(SA: Strongly Agree; A: Agree; UD: Undecided; D: Disagree and SD: Strongly Disagree)

Statements	SA	A	UD	D	SD
The financial risk of SACCO determines the dividend policy of the SACCO.					
Business risk influences dividend policy of the SACCO					
Political risks determine the dividend policy of the Sacco					
The SACCO's dividend policy is determined by credit risk the Sacco faces					

#### Q4. GROWTH POTENTIAL

To what extent do you agree to the following statements on Growth potential and performance of Deposit taking SACCOS in North rift Counties?

(**SA:** Strongly Agree; **A:** Agree; **UD:** Undecided; **D:** Disagree **and SD:** Strongly Disagree)

Statements	SA	A	UD	D	SD
The Number of years of the Sacco in operation affects its dividend policy					
Total assets growth of the Sacco is a determinant of the Sacco's dividend policy					
The total service growth of the Sacco's helps them to determine the dividend policy to follow.					
The Sacco's investment opportunities influence its dividend policy					

#### SACCO PERFORMANCE

	SA	A	UD	D	SD
The Sacco declares profits annually					
The share capital of the Sacco is adequate					
The Sacco has adequate Asset Base					
The amount of non-performing loans is manageable					
The dividend pay rate is adequate to the shareholders					

APPENDIX II: DPS LETTER

APPENDIX III: ISERC LETTER

APPENDIX IV: NACOSTI APPROVAL