

# Influence of Cashflow Liquidity on Dividend Payout Among Deposit Taking Saving and Credit Cooperative Societies (SACCOs) in Kenya

Patrick Mwangi<sup>1\*</sup> Dr. Agnes Mutiso<sup>2</sup> Dr. David Kabata<sup>2</sup>

1.MBA Student School of Business and Economics, Department of Business Studies, Kirinyaga University, P.o box.143-10300, Kerugoya

2.Lecturer School of Business and Economics, Department of Business Studies, Kirinyaga University, P.o box.143-10300, Kerugoya

## Abstract

In the recent past Saving and Credit Cooperatives Societies in Kenya have gained popularity as a result of high interest being charged by commercial banks and borrowers have shifted their focus to the SACCOs due to their fixed interest rates on loans. SACCOs pay high dividends in comparison to commercial banks, however the level of dividend payout keeps on fluctuating and thus shareholders are not aware of what they expect in the next financial year. Studies have been carried out to examine the determinants of dividend of payout, where various factors have been identified and inconsistency results have been found in regard to the influence of cashflow liquidity on dividend payout. Therefore, the main purpose of this study was to establish the influence of cashflow liquidity on dividend payout among deposit taking saving and credit cooperative societies (SACCOs) in Kenya. The study focused on deposit taking SACCOs as more researchers have focused on commercial banks and SACCOs in general. The study used descriptive and correlational research design. The target population was the 176 the deposit taking SACCOs in Kenya, out of which a sample of 108 respondents were randomly selected each SACCO that was included in the sample. Questionnaire and document analysis were used to collect data and which was analyzed with the help of SPSS (23). The study findings revealed that there was a significant positive relationship between cashflow liquidity and dividend payout. It was concluded that cashflow liquidity influenced dividend payout, among deposit taking SACCOs in Kenya. It was recommended to improve cashflow liquidity SACCOs should adopt conservative approach for management of working capital elements. The study also recommended that to improve cashflow liquidity, SACCOs should reduce the proportion of their long-term loans to short term loans. The study recommended further analysis on the influence of cash reserve ratio on dividend payout.

**Keywords:** Dividend payout, cash flow liquidity, Deposit-taking, SACCOs

## 1. Introduction

### 1.1 Background of the Study

All trading institutions are expected to make profits from which the surplus can either be reinvested or be distributed to shareholders as dividends. Dividends are the returns in form of either cash or bonus shares issued to shareholders in regards to their shareholding held in a company. It is simply the returns for investing in a firm to the shareholders. There have been arguments on what really determines the amount that shareholders will receive at the end of each financial year (Swanson & Krishnan, 2013).

Most of the firms' dividend policies determine what shareholders will receive in return of their invested capital. Dividend policy refer to a set of regulations and guidelines that firms develop and implement as means of sharing their earnings between shareholders and the retained earnings(Gill, Biger & Tibrewala, 2010). Dividend payout refers to the percentage of profits that shareholders receive inform of dividends. It is also defined as the ratio of annual dividend per share to profits per share of the firm (Millner, 2011). It has not been an easy task for managers to determine the ratio at which they will divide their profits to the shareholders and what they will be reserved as retained earnings. Black (1976) argued that the harder we look at the dividend policy the more complicated it becomes with pieces that cannot fit together and it commonly referred to as the "the dividend puzzle". Brealey & Myers (1999) described dividend policy as one of the top ten most difficult unsolved problems in financial literature. Aivazian and Booth (2003), and Bernstein (1996) and re-examined the dividend puzzle and noted that some important questions remained unanswered on what really influence dividend payout among firms.

Shareholders of cooperative unions all over the world have complained of low returns for their investments. For instance, according to the Word council of Credit Unions (2009), credit unions in Poland built their capital through issuance of ordinary shares to members, but they paid very small dividends of 0% to 1% to their total shareholding. In the United Kingdom one of the largest saving and credit union, National Fire savers union, for the last ten from the year 2007 to 2016 has been paying dividends of an average of 1.5% to 3% on members deposits (National Fire Savers, 2018). In South Asia credit cooperatives pay an average of 5% to 6% as

dividends to their members based on their savings (Gingrich, 2016). Regionally, co-operative have also been accused of making low returns to their members inform of dividends. In Kenya, previous studies have shown that SACCOs pay 7% to 12% of their net earnings to their shareholders (Oswendo, 2017). The desire to solve the dividend puzzle, the wide scope and the complexity of dividend issue, has attracted many research globally, regionally and locally.

### **1.2 Statement of the Problem**

The general objective of this study was to determine the influence of cashflow liquidity on dividend pay-out among the deposit-taking Saving and Cooperative Societies (SACCOs), in Kenya. By establishing whether cashflow liquidity had any significant influence on dividend payout among SACCOs in Kenya. Due to the high interest rates currently at 14% on loanable funds in commercial banks and the low returns on savings of 7% to 8.5% offered by commercial banks on savings, most people are now opting to save their money in SACCOs. The rationale of saving the money in SACCOs is that members can be able to obtain loans at fixed interest rate of 12% per annum without any fluctuation (SASRA, 2013). This popularity has led to increase in the number of SACCO's registered by SASRA. In the year ended 2017, about 65% of the SACCOs paid dividends to their shareholders (SASRA, 2016). However, despite the fact that many SACCOs pay dividends at a higher rate than the Commercial banks, studies have shown that there is no consistency in dividend payment among SACCOs.

Previous studies have shown that most SACCOs pay 7-12% of their profits as distribution to the members (Oswendo, 2017). According to Mbuki (2010), the inconsistency in the payment of dividends has raised concern among the members. Scanty and incomprehensive conclusion has been made in regard to determinants of dividend payment to conclusively solve the "dividend puzzle" highlighted by Black (1976). The fact that many Kenyans today prefer SACCO loans to commercial banks loans due to their fixed interest rate of 12% and also the fact that they do not require collaterals and thus SACCOs, plays a very major role in fund mobilization in the economy (Dupas & Robinson, 2013). Therefore the research sought to contribute to the existing literature on dividend payout and assist in solving the dividend puzzles, by focusing on the influence of dividends payout among deposit taking SACCOs in Kenya.

### **1.3 Research Objective**

The general objective of this study was to establish the influence of cashflow liquidity on dividends payout among deposit taking saving and cooperative societies (SACCOs), in Kenya.

## **2. Literature Review**

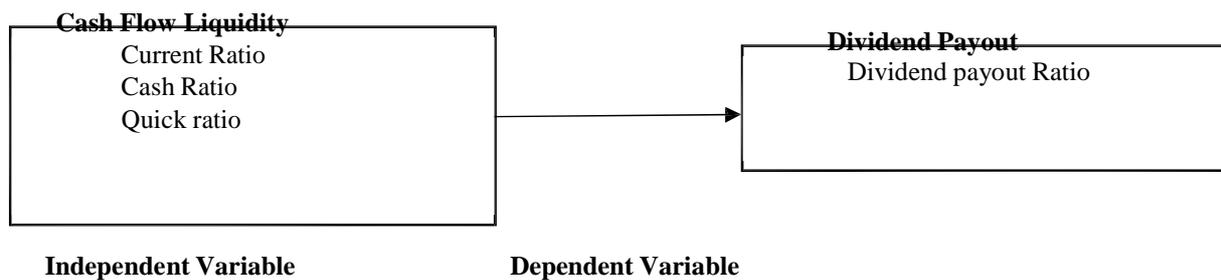
### **2.1 Theoretical Frame Work**

The study was grounded on the Bird in Hand Theory. The theory was developed by Linter in the 1956 who was responding to Modigliani and Miller's dividend irrelevance theory. The theory argues that the future is uncertain hence shareholders prefer receiving dividends today rather than receiving capital gains in future. They also prefer receiving current dividends in expense of future capital gains because something paid today is more certain to be received than something expected to be received in future in the future. One major argument and an older view about the effect of dividend payout on a firm's value is that dividends increase firm value. But this only exist in the world of uncertainty where there is imperfect information, dividends are valued differently to retained profits. Investors prefer the "bird in the hand" of cash dividends rather than the "two in the bush" which refers to future capital gains. Increased dividend payments, when all the other factors are held constant, may lead to increases in the value of the firm value.

This theory helped in deducing the dependent variable of the study, since shareholders prefer receiving dividends rather than capital gains and this formed the foundation of the study. Gordon and Linter's argument was made with an assumption that investors are risk averse and will therefore prefer cash dividends rather than future capital gains which are subject to uncertainty. The arguments seemed not hold water in all situations since not all investors are risk averse there are those who prefer taking higher risk when they expect higher returns. The theory assumes that dividend payment is relevant to all investors. Various studies have been carried out where the theory have been used for example.

Kathuo and Kimoro (2017), examined in determinants of dividend policy decision among listed banks in Kenya used the theory to support the study. Waswa (2013), in the analysis of determinants of dividend payout by agricultural firms listed in the NSE, quoted birds theory as one of the theory that supported variables under the study. According to the theory high dividend payout lead to maximization of value of the firm as higher current dividend lead to a reduction in uncertainty about firm's future cash flows. Reduces the cost of capital due to high payout ratio, and in return increasing the value of the shares (Gordon, 1959). The theory related to the independent variable of the study (cashflow liquidity) since, the preference of current dividends to future gains, influences the ability of the firms to meets its current operation expenses as well as the stability of earning in future.

## 2.2 Conceptual Framework



**Figure 2.1:** Conceptual Framework

## 2.3 Empirical Review

Waswa (2013) examined the determinants of dividend payout among agricultural firms listed on the Nairobi Security Exchange. A sample of seven agricultural firms were examined, the results that liquidity had a positive relationship with dividend payout which was consistent with the prediction by many others. Demirgünescedil (2015), examined the determinants of target dividend payout ratio and a panel Analysis was used to carry out the study. The listed firms operating in the non-metallic product specially cement manufacturing sector between the years 2002-2012. The findings indicated factors related to profitability, growth and corporate taxation has a negative influence on target dividend payout while risk and market related factors (liquidity) positively influenced dividend payout ratio among most of the firms.

Matendechere (2014), carried out a research on the relationship between dividend payout and performance of SACCOs in Nairobi County and it was identified that there was a strong positive relationship among the two. Implying that those SACCOs had the tendency of paying dividends they were performing better than those that did not pay dividends. This study could not be fully relied upon as the researcher did not specific the SACCOs that were used in the study: deposit taking or non-deposit taking. Mbuki (2010), studied factors that determined dividend payout among SACCOs in Kenya. The study found out that the dividends payments was influenced the following factors: availability of investments opportunities, availability of cash to pay the dividend (Liquidity) and the sustainability of the dividend in the future.

Mori and Naoya (2009), developed a theory in which the liquidity position of a firm has an influence on dividend payout. The liquidity of a firm was defined by the sequence of the estimated future values. The variables that captured the liquidity position of a firm was an index of the degree of the positive or negative difference of the current expected future cash position from the desired level. The study concluded that there is a positive relationship between liquidity and dividends. The liquidity position is an important determinant of dividend payouts. A poor liquidity position means less generous dividends due to shortage of cash. The theory developed did not explain fully what aspect of firm`s size would influence dividend payout.

## 2.4 Research Gaps

The study sought to bridge the geographical and regulatory environments of studies carried out in the developed countries and developing countries as well as bridge time gap difference. Secondly, most of the studies carried out in Kenya had focused on commercial banks and hence there was gap in SACCOs therefore the study sought to establish whether the same factors that influenced dividend payout among commercial banks were the same in deposit taking SACCOs. Lastly, the study was to be different from all other the studies since it will examine the effect of cash reserve ratio which has not been examined in most of the study examined. The rationale behind including this variable was that, it is compulsory for all commercial banks and SACCOs to have some money set aside to cater for their daily operations as reserve and hence the study sought to examine whether it had any significant influence on the determinants of dividend payout among deposit taking SACCOs in Kenya.

## 3. Research Methodology

### 3.1 Research Design

The study used descriptive and correlational research design. The descriptive research design was use to explain the phenomenon of dividend payout while correlational design was used to establish the relationship between the independent and the dependent variable.

### 3.2 Target Population and Sampling

The target population of the study was the 176 deposit taking SACCOs in Kenya, registered by SASRA as at 31<sup>st</sup> December, 2017. The study used a sample of 108 SACCOs from which one respondent as selected randomly. The Yamane formulae was used to determine the sample.

$$N = \frac{176}{1 + 176(0.06)^2} = 108 \text{ SACCOs}$$

### 3.3 Data Collection Methods and Procedure

The study used primary data which was collected with the help of questionnaires as well through document analysis. The questionnaires were administered through drop and pick procedure to reduce pressure on the respondents (Kumar & Phrommathed, 2005).

### 3.4 Reliability and Validity

Reliability of the research instrument was tested using Cronbach Alpha. Before the questionnaires were administered for the actual they are tested through a pilot study and errors identified were rectified.

### 3.5 Data Analysis, Processing and Presentation

The collected data was cleaned and edited to ensure that incomplete and inaccurate data was eliminated. Person's correlation was used to assess the correlation between the variables while linear regression was used to assess whether the selected variable had any significant influence on the dependent variables while F-test was used to test the significance of models.

## 4. Data Analysis, Findings and Discussion

### 4.1 Reliability Test Result and Response Rate

The Cronbach alpha values for cashflow liquidity was 0.826. Which was greater than 0.7. This implied that the constructs measured had the adequate reliability for the subsequent stages of analysis. The rate of response rate was 81.5%. This response rate was good and representative and it conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting.

### 4.2 Descriptive Findings on Cash Flow Liquidity

The study sought to examine whether cash flow liquidity influenced dividend payout among deposit taking SACCOs in Kenya. To measure cash flow liquidity the following measures were used current ratio, liquidity strength, cash ratio and quick ratio. Opinions were gathered on these four perspectives and a Likert scale ranging from 1 to 5 was used to gather information on this research objective. Where; 1=Strongly Agree, 2=Agree, 3=Neutral, 4=Disagree and 5=Strongly Disagree.

Table 4.1 show descriptive analysis for cash flow liquidity and dividend payout. Majority of the respondents (77.8%) agreed that cash flow measures which included current ratio, cash ratio, and quick ratio influenced dividend payout for deposit taking Sacco's. The statement on liquidity strength determines the dividend payout had the least mean (1.64) which was represented by 66.7% implying that majority of the respondent agreed with the statement. However, it had the highest standard deviation (0.805) implying that the degree of variation among the respondents was very high as shown by 14.8% who were undecided. 66.71% of the respondent agreed that increase in cash ratio would motivate managers to pay high dividends while 54.9 % of the respondents also agree that increase in cash ratio would lead to increase in dividend payout as s show in table 4.1. This could have been caused by closeness of the cash flow measures. This connotes the firms that has a strong liquidity position are also likely to pay high dividends in comparison to those firms that had a weak liquidity position. This would be caused by the fact that liquidity position influence the ability of firms to cater for its day to day running activities.

**Table 4.1: Descriptive Analysis on Cash Flow Liquidity  
 Descriptive Statistics**

Source: Research Data (2018)

Measures of the Variable	Increase in current ratio motivates managers to pay high dividends	Liquidity strength determines dividend payout	Increase in cash ratio encourages managers to declare high dividends	Increase in quick ratio leads to increase in dividend payout
Frequency	30 (27.8%)	46 (42.6%)	29 (26.9%)	29 (26.9%)
Strongly agree	30 (27.8%)	46 (42.6%)	29 (26.9%)	29 (26.9%)
Agree	54 (50.0%)	26 (24.1%)	43 (39.81%)	35 (32.4%)
Neutral	4 (3.7%)	16 (14.8%)	11 (10.2%)	24 (22.2%)
Disagree	-	-	-	-
Strongly Disagree	-	-	-	-
Total Valid	88 (81.48%)	88 (81.48%)	88 (81.48%)	88 (81.48%)
Missing	20 (18.51%)	20 (18.51%)	20 (18.51%)	20 (18.51%)
Total	108 (100%)	108 (100%)	108 (100%)	108 (100%)
Mean	1.76	1.64	1.77	1.82
Standard Deviation	.606	.805	.798	.766

### 4.3 Correlation and Regression Findings on Cash Flow Liquidity

The objective of the study was to establish whether cash flow liquidity had significant influence on dividend payout among deposit taking SACCO's in Kenya. The correlation results revealed that there was a positive relationship ( $r=0.594$ ) between cashflow liquidity and dividend payout among the sampled SACCOs. The coefficient of determination ( $R^2$ ) revealed that cashflow liquidity could explain 35.3% on dividend payout decisions when all other factors were held constant. The remaining 64.7% could be explained by other factors beyond the study. The results are shown in table 4.2.

**Table 4.2: Cashflow Liquidity Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.594 <sup>a</sup>	.353	.346	.577

a. Predictors: (Constant), cashflow liquidity

To test the overall significance of the model a linear regression was run and the F-test results revealed the model was significant ( $F(1, 86) = 46.927, p= 0.000$ ) at 5% level of significance as presented on table 4.3.

**Table 4.3: Cashflow Liquidity ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.646	1	15.646	46.927	.000 <sup>b</sup>
	Residual	28.673	86	.333		
	Total	44.318	87			

a. Dependent Variable: Dividend payout

b. Predictors: (Constant), cashflow liquidity

### 4.4 Discussion on Cashflow Liquidity

Descriptive analysis indicated that majority of the respondents agreed that cash flow measures influenced dividend payout for Sacco's. The correlational findings indicated that there was a positive relationship between cash flow liquidity dividend payout and the relationship among variables were significant. The regression findings confirmed that cashflow liquidity had a positive ( $r= 0.594$ ) and significant influence ( $p=0.000$ ) on dividend payout and it could explain 35.3% variability in dividend payout.

The study findings agrees with the findings of Demirgünescedil (2015) who examined the determinants of target dividend payout ratio, Matendechere (2014) findings who carried out a research on the relationship between dividend payout and performance of SACCOs in Nairobi County and Mbuki (2010) findings who studied factors that determined dividend payout among SACCOs in Kenya, all the findings concluded that cashflow liquidity influenced dividend payout. This implied that SACCOs which had a stronger liquidity position were likely to pay high dividend compared to those which had weak liquidity position since dividend

payment would affect their ability to pay their obligations when they fall due. The study findings revealed that current ratio, quick ratio and cash ratio which were used as measures of cashflow liquidity significantly influenced dividend payout among SACCOs and cashflow liquidity is mainly treated as single factor which influence dividend payout.

## 5. Conclusion and Recommendations

It was concluded that cashflow liquidity had a positive significant influence on dividend payout among the deposit taking SACCOs in Kenya. Based on the conclusion that cashflow liquidity had a positive significant relationship with dividend payout, it was recommended that to increase liquidity SACCOs should consider reducing their investment on long term loans as they can lead to capital being tied up and invest more in short term loans. This could also be improved by adopting a conservative approach for management of working capital elements as document analysis indicated that only few SACCOs had the required current ratio. The study recommended further study on the influence of cash reserve ratio on dividend payout among deposit taking SACCOs in Kenya.

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