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IMPACT OF DIVIDEND POLICY ON THE GROWTH OF SACCOs IN KENYA

Joseph Wambugu Muchira[1], Dr. James Mwangi, PHD[2]

[1,2]Jomo Kenyatta University of Agriculture and Technology P. O Box 62000-00200 Nairobi, Kenya

Abstract: **The financial success of a SACCO is measured by the profits that it makes. From the profits made, the directors have to make a decision on whether to retain or to distribute to the members as dividends. The decision seek to establish how much to distribute or retain, when and in which form. Several factors are considered while making the dividend decisions which includes; investment opportunities, profitability level, prior dividends and nature of earnings growth. Dividend decisions have an effect on the growth of the SACCO. The main objective of the study is to analyze the impact of dividend policy on the growth of SACCOs in Kiambu County. The study period will be a five year period i.e. 2013-2017. A descriptive research design was applied with a sample of 12 SACCOs which will be in operation in Kiambu County during the period under study. The population of interested consisted of the entire 56 active SACCOs in Kiambu County. Secondary data was collected using the financial statements of the SACCOs sampled for the period of five years. Analysis of data was done using linear regression model and presented in graphs, tables, descriptive statistics and inferential statistics as was generated using the statistical package for social sciences (SPSS) version 21.0. Regression model was used to establish the causal relationship between two variables, that is, a dependent (Sacco savings) and independent variables (dividend policy) and growth in membership. The study concluded that SACCO‟s savings have grown and increased due to dividend policy for the period under the study. The study also concluded that dividend policy led to increase in dividend yields of the SACCOs and had also improved while membership growth had also increased over the period under the study which increased Sacco‟s capitalization. The study concludes that there existed strong and negative correlation between dividend yield and SACCOs Savings .This was because increase in dividend yield led to increase in dividend payout in cash which negatively affected SACCOs Saving level. Further study concluded that there existed a significant strong positive correlation between Sacco‟s membership growth and SACCO Savings‟ as increase in membership increased Sacco‟s capitalization. The study further concluded that there was significant positive relationship between membership growth and SACCOs Savings as a unit increase in membership growth would lead to increase in SACCOs Saving. The study concluded that growth of savings and credit co-operative societies in Kenya were greatly affected by increasing dividend payout as a unit increase in dividend yield resulted into significant negative in SACCOs Savings. Based on the findings and conclusions of the study the following recommendations have been suggested in relations to effects of dividend policy and savings in SACCOs. The study recommend that SACCOS management should develop dividend policy that lower consumption of divided and increase savings rates in as this would lead to SACCO‟s savings increasing. The study found that earnings dividend policy creates certainty in the shareholders expectations but lower savings of SACCOs. The study found that a positive relationship between Sacco‟s membership growth and SACCO Savings‟ exists thereby indicating that increase in membership increase SACCOs capitalization hence increase SACCO growth. The study recommends that Sacco‟s management should lower dividend yield rate and increase income investment to increase growth of SACCOs. Growth of savings and credit co-operative societies in Kenya were greatly affected by increasing dividend payout as a unit increase in dividend yield resulted into significant negative in SACCOs Savings.**

Keywords: **dividend payout ratio, form of dividend, frequency of dividend payments.**

1. INTRODUCTION

1.1 Background of the study

In Kenya economy, privatization, liberalization, and globalization together with rapid strides of information technology, have acquired serious rivalry in all fields of business. This has made both international and local firms confused, apprehensive, dazed, and anxious. To survive the competition, firms need to increase their value. Finance managers have to settle on basic business and budgetary choices that will meet their goal of expanding shareholders' wealth and firm's value. Hence, profit assumes an imperative position. Profit being the main economic drive for firms, can be attributed to two main destinations: it can be held in the firm to be used for its future growth, or can be distributed to shareholders. This distribution can be done in the form of dividends or through repurchasing circulating shares. Thus, firms need to create a dividend policy in order to determine whether or not to pay dividends and how. Various researches have attempted to study dividend policy. Notwithstanding these studies, the issue of what settles on corporate dividend policy is still uncertain. Dividend policy is essential for an organization as it symbolizes the strength and gives information about an organization's prospect of development (Black, 1976). Potential investors and shareholders decide to invest in the Saccos by investigating its capacity of paying dividends. Moreover, dividend policy can be utilized to minimize agency costs. Since management prosperity can be determined by the wealth of its shareholders, management needs to completely comprehend dividend policy. In spite of the fact that dividend policy is imperative to all firms, less research is conducted to check effect of dividend policies on shareholders' wealth and firm performance of firms in Kenya. In this study, an endeavor is made to examine dividend policies of Saccos within Kiambu.

According to Project for Financial inclusion in Rural Areas – Uganda (PROFILA), a Savings and Credit Cooperative Society (SACCO) is a cooperative financial institution, owned and controlled by its members. SACCOs typically serve groups of people who have something in common where they live, work, or attend church, for example. Becoming a member of a SACCO carries power because SACCOs are not for profit, and exist to provide members with a place to save money and get loans at reasonable rates,.

In 1984, the World Council of Credit Unions approved the nine International Credit Union Operating Principles that remain the cornerstone of the SACCO movement which include: Open and voluntary membership, democratic control, nondiscrimination, service to members, distribution to members, building financial stability, ongoing education, cooperation among cooperatives, social responsibility. SASRA, in their website, (www.sasra.go.ke) says that SACCOs strive to make the world a better place for their members by offering affordable rates and high quality service that simplify their lives and empower them to meet their financial goals. SASRA argues that as cooperative and democratic financial institutions, the success of SACCOs depends on the success of their members and their community. (Accessed on 10th July 2018)

1.1.1 Divided payment policies

Dividend**,** in relation to a member of a co-operative society, means that member's share of the surplus of the society which is divided amongst its members, calculated by reference to the proportion which that member's share capital bears to the total share capital of the society; (Cooperatives Act No. 12 of 1997). Dividend can be paid through: Cash dividend, stock dividend, capital gains or treasury stocks of favorable prices. Cash divided involves cash distribution of profits among shareholders. A stock dividend is paid in additional shares of stock in lieu of or in addition to cash dividend. It is a book-keeping transfer of equity from retained earnings to ordinary share capital. Treasury stocks are the shares bought back by the company from amongst the outstanding shares. This could be done in lieu of paying cash dividend.

1.1.2 Dividend payment policies in SACCOs

The board of directors of a SACCOs is required to formulate a dividend policy which determines when, how and how much to distribute and the effects of cash outflows (Section (59) (4), SACCO Societies Act, 2008)**.** As per section 14(4) (d) and of the SACCO Societies Act, 2008, a SACCO Society that fails to meet the liquidity requirement shall be prohibited from declaring dividends while section 68 (2) (a) bars the SACCO society from declaring dividends if it has not met other administrative requirements . Section 13(2) of the Act requires that a SACCO should at a minimum retain 15% of its savings deposits and short term liabilities in liquid assets (i.e. notes and coins, balances at institutions licensed under the Banking Act and treasury bills). These provisions have direct relationship with dividend policy.

1.1.3 Forms of Dividends

There are various forms of dividends that are paid out to the shareholders. Cash dividend is the most common form of the dividend paid by firms in Kenya. The shareholders are paid in cash per share. The board of directors announces the dividend payment on the date of declaration. The dividends are assigned to the shareholders on the date of record. The dividends are issued on the date of payment. A firm requires adequate liquidity to pay cash dividends.

1.1.4 Growth in SACCOs.

Growth can be defined as the process of improving some measure of an enterprise's success. Among the indicators of business growth includes; growth in turnover, profits, asset base, clients and market share. Clients in SACCOs are the members of the SACCO and hence growth in membership indicates growth of the SACCO. There is a positive relationship between the members and the deposits in a SACCO and so growth in Deposits shows growth in the SACCO. Malombe (2011), argues that trend analysis evaluates a firm’s growth overtime while comparative analysis evaluates a firm’s growth relative to other firms. Trend analysis explains progressive development of members deposits in a SACCO.

In the study done by Mbiti (2010), on the determinants of dividends levels by co-operative societies he noted that better dividends declared by a society had a positive impact on the society by; creating confidence in the members resulting to additional share deposits, giving the society more stiffer competition with others, attracting more customers and members becoming royal, happy and patriotic. On the other hand, when there is a no/little dividend declared, it was noted that the society had a decrease in membership and the remaining members complain so much.

From the above study by Mbiti (2010), a positive relationship is anticipated between dividend decisions and the growth of membership in SACCOs. Since members are the ones who make deposits to the SACCO, then it means that as membership grows, deposits also grow which increase the operating cash flows in SACCOs. The findings are supported by the Signaling effect theory where managers use dividends to signal future prospects. If management increases dividend, it signals expected high profit and therefore share prices will increase and hence growth.

1.2 Statement of the problem

Malombe (2015) indicates that studies carried out earlier on firms by MBA students from 1974 to date have lacked sufficient evidence on the effects of dividend policies on profitability of SACCOs. Hafeez and Attiya, (2009) in their study of the determinants of dividend policy in Pakistan argues that behavior of dividend policy is one most debatable issue in the corporate finance literature and still keeps its prominent place both in developed and emerging markets. Ha Kiaritha (2015), in her study on determinants of the financial performance of SACCOs in the banking sector in Kenya, found out that the following factors had influence on financial performance: internal politics, investment policy, competition from commercial banks, operating costs and saving culture while Malombe (2011), observed that dividend policy insignificantly affected the SACCOs’ profitability in Kenya.

Dividend theories also give divergent views about the significance of dividend payment to an organization. The two schools of thought in the dividend theories explain the divergent views. Dividend reverence theories argue that dividend payments decisions have effect on the value of a firm and hence its growth. The theories include: Gordon Myron and John Lintner – Bird in Hand Theory, Litzenberger and Ramaswamy – Tax differential theory and Stephen Ross – Signalling effect theory. On the other hand dividend irreverence theories assert that dividends have no significance in the value or growth of a firm. They include: MM dividend irrelevance theory – Franco Modigliani and Merton Miller (1961) and the clientele effect theory of Richardson Pettit, 1977. This research project will thus attempt to address these issues (Divergent empirical and theoretical views on dividends) and categorically determine the impact the dividend policy has on the growth of SACCOs in Kiambu County.

1.3 Objective of the Study

1.3.1 General objectives of the study

The main objective of the study was to analyzed the impact of dividend policy on the growth of SACCOs in Kenya.

1.3.2 Specific objectives of the study

The study also seeks to achieve the following specific objectives:

1. To determine the impact of dividend payout ratio on the growth of SACCOs in Kenya

2. To examine the impact of form of dividend payment on the growth of SACCOs in Kenya
3. To examine the impact of frequency of dividend payments on the growth of SACCOs in Kenya

1.4 Research Questions

To pursue to above objectives the following research question have been raised:

1. What is the impact of dividend payout ratio on the growth of SACCOs in Kenya?
2. What is the impact of form of dividend payment on the growth of SACCOs in Kenya?
3. What is the impact of frequency of dividend payments on the growth of SACCOs in Kenya?

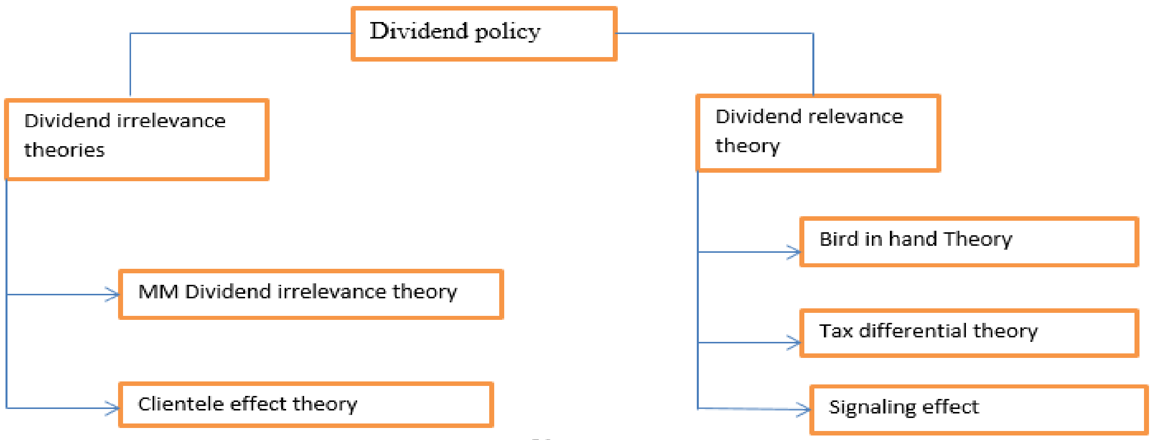
1.5 Scope of the Study

The study took place in Kiambu County which is one of the 47 counties in Kenya. The financial statements, financial reports and journals of the Savings and Cooperative societies (SACCOs) operating in the county was the primary focused of this study. These financial statements, financial reports and journals are believed to contain all the information about dividend decisions and growth of the SACCOs in the county. The study was guided by the following variables: dividend payout ratio, frequency of dividend payment, form of dividend payment (independent variables) and growth in SACCOs (Dependent variable). The study will conducted over a period of two months.

2. LITERATURE REVIEW

2.1 Introduction:

The underpinning theories of this study was based on the dividend relevance and irrelevance theories as illustrated below.



2.2.1 The MM Dividend Irrelevance Theory

Modigliani – Miller theory was proposed by Franco Modigliani and Merton Miller in 1961. They were the pioneers in suggesting that dividends and capital gains are equivalent when an investor considers returns on investment. The only thing that impacts the valuation of a company is its earnings, which is a direct result of the company's investment policy and the future prospects. So, according to this theory, once the investment policy is known to the investor, he will not need any additional input on the dividend history of the company. The investment decision is, thus, dependent on the investment policy of the company and not on the dividend policy.

MM argument was based on the following assumptions; Absence of corporate and personal taxes, a perfect and frictionless capital market implying absence of floatation transaction costs, efficient markets indicating that investors and managers have homogenous information regarding future investment opportunities and investment policy is independent of the dividend policy.

Modigliani – Miller theory is based on assumptions that do not look very practical in a contemporary market. This study will thus aspire to affirm or dispute this theory by establishing whether or not there is a causal relationship between divided policy and the growth in SACCOs.

2.2.2 The Clientele Effect Theory

According to Pettit, different group of shareholders have different preference for dividend. Whereas low income earners prefer higher dividend for consumption needs, high income groups prefer less dividend to avoid taxes. When a firm sets a dividend policy, different clientele groups shift into and out of it until equilibrium is attained. At this equilibrium, the dividend policy set by the firm will be consistent with its clientele. Hence at equilibrium, dividend decision is irrelevant. This is because at this level, management would be hesitant to change its dividend policy since it might force current shareholders to sell their stock, forcing prices down. SACCOs are formed by members who have a common background and are likely to be relatively on the same bracket of income. Since the theory is based on different levels of income of the members, the study will seek to establish whether there are other factors that could affect the members' preference for dividend thus making the dividend policy relevant.

This theory asserts that the dividend policy has no effect on the growth in SACCOs. For this to hold the theory assumes that the firm has some members who are low income earners and others who are high income earners. However SACCOs members as per the definition have one thing in common and hence this income disparity could not be existing. The study will establish whether the assumptions of this theory hold or not by investigating the relationship between the variables.

2.2.3 The Bird in Hand Theory

The theory was developed by Myron Gordon and John Lintner as a counterpoint to the Modigliani-Miller dividend irrelevance theory, which maintains that investors are indifferent to whether their returns from holding a stock arise from dividends or capital gains. Under the bird-in-hand theory, stocks with high dividend payouts are sought by investors and consequently command a higher market price.

Bird in hand is a theory that postulates investors prefer dividends from a stock to potential capital gains because of the inherent uncertainty of the latter. Based on the adage a bird in the hand is worth two in the bush, the bird-in-hand theory states investors prefer the certainty of dividend payments to the possibility of substantially higher future capital gains. If as per this theory members of a firm seek to have high dividends, the study will seek to establish the relationship between the dividend decisions (dividend policy) and the impact on the growth in SACCOs.

2.2.4 The Signaling Effect Theory

This theory is also called the information content hypothesis. Managers use dividends to signal future prospects. If management increases dividend, it signals expected high profit and therefore share prices will increase. Hence dividend decisions are relevant and a firm that pays higher dividend will have a higher value, especially in an inefficient market. This theory confirms that payment of dividends is important to a firm which makes this study relevant in ascertaining what effects dividend decisions have on growth of SACCOs in Kiambu County.

2.2.5 Tax Differential Theory

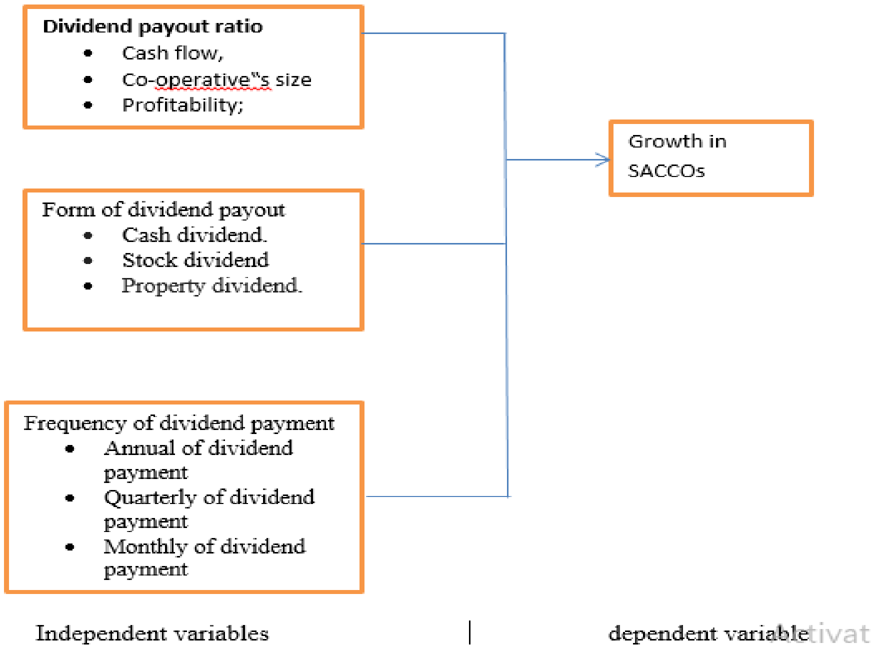
Tax rate on dividend is usually higher than the tax rate of capital gains. A firm that pays dividend will therefore have a lower value since the shareholders will pay taxes on this dividend. Hence dividend decisions are relevant and a firm that pays no dividend has the highest value. This theory confirms that payment of dividends is important to a firm which makes this study relevant in ascertaining what effects dividend decisions have on growth of SACCOs in Kiambu County.

2.2.6 Determinants of Dividend Policy

There are several factors that determine dividend policy. Industries that have operated for long and have stable income would have an elaborate dividend policy than those that have operated for a short duration and have irregular income flow. This is because firms that have operated for a long time could have the opportunity of putting in place a straight forward dividend policy than the newly established ones which focus more on expansion. Organizations with few numbers of shareholders can easily have a restricted dividend policy. That means, if it is necessary to suspend payment of dividend, the consent from shareholders is gotten easily. In a scenario where shareholders are numerous or widely scattered, co-operation is difficult to achieve where there is need for changes in the dividend policy. Dividend policy can also be influenced by the extent to which profits are required to be ploughed back into the firm for future expansion. A dividend policy is usually affected by inflation and recession. A discreet corporate management makes room for good reserve during a booming period to be able to overcome the challenge of inflation and recession. Regulatory policies like those imposed by SASRA on SACCOs also could restrict dividend declaration by firms. When such happens, the rate of dividend to be declared must be strictly based on the regulatory policy in place at the moment.

A careful study of a company's profit trend and the general economic condition within those years will determine the appropriate dividend policy to be adopted. A conservative dividend policy is preferred if an unfavorable economic condition is suspected. In regard to taxation, the tax policies do have effect on dividends directly and indirectly. If the residual profits to be distributed to shareholders are reduced, it means dividend is directly affected. Dividends beyond a certain limit are also subject to tax. Firms may need to plough back profits to expand their businesses, switch over to new technologies or for equipment replacement. It is therefore the duty of the management to strike a balance between dividend payment and business expansion. In a situation where a firm's working capital appears to be small, the dividend policy to be adopted must not be liberal. The dividend has to be in form of bonus shares issue to the members, instead of cash payment.

2. 3 Conceptual framework



2.4 Empirical Review

In a study by Muchoki (2012) on factors affecting growth of savings and credit co-operative societies in Kenya based at Laikipia County, the following factors that affect SACCO growth were investigated; Information technology, Dividend policy, Implementation of projects, Response to competitive forces and Area of operation. The researcher concluded that all variables contributed positively to the slowed growth of SACCOs with the main contributor being the dividend policy which according to the data contributed 67.4%. Payment of high dividends in cash form contributed to inadequate capital base in SACCOs that hindered their growth. The main recommendation was that both the government and the SACCOs need to come up with policies that can enhance the SACCOs capital base. The study did not look in details at the effect the dividend policy may have on growth of SACCOS as a single factor in Kiambu County.

Yegon, Cheruiyot and Sang (2014), in their study on the effects of dividend policy on firm's financial performance: Econometric analysis of listed manufacturing firms in Kenya discovered that the dividend policies of organizations have a significant positive relationship with profitability, investments and Earnings Per Share of corporate organizations. In order to achieve the objectives of the study, data were obtained from 2013 financial year of nine (9) manufacturing companies quoted on the Nairobi Stock Exchange. From the data obtained, various variables were extracted and computed to enable adequate analysis to be carried out. They concluded conclude that dividend policies of organizations are vital in enhancing the profitability and investment of manufacturing sector in Kenya. Based on the findings of their research study, they recommendation that organizations should ensure that they have a good and robust dividend policy in place. The study did not consider the effect of Dividend policy in growth of SACCOs despite the variables investigated being the same variables that affect the growth of SACCOs.

Musyoka (2015) did a study on the effect of dividend policy on the financial performance of firms listed at the Nairobi Securities Exchange. The objective of the study was to determine the effect of dividend policy on the financial performance of firms using variables DPR, form of dividend payments, timing of dividend payments, firm size and leverage. The finding of the study confirmed that DPR, form and timing of dividend payments had a positive effect on financial performance of firms while firm size and leverage had a negative insignificant effect on financial performance.

The study concluded that the major factors that affect financial performance of listed firms are; DPR, form of dividend payments and timing of dividend payments. Other factors such as total assets and leverage have no significant effect on the financial performance of a firm. Therefore, firms should put in place effective strategies to ensure a high score on dividend stability which will contribute to better performance in the future.

Malombe (2011) studied the effects of dividend policy on profitability of SACCOs with FOSAs in Kenya. The dividend policy was measured using the dividend yield and the dividend payout while return on equity was used as a measure of profitability. The study concluded that there is a positive but insignificant relationship between dividend policy and the profitability of SACCOs with FOSAs in Kenya. This was also evidenced in other SACCOs without FOSAs. The recommendation of the study was that SACCOs operating FOSAs should develop dividend policies to guide them in establishing and guiding them in surplus distributions. This would guide them on when to pay dividends, how to pay dividends and when to retain surpluses.

Hafeez & Attiya (2009) in their study of the determinants of dividend policy in Pakistan outlined the following factors as affecting dividend decisions; current earnings, prior dividends, level of profitability, ownership structure earnings growth and investment opportunities. They found out that pro-growth polices generate more profitable investment opportunities and stimulate the financing needs of the corporations and leads the firms to distribute less and use the retained earnings for expanding the corporations. Another finding from their study was that ownership structure has significant impact on dividend payout policy in Pakistan where inside ownership was positively associated with the growth of dividends. This ownership structure is common in SACCOs and it is worth noting that membership (shareholding) is positively related to deposits. They recommend that the Securities Exchange Commission of Pakistan has to proper manage the shareholding pattern of the listed firms of Karachi Stock Exchange, Lahore Stock Exchange and Islamabad Stock Exchange.

2.5 Summary of the Literature Review

As indicated by Hafeez & Attiya (2009), the behaviour of dividend policy is one most debatable issue in the corporate finance literature and still keeps its prominent place both in developed and emerging markets. According to Brealey and Myers (2002) dividend policy has been kept as the top ten puzzles in finance. The relevance and irrelevance dividend theories also give divergence view about dividends. The studies reviewed do not give common and conclusive relationship between dividend policy and the growth in SACCOs.

The study by Malombe (2011), concluded that there is a positive but insignificant relationship between dividend policy and the profitability of SACCOs. Profitability is also an indicator of growth in a SACCO just like members deposits. However the study didn't show the relationship between dividend policy and members deposits. Musyoka (2015) did a study on the effect of dividend policy on the financial performance of firms listed at the Nairobi Securities Exchange. However the study didn't investigate the effect of dividend policy on the growth of SACCOs in Kiambu county.

The study by Yegon et al (2014) on the effects of dividend policy on firm's financial performance, recommended that organizations should ensure that they have a good and robust dividend policy in place. However the study did not consider the effect of Dividend policy in growth of SACCOs despite the variables investigated being the same variables that affect the growth of SACCOs. Musyoka (2015) concludes that firms should put in place effective strategies to ensure a high score on dividend stability which will contribute to better financial performance in the future. However his study had considered the effects of divided policy on profitability on firms listed in Nairobi Security Exchange but not in SACCOs.

2.6 Research gap

From the summary of the studies above not much that has been done to establish the relationship between the variables in this study. To this effect then, this study aims at filling the gap by establishing the impact of dividend policy on the growth of SACCOs in Kiambu County. This study will add value to existing literature and will be of significance to the stakeholders in SACCO sub-sector including SACCO members, regulator (SASRA), managements and other researchers.

3. RESEARCH METHODOLOGY

3.1 Introduction

This chapter presented the methods to be used in this study. The chapter describes the research design, study population, sampling frame, sample size and sampling techniques, data collection methods and techniques of data analysis. The statistical models that were used in the analysis and the tests for the research hypothesis were also provided.

3.2 Research Design

Research design is the plan that guides the arrangement of conditions for the collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Smith 1981). Orodho (2003) defines research design as the scheme, outline or plan that is used to generate answers to research problems. Quantitative methodologies will be used to ascertain the relationship between turnover and dividend decisions.

A descriptive research design was employed in this study. Descriptive research explored the existing status of two or more variables at a given position in time and whether a relationship exists between them, Saunders et al (2003). In order to evaluate the effects of dividend payout ratio, form of payment of dividends and frequency of payment of dividends (independent variables) on turnover (dependent variable) of SACCOs in Kiambu County, descriptive research design was ideal.

3.3 Target Population of Study

Population is the total collection of elements about which to make inferences, Cooper and Schindler (2000). Any group of people or observation which includes all the possible members of that category is called population. According to Mugenda and Mugenda (2003) and Kumar (2012), a population is an entire group of individuals, events or objects with some observable characteristics. A study population comprises of individuals, households, or organizations with similar characteristics about which a researcher wants to make inferences (Cooper & Schindler, 2014). The target population was the 56 SACCOs operating in Kiambu County.

3.4 Sampling Frame

The next step in the research design is to identify and select the sample to be used in the study. Sampling and selection are the means by which a researcher identifies and selects and gains access to the appropriate subjects (Sekaran, 2010). According to Mugenda and Mugenda (2008), a sampling frame is a list of all sampling units for a study. The sample frame for this study consisted of a list of all 56 SACCOs operating in Kiambu County, and the list was obtained from the Sacco Societies Regulatory Authority (October 2019). In this study, each SACCO's acted as strata from which samples were selected, that is, the study had 56 stratums because the study was considering the population of each Sacco to be homogenous and therefore each saccos constituted a stratum. (See Appendix III).

3.5 Sample and Sampling Techniques

According to Kothari, (2012) sampling refers to the process of obtaining information about an entire population by examining only a part of it. Sampling technique is the method of choosing a sample from a population. There are two main sampling techniques: probability and non-probability (Kothari & Garg, 2014). Sampling techniques are methods that are used to select a sample from the population by reducing it to a more manageable level (Saunders, Lewis and Thornhill, 2009). According to Harkness and Janett (2008), sampling techniques were used when inferences were being made about the target population. In this study, the sample was drawn from the target population by use of simple stratified sampling technique. The sample was taken from the 56 SACCOs operating in Kiambu County which are fully licensed. The sample design employed is random sampling to pick a sample of 12 SACCOs which is 10% of the population. This sample was adequate because the SACCOs are spread across the county and taking the whole population may not be feasible given the time and budget constraints. It is believed that this sample was representative of the other SACCOs operating in Kiambu County for the objectives of the study to be generalized. Financial reports was analyzed for a period of five years from 2013 to 2017 for the sampled SACCOs.

3.6 Data collection Instruments

Data collection can be derived from a number of methods, which include interviews, focus groups, surveys, telephone interviews, field notes, taped social interaction or questionnaires (Heaton, 2004). The choice of instruments was dictated by the nature of the problem and both the availability of time and financial resources. There were two major sources of data that were used by researchers. These are the primary and secondary sources. According to Mugenda and Mugenda (2003), primary data are those items that are original to the problem underway. Primary data was gathered using structured and semi-structured questionnaires (Creswell, 2009). Secondary data was collected using the financial statements of the SACCOs sampled for the period of five years. Data on dividends was derived from the financial statements; directors' proposals and the rate of dividend. Growth as depicted by member deposits will be derived from the information given in the financial statements. Reports by the board of directors, SACCO journals, and any other relevant material was also used to collect data.

3.7 Data Analysis and Presentation

This is the extraction of significant variables, detecting any abnormalities and testing assumptions (Kombo & Tromp, 2011). According to Mugenda & Mugenda, (2003) data analysis refers to examining the coded data critically and making inferences. The presentation of data refers to ways of arranging data to make it clearly understood. Data analysis was guided by the objective of the study. Raw data collected from the questionnaires was first cleaned, sorted, coded and subjected to the SPSS software. Data were analyzed using both descriptive and inferential statistics (Mugenda & Mugenda, 2003). The SPSS version 23 software was used.

The descriptive statistical tool helped the researcher to describe the data and features of data that were of interest. In this study, the mode was used as the response measurement that appears most in a particular variable among a sample of subjects (Cooper & Schlindler, 2014). The study used descriptive statistics and integrated both qualitative techniques in the data analysis and the data was edited; coded and classified so as to present the results of the data analysis in a systematic and clear way. This was done by the use of SPSS Version 23 software.

The variables to be used will include independent variables (dividend payout ratio, form of dividend payment, and timing of dividend payments) and dependent variable (% growth in deposits). The variables will be calculated using the book values as follows;

$$\text{Growth in Deposits} = \frac{\text{Deposits in current year}}{\text{Deposits in base year}} * 100$$

$$\text{Dividend payout ratio} = \frac{\text{Common dividends}}{\text{Net income after tax}} * 100$$

Forms of dividends – Dummy variables for form of dividend for firm i at period t will be used.

Timing of Payments– Dummy variables for timing of dividends for firm i at period t will be used.

A multivariate regression equation will be used as follows;

$$Y=\beta_0 + \beta_1 X_1 + \beta_2 X_2+ \beta_3 X_3 + \mu$$

Where;

Y = % growth in member deposits

X_1 = Dividend payout Ratio.

X_2 = Form of dividend payment

X_3 = Annual frequency of dividend payments

$\beta 0$ = Constant (y- intercept)

$\beta 1$, $\beta 2$ and $\beta 3$ = coefficients of regression equation

μ = Error term

A test of significance for each independent variable will be conducted using Z-test analysis at 5% significance level. The test will be applicable because the sample is more than thirty.

4. DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the information processed from the data collected during the study on the relationship between dividends and the financial performance of Saccos registered by SASRA in Nairobi County. The sample composed of all the 12 Saccos registered by SASRA in Kiambu County

4.2 Descriptive Analysis

The study sought to collect and analysis consolidated data from the 12 SACCOs in Nairobi, Kenya. Dependent variable savings were measured percentage change in difference between closing and opening balance over opening balance. The independent variable Dividend policy was calculated by determining the ratio of dividend paid out and total capitalization of the Sacco, Member growth was measured by the percentage change of membership calculated by determining percentage change in member growth in SACCOs for 2013 to 2017. A study period of 5 years, 2013 to 2017 was used.

Table 4.1: Descriptive results of SACCO for Year 2013 to 2017

Financial Performance indicator	2013	2014	2015	2016	2017
Sacco Savings (%)	3.021	4.854	5.697	5.902	7.325
Dividend policy (%) (dividend yield)	1.304	2.768	3.901	4.277	5.403
Membership Growth (%)	2.455	3.421	4.072	5.543	6.946

The study found that SACCO‟s savings had increased due to dividend policy. From 3.021 in the years 2013 to 7.325 in the year 2017. Saving had been on increasing trends as in year 2014, saving was at 4.854, in 2015, the SACCOs savings were in 5.697 while in 2016, SACCOs savings were at 5.902. This clearly indicated that increase in dividend yield rate increase SACCO‟s savings to a great extent.

The study also found that dividend policy of the SACCOs had also improved from 1.304 in the year 2013 to 5.403.30 in the year 2017. The study established that the rate of dividend paid out over SACCO capitalization has also been on increasing trend as in year 2014 the dividend yield was at 2.768, in year 2015 the dividend yield was at 3.901 while in year 2016 the dividend yield rate was at 4.277. This implied that the ratio on dividend paid out over SACCO capitalization was on upward trend indicating increase in dividend yield for the period of 2013 to 2017.

The study further found that SACCOs member growth rate increased from year 2013 at 2.455, 3.421 in year 2014, 4.072 in year 2015, 5.543 in year 2016 and 6.946 in year 2017 as indicated in Table 4.1. Implying that member growth rates influence SACC0s saving to a great extent. From descriptive analysis, dividend policy influence savings in SACCOs to a great extent.

4.3 Correlation Analysis

Table 4. 2: Correlation Between Savings, Dividend Policy and Membership Growth.

		Dividend Yield	Membership Growth	Sacco Savings
Dividend Yield	Pearson Correlation	1		
	Sig. (2-tailed)	0		
	N	12		
Membership Growth	Pearson Correlation	.525*	1	
	Sig. (2-tailed)	0.0001	0.0015	
	N	12	12	
Sacco Savings	Pearson Correlation	-.467*	0.534	1
	Sig. (2-tailed)	0.033	0.066	
	N	12	12	12

A partial correlation analysis using Karl Pearson correlation coefficient was performed. A positive coefficient indicated a positive relationship between the variables correlated. From the Table 4.2 .The study found that there existed significant strong and negative correlation between dividend yield and SACCOs Savings as Correlation coefficient r = -0.467 , P = 0.0001<0.05).

The study also found that there existed a significant strong positive correlation between SACCOs membership growth and SACCO Savings‟ as the correlation coefficient r = 0.525, P = 0.033<0.05.This is significant at 5% significance level. This clearly indicated that there existed a negative relationship between dividend payout and SACCOs Savings.

4.4 Regression Model Summary

The impact of divided policy on the growth of Sacco's in Kenya in Year 2013 to 2017 in the table below.

Table 4.3: Regression Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig
0.712a	0.506	0.492	0.368	0.001
Predictors: (Constant), Dividend Yield, Membership Growth.				
Dependent: SACCOs Saving.				

Results in table 4.3 indicate that r-squared for the model indicated that the coefficient of variation between variables was 0.506, which indicates that the independent variables could be used to explain about 50.6% of the variation in SACCOs Savings. This indicates that the regression model has a significant strong explanatory power as only about 49.4% of variation in SACCOs Savings is not explained by the model.

Adjusted R^2 is called the coefficient of determination which indicates how SACCOs Savings varied with variation in dividend yield and member growth rates. From the table 4.3, the value of adjusted R^2 was 0.492. This implied that, there was a variation of 49.2. % of SACCO Savings varied with variation in dividends and which was statistically significant as r = 0.492, P= 0.001 < 0.05.

4.5 Analysis of Variances

Table 4.4: Analysis of Variances in the Regression Model

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	40.504	4	10.1264	0.1838	0.001a
Residual	440.679	8	55.0849		
Total	**481.183**	**12**			

Results in table 4.2 give the analysis of variances in the regression model. These results indicate that the model had an F-ratio of 0.1838 which was significant at 95% confidence level. This result indicates that the overall regression model is statistically significant and is useful for prediction purposes at 95% significance level. This further indicates that the independent variables are statistically significant in predicting SACCO Savings.

4.6 Regression Coefficients

Results in table 4.5 below present the test of the statistical significance of the independent variables in the model. This provides the estimates of independent variables, their standard error and the t-ratios.

Table 4.5: Test of Significance of Independent Variables

Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
	B	**Std. Error**	**Beta**		
(Constant)	**18.445**	**2.845**		**5.978**	**.003**
Dividend Yield	**-3.411**	**.001**	**.812**	**10.336**	**.001**
Membership Growth	**1.385**	**.000**	**.491**	**12.703**	**.012**
Predictors: (Constant) Predictors: (Constant) Dividend Yield , Membership Growth					
Dependent: SACCO Savings					

The resultant model was Y= 18.445-3.411X_1 + 1.381X_2 + *e*

From the regression analysis, the study established that there existed a significant negative relationship between dividend yield and SACCO Savings in SACCOs as r=4.411, p=0.001<0.05, t=10.336.This clearly indicated that a unit increase in dividend payout, there was a significant decrease in SACCOs Savings by factor r = 3,411. This implied that the increase in dividend yield would lead to significant decrease in SACCO Savings. From regression analysis, the study found that a unit increase in membership growth would lead to increase in SACCOs Saving by factor r =1.385, P=0.012< 0.05, t=12.703. This implied that there existed significant positive relationship between membership growth and SACCOs Savings.

4.7 Discussion of Findings

From descriptive results, SACCO's savings was found to have grown, increasing due to dividend policy. SACCOs Savings from 3.021 in the years 2013 to 7.325 in the year 2017. The descriptive results also found that dividend yields of the SACCOs had also improved from 1.304 in the year 2010 to 5.403.30 in the year 2017 indicating that the rate of dividend paid out over SACCOs capitalization has also been on increasing trend from 2013 to 2017. This implied that the ratio on dividend paid out over SACCO capitalization was on upward trend indicating increase in dividend yield for the period of 2010 -2014. The descriptive results further found that SACCOs membership growth rate increased from year 2013 at 2.455,3.421 in year 2014, 4.072 in year 2015, 5.543 in year 2016 and 6.946 in year 2017 revealing that membership growth rates influence SACC0s saving to a great extent. From descriptive analysis, dividend policy influence savings in SACCOs to a great extent From the correlation analysis the study revealed that there existed significance strong and positive correlation between dividend yield and SACCOs Savings as Correlation coefficient factors r = 0.525 , P=0.0001<0.05). The correlation analysis results revealed that there existed a significant strong positive correlation between SACCOs membership growth and SACCO Savings‟ as the correlation coefficient r=0.467, P=0.033<0.05. This clearly indicated that there existed a positive relationship between dividend policy and SACCOs Savings.

From the regression analysis, the study found that there was 50.6% variation between dividend policies and savings in SACCOs. The adjusted R^2 was 0.492. This implied that, there was a variation of 49.2. % of SACCO Savings varied with variation in dividends and which was statistically significant as r = 0.492, P= 0.001 < 0.05.

From the Regression results, a unit increase in dividend yield resulted into significant negative in SACCOs Savings by factor r = -3,411 hence there existed a significant negative relationship between dividend yield and SACCO Savings in SACCOs as r =3.411, p=0.001< 0.05, t=10.336. Further regression results indicated that a unit increase in membership growth would lead to increase in SACCOs Saving by factor r =1.385, P=0.012< 0.05, t=12.703 demonstrating that there was significant positive relationship between membership growth and SACCOs Savings. This confirms that the main increase in SACCO capitalization is through increase in member‟s base and it is affected by payment of dividends in cash form. The study did not address the issue of dividend policy and the impact on savings for investments. The study concurred with Muchoki (2012) who established that growth of savings and credit co-operative societies in Kenya were greatly affected by increase in dividend payout.

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section provides a summary of the findings; the conclusion and the recommendations of the study which sought to establish the impact of dividend policy on the growth of Saccos in Kenya

5.2 Summary of Findings

The study established that SACCO‟s savings have increased due to dividend policy. SACCOs Savings increased from 3.021 in the years 2013 to 7.325 in the year 2017. The descriptive results also found that dividend yields of the SACCOs had also improved from 1.304 in the year 2013 to 5.403.30 in the year 2017 indicating that rate of dividend paid out over SACCOs capitalization has also been on increase trend from 2013 to 2017 .This implied that the ratio on dividend paid out over SACCO capitalization was on upward trend indicating increase in dividend yield for the period of 2013 -2017. The descriptive results further found that SACCOs membership growth rate increase from year 2013 at 2.455,3.421 in year 2014, 4.072 in year 2015, 5.543 in year 2016 and 6.946 in year 2017 revealing that membership growth rates influence SACC0s saving to a great extent. From descriptive analysis, dividend policy influence savings in SACCOs to a great extent. The study revealed that there existed significant strong and positive correlation between dividend yield and SACCOs Savings as Correlation coefficient factors r =0.525, P=0.0001<0.05). Further correlation analysis results revealed that there existed a significant strong positive correlation between SACCOs membership growth and SACCO Savings‟ as the correlation coefficient r=0.467, P=0.033<0.05. This clearly indicated that there existed a positive relationship between dividend policy and SACCOs Savings.

The study found that growth of savings and credit co-operative societies in Kenya were greatly affected by increase in dividend payout as unit increase in dividend yield resulted into significant negative in SACCOs Savings by factor r = -3,411 hence there existed a significant negative relationship between dividend yield and SACCO Savings in SACCOs as r =-3.411, p=0.001< 0.05, t=10.336. Further regression results indicated that a unit increase in membership growth would lead to increase in SACCOs Saving by factor r =1.385, P=0.012< 0.05, t=12.703 demonstrating that there was significant positive relationship between membership growth and SACCOs Savings. This confirms that the main increase in SACCO capitalization is through increase in member‟s base and it is affected by payment of dividends in cash form. The study did not address the issue of dividend policy and the impact on savings for investments.

5.3 Conclusions

The study concluded that SACCO‟s savings have grown and increased due to dividend policy for the period under study. The study also concluded that dividend policy led to increase in dividend yields of the SACCOs and also improved while membership had also increased over the period under study which increased SACCO capitalization. The study concludes that there existed strong and negative correlation between dividend yield and SACCO Savings .This was because increase in dividend yield led to increase in dividend payout in cash which negatively affected SACCOs Saving level. Further study concluded that there existed a significant strong positive correlation between Sacco membership growth and SACCO Savings‟ as increase in membership increased SACCO savings. The study further concluded that there was significant positive relationship in capitalization between membership growth and SACCOs Savings as a unit increase in membership growth would lead to increase in SACCO Savings.

The study concluded that growth of Savings of Credit Co-operative Societies in Kenya were greatly affected by increase in dividend payout as a unit increase in dividend yield resulted into significant negative in SACCO Savings.

5.4 Policy Recommendations

Based on the findings and conclusions of the study the following recommendations have been suggested in relation to impact of dividend policy on the growth of Saccos in Kenya. The study recommend that SACCO management should develop dividend policy that lower consumption of divided and increase savings rates as this would lead to SACCO‟s savings increasing. The study found that earnings dividend policy creates certainty in the shareholders expectations but lower savings of SACCOs.

The study recommends that dividend policy should be developed to attract more members. The study found that a positive relationship between Sacco‟s membership growth and SACCO Savings‟ thereby indicating that increase in membership increase SACCOs capitalization hence increase SACCO growth.

The study recommends that SACCOs management should lower dividend yield rate and increase income investment to increase growth of SACCOs. Growth of Savings and Credit Co-operative societies in Kenya were greatly affected by increase in dividend payout as unit increase in dividend yield resulted into significant negative in SACCO Savings. The main recommendation was that both the government and the SACCOs need to come up with policies that can enhance the SACCOs capital base.

5.5 Limitations of the Study

In conducting the study, the researcher encountered a number of challenges. One of the challenges was lack of cooperation from some of the SACCOs who were unwilling to give information. This study was dependent on financial statements and records from SACCOs but some SACCOs were unwilling to give such information. However, the researcher explained to the SACCOs authorities that the sought information was just for academic purposes and would not be released to third party.

The second challenge was limitation of information given by the SACCOs. Some SACCOs were secretive and limited the information they gave out. Some of the information such as number of transactions recorded, amount of deposits from specific transactions was not given. Some of this information was crucial for the study to make a formidable conclusion. However the researcher collected data from financial statements presented to members during AGMS which is public information.

The study was also limited to the degree of precision of the data obtained from the secondary source. While the data was verifiable since it came from the Saccos publications, it nonetheless could still be prone to these shortcomings.

The study was based on a five year study period from the year 2013 to 2017. A longer duration of the study will have captured periods of various economic significances. This may have probably given a longer time focus hence given a broader dimension to the problem.

5.6 Areas for Further Research

This study was concerned with establishing the impact of dividend policy on the growth of saccos in kiambu county, Kenya. A further study should be carried out to establish the determinants of dividend payout policy in Savings and Credit Cooperative Societies in Kenya. Co-operative principle of limited return on capital‟ creates problems for member capital formation. A further study should be carried out to determine impact of dividend policies on Sacco‟s capitalization. This study depended solely on secondary data. The study recommends that future studies could also gather primary data from the staffs and the management so as to get their opinion and a better picture on the effects of dividend policy on savings in SACCOs in Kenya. The study generalized the dividends pay out and savings within Saccos. It is recommended that a further study be carried out to establish the impact of dividend payout ratio on savings of various age groups within Saccos and then comparing the outcome with the general outcome as reflected in this study with a view to establishing whether there is a significant effect between age group. The study established that growth of membership significantly impact positively on savings within Sacco societies. Further study is needed to establish the determinants of member‟s growth and retention in Saccos. This will enable management establish strategies of attracting membership and hence the growth of the Sacco capitalization.

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