

INFLUENCE OF PROFITABILITY ON DIVIDEND PAYOUT IN DEPOSIT-TAKING SAVINGS AND CREDIT CO-OPERATIVES (SACCOS) IN KENYA

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ABSTRACT

SACCOs' dividend payment strategy varies as to what determines the amount of dividend to pay to its shareholders, how? and when? While working in the same market, some Saccos pay more, while others pay less. Therefore, among the aspects of corporate finance, the strategy of dividend payout is not coherent and attracts a lot of debate among Saccos. The study's general objective was to establish the financial determinants for the dividend payout scheme among Saccos in Kenya between 2018 and 2021. The research design adopted for this study was descriptive. All 166 Saccos in Kenya were targeted by the researcher. Taro Yamane was used for sampling 62 DT-Saccos. Secondary data was obtained using a secondary datasheet. Descriptive statistics included the use of mean, standard

deviation, frequency, and percentages. Besides, inferential analysis including correlation and linear regression analysis were used. Data was presented on tables and narratively interpreted. The study revealed that profitability and dividend payout had a $\beta = 0.889$, $t = 6.217$, and associated p-value of 0.001. The study concluded that profitability had a positive and significant influence on the dividend payout in deposit-taking Saccos in Kenya. The study recommended for measures to be put in place that ensure that profits increases to have a higher payout of dividends in the DT- SACCOS in Kenya such as reduction in the costs of operations and costs of production to increase in profits.

Key Word: SACCOs, Deposit taking, Earning Per Share Dividends, dividend payout, Profitability

INTRODUCTION

Dividend policy has been described as a puzzle and numerous scholars have over the years tried to research this area in an attempt to solve the puzzle. Despite the numerous efforts carried out by researchers and scholars to explain this issue, dividends remain one of the hardest puzzles in corporate finance (Husain & Sunardi, 2020; Subba, 2015). In advanced economies, both creditors and the management of the company have carefully determined whether to pay dividends or maintain them as retained income (Laurence & Jun, 2015). A lot of research, including Al-Najjar (2016) and Gizelle, Marcus, Allen and Shelton (2013) carried out studies of the dividend policy and offered empirical proof of dividend policy determinants. However, the variables shaping dividends policy are not undisputed. There is also an unanswered issue as to why businesses pay dividends from their profits. This is called the financial literature dividend puzzle (Hussein, Shamsabadi & Richard, 2016).

There have been several theories to shed some light on this mystery, but there is still a question. Chintal, Desai and Nguyen (2015), concluded that much more empirical and theoretical dividend work is needed before consensus can be achieved. However, an analysis of dividends payouts in developing countries like Kenya is currently absent in the literature, and no study was produced to answer the dividend problem in Kenya, this study provided

more insights into the dividend policy debate. This study aimed at identifying the determinants of dividend payment policies among Saccos in Kenya, and to check whether the potential determinants of dividend payments found in the theoretical and empirical literature are more perplexing and can also be used as a guide in determining dividends for directors of trade Saccos.

The dividend strategy of eight emerging markets was analyzed in Chia, Tsung, Chen and Hsing, (2013) and compared to an estimated 99 US firms. They found that emerging companies exhibited dividend conduct close to those of US firms in the sense that market-to-book, debt, and income ratios explain dividends. However, the extent of variable sensitivity varies from country to country. Between 1989 and 2004, Biswajit and Kailash (2015) studied the financial and non-financial dividend policy of Omani companies. The findings indicate that the dividend strategy of financial and non-financial companies affects productivity, size, and corporate risk. Government ownership, debt, and age, however, had a clear influence on non-financial dividend policy without any effects on financial companies. On the contrary, the expenses of companies, observable characteristics, and growth drivers seem to have no major effect on both financial and non-financial dividend strategy.

Between 1989 and 2000, Al-Malkawi (2017), analyzed the determinants of corporate dividend policy in Jordan. Business panel data was collected of all publicly traded companies on the Amman Stock Exchange. The results indicated that the company's age, scale, and profitability have influenced dividend policy positively and significantly using Tobit's specifications, while leverage has harmed dividend policy.

Nopphon (2013) has done an analysis in Ghana over the six years on the determinants of the dividend payout ratios. The results showed that productivity, cash flow, and tax have a positive effect on a model focused on ordinary lower squares. The findings further indicated that dividend payment is negatively impacted by risk and the market-to-book value also impacts Savings and Credit Co-Operatives (SACCOs) growth. However, only productivity, cash flow, growth in revenue, and market-to-book valuation were relevant variables in the study.

Dispersants of the dividend payout policies of Nigerian Securities and Exchange Commission companies have been studied by Pattiruhu (2020). They find that earnings impacted the payout ratio negatively while liquidity and a dividend in the previous year have had a positive effect on the payout ratio. The three factors (profit, liquidity, and dividends in the previous year) therefore led to the assumption that they were strong forecasters in the Nigeria dividend payout scheme. According to Onsarigo (2018) SACCOs provide a system where savings are encouraged and also provide loans and credit facilities thereby ensuring that the members of the SACCOs are enabled and empowered. The range of financial services and other business solutions that Kenyan SACCOs offer to members as well as the regulatory regime qualifies it to be described as a two-tiered system. Some Saccos are referred to as back-office activities (BOSA) since they do not handle cash transactions. However, such Saccos provide a limited scope of financial services and are identified by law as non-DT-Saccos. However, they are

also registered, supervised, and managed under the same Cooperative Societies Act, CAP 490, as the DT-SACCOs, but they are not required to register with SASRA or any other government body. The DT-Saccos, in addition to providing the usual services of savings and credit, also provide other banking services like money deposits, utility, and loan payments services and they also partner with commercial banks to offer other channels such as quasi banking services (commonly known as automated teller machines, ATMs) and FOSA. The SACCO Societies Act of 2006 licenses and supervises the DT-Saccos (Kimani, 2018).

The dividend payout policy adopted by SACCOs differs from one institution to the other since each Sacco makes an independent decision on the amount, the time, and how dividends will be paid out to its shareholders. Even though SACCOs work in the same environment, the dividend paid out by a given institution differs from one SACCO to the other (Kamau, 2017). The most common problem in Kenyan Saccos is the question of how these institutions set their dividends and the reason why they pay these dividends. It is therefore clear that there lacks a consensus regarding the Kenyan dividend policy and as a result, this area of corporate finance has a lot of contested disputes. In addition, the fact that there exist several issues that affect the dividend policy and that there is no law that demands certain companies to pay a given percentage of their profits as dividends to their shareholders can also be attributed to the lack of consensus. Kiswili (2021) revealed that despite the several attempts made to research the dividend puzzle that is identified in Njeje, Chepkilot and Ochieng (2018), these studies are yet to arrive at an unequivocal solution. From the reviewed studies, it is evident that there exist limited studies focusing on listed firms in the SACCOs in the Kenyan context. It is against this background that this study embarked to fill the existing contextual and conceptual gaps by seeking to establish the determinants of dividend payout policy among SACCOs in Kenya. Specifically, the study sought to answer the question: does Profitability influence dividend payout in deposit-taking Saccos in Kenya.

LITERATURE AND HYPOTHESIS

Hussein, Shamsabadi and Richard (2016) analyzed the profitability of the Return on equity (ROE) companies between 2005 and 2009, which is negative concerning dividend payments, which shows that the rentability of more profitable firms is lower than that of the ROE firms. Return on assets (ROA) and earning per share (EPS) calculate profitability is negatively related to the ratio of dividend payments but not statistically important. The results showed that the EPS were significant and had a favorable relation to dividends per share.

Febriela and Sylvia (2014) researched Saudi Arabia stock exchange firms. Thus, dividends per share rise as businesses increase their profitability. An analysis of industrial companies listed on the Amman Stock Exchange showed that profitability indicated by profit by share (EPS) has the greatest impact on dividends.

The findings of John and Greg's research (2016) showed that EPS had a detrimental impact on the payment strategy of the dividend. The results of the study were from Bangladesh. While EPS can also be in the comparison of stock prices, it has not shown how the stock is

priced on the market. The fundamental analysis then uses the P / E ratio to determine the price the market will pay for the profits of a business. The company's EPS was believed that the lower payout ratio would be high and that it would have a negative sign based on the forecast. As such, a high payout ratio indicates that the company is less confident that it can find other ways to put the money earned to better use.

Puspitaningtyas (2019) analyzed Kuala Lumpur financial markets and established the moving dividends among the major market players. They found that the company's dividend decision is primarily connected to income earned during the current financial year and to the dividends given in previous periods. In addition, they concluded that companies have potential long-term forecasts of dividends that depend significantly on the capacity of the organization to forecast their revenues. Saleh (2019) led an inquiry into the conduct and determinants of dividends in financial institutions listed in Indian securities trading firms. They found that earnings in previous periods, projected earnings in the current period, and estimated earnings for future periods had a beneficial influence in deciding the dividend strategy to be used in the organization's management process. More data showed that there was a major negative association between cash balances and potential cash flows compared with dividend payments. There were no relevant positive impacts on company emissions of dividends on macroeconomic conditions, such as taxes, inflation rates, tax regime, and the share prices of listed securities.

Adam, Buckman and Setordzi (2020) found that dividend payment decisions by Ghana Stock exchange companies have a huge effect on growth, cash flow, profitability, and investment opportunities for firms. For a long time, profits have been known as the primary determinant of the company's dividend payment capacity.

Iskandar (2017) carried out a definitive and thorough dividend investigation into North America's banking and manufacturing firms. The findings of their analysis indicate that the dividend payment in both financial and manufacturing sectors has been influenced by market growth, capital structures, and potential incomes. Government shares in companies, age, and debt have major effects on dividend distribution in non-financial and industrial sectors.

Innocent, Ibanichuka and Micah (2020) evaluated the factors that affect the payout ratio of the dividend. The results showed that stable earnings and disseminating information to shareholders over considerable periods were factors that affected dividends, while investment and growth opportunities, external funding borrowing, and systemic risk had a limited impact on dividend payments.

Do Carmo, Neto and Donadone (2019) studied the effect on dividend payments of very little investment opportunity and high profitability and found that dividends will most likely be paid when profits are so high with little investment opportunities.

H0: Profitability does not significantly influence dividend payout in deposit-taking Saccos in Kenya

DATA AND METHODS

This study adopted a descriptive research design. The research focuses primarily on the determinants of Saccos deposit dividend payments. According to SASRA (2020), there are 166 approved deposits are taking Sacco which was considered as the target population. The study used the Taro Yamane formula for probabilistic sampling to obtain a representative sample. The formula is as follows: $n=N/[1+N(\epsilon^2)]$. Where N is the population targeted by this study, ϵ is the margin of error and n is the size of the sample that was considered in the study at 10%. Therefore, execution of the formula gave the following results: $n=166/[1+166(0.1*0.1)] =166/2.66=62.40$ which is 62 deposits taking Sacco. The SACCOS were further identified through a random number generator using SPSS, to identify the actual 62 SACCOS in Kenya.

Data Procedures and Analysis

The research involved the compilation of secondary data from the DT-Saccos financial statements submitted to the business registrar between 2018 and 2021. The SASRA regulatory reports and the Annual Financial Performance Statements for the DT-Saccos were used to provide more secondary data on the dependent variables of dividends paid amounts. Secondary data was obtained using a data collection sheet/form on the value of the profit after tax, return on assets, and return on equity as the indicators for the independent variable. Both descriptive and inferential analyses were conducted to analyze secondary quantitatively. Findings are presented on tables that were interpreted narratively. To determine the significance of the study's hypotheses, the model of a simple regression of the following form was used:

$$Y = \beta_0 + \beta_1 X_1 + \epsilon$$

Where: β_0 is the constant; β_1 are coefficients; Y is the Dividend Payout; X_1 is Profitability; ϵ represents the error term

RESULTS AND DISCUSSIONS

Response Rate

The study sought to collect data from a sample of 62 deposit-taking SACCOS in Kenya. The study was able to collect data that could be analyzed from 50 SACCOS which represented an 80.6% response rate.

Descriptive Statistics for Profitability

Table 1 indicated that the majority of the Saccos had their Return on Assets between 6.01 and 8.00 as shown by 50.0%, only 2% had their ROA between 10.01 and 12.0%. The findings are in agreement with Hargrave (2021), who argued that ROA above 5% is considered good while a ROA above 20% is considered excellent. The findings are also in agreement with a study carried out by Husna and Satria (2019) on how the value of a firm is affected by the

return on assets, debt ratio, and current ratio indicated that the return on assets influences the current ratio, the dividend payout ratio as well as the debt to asset ratio.

Table 1: Return on Assets (ROA) in Percentage

ROA (%)	Frequency	Percent
2.00-4.00	3	6.0
4.01-6.00	16	32.0
6.01-8.00	25	50.0
8.01-10.00	5	10.0
10.01-12.00	1	2.0
Total	50	100.0

Table 2 indicated that the majority of the Saccos had their Return on Equity ranging between 6.01% and 9.00 % as shown by 56%, only 2% of the Saccos had their Return on Assets ranging between 12.01% and 15.00 %. The findings are in agreement with Kazmierska-Jozwiak (2015) who carried out a study on the determinants of the dividend payout if financial companies and indicated that the dividend payout ratio of a financial company is negatively influenced by its ROE in that the profitable companies do not pay dividends to their shareholders more often given that they tend to keep their profits as sources of capital for expansion. However, to the shareholders and investors, a higher ROE implies that they should expect bigger dividend payouts as well as bigger returns on their investments.

Table 2: Return on Equity (ROE) in Percentage

ROE (%)	Frequency	Percent
3.00-6.00	6	12.0
6.01-9.00	28	56.0
9.01-12.00	15	30.0
12.01-15.00	1	2.0
Total	50	100.0

Table 3 indicated that the majority of the Sacco had their return on investment ranging between 12.01% and 18.00% as shown by 66%, only 2% of the Saccos had their return on investment ranging from 24.01% and 30.00%. The findings agreed with those of Speights (2021), where he posited that most companies target to achieve an ROI of 10% or more when considering long-term investments. Furthermore, Fernando (2021) indicates that a high ROI implies that the investment returns of the Saccos compare in a favorable way to its cost.

Table 3: Return on Investment (ROI) in Percentage

ROI category (%)	Frequency	Percent
6.00-12.00	6	12.0
12.01-18.00	33	66.0
18.01-24.00	10	20.0
24.01-30.00	1	2.0
Total	50	100.0

Descriptive Statistics on Dividends Payout

Table 4 indicated that the majority of the Saccos paid annual dividends ranging from Kshs 201,000,000 to 300,000,000 as shown by 42%, only 2% of the Saccos had paid annual dividends ranging from kshs 501,000,000 to 600,000,000. The findings are in agreement with Njuguna and Jagongo (2015) who indicated that the dividend payout decision in financial institutions including Saccos is made by considering factors such as the current and future profitability of the institution, the financing requirements, the availability of profitable investments and the institutions cashflow position should be considered. However, the size of the institution and the period it has been in existence have no significant effect on the dividend payout. In addition, the findings are in agreement with Mbuki (2010) who indicated that the level of risk involved in the Sacco influenced negatively the dividend payout ratio.

Table 4: Average Amount of Dividend Paid Annually

Dividend paid in Millions	Frequency	Percent
100-200	16	32.0
201-300	21	42.0
301-400	9	18.0
401-500	3	6.0
501-600	1	2.0
Total	50	100

Hypothesis Tests

Table 5 shows that $r=0.859$ which indicates that Profitability has a strong relationship with dividend payout in DT-Saccos in Kenya. $R^2 = 0.737$ indicating that Profitability explains 73.7% of the variations in the dividend payout in DT-Saccos in Kenya. The overall F statistics, ($F = 134.687$, $p < 1.55E-15 < 0.05$), indicated that there was a statistically significant relationship between Profitability and dividend payout in DT-Saccos in Kenya. *The null hypothesis was therefore rejected and it was concluded that Profitability significantly influences dividend payout in DT-Saccos in Kenya.* The findings are in agreement with Velnampy and Nimalathan (2008) when they analyzed Kuala Lumpur financial markets and established that the company's dividend decision is primarily connected to income earned during the current financial year and to the dividends given in previous periods.

Table 5: Profitability and Dividends Payouts

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	0.859	0.737	0.736	1.346		
ANOVA						
Model	Sum of Squares	Df	Mean Square	F	Sig.	
1	Regression	818.029	1	818.029	134.687	1.55E-15
	Residual	291.53	48	6.074		
	Total	1109.559	49			
Regression Coefficients						
Model	Unstandardized		Standardized	t	Sig.	

		Coefficients		Coefficients		
		B	Std. Error	Beta		
1	(Constant)	0.897	0.198		4.530	.000
	Profitability	0.889	0.143	0.859	6.217	.000
Predictors: (constant), Profitability						
Dependent Variable: Dividend payout in DT-Saccos						

CONCLUSIONS AND RECOMMENDATIONS

The study concluded that profitability significantly and positively influences the dividend payout in deposit-taking Saccos in Kenya, therefore we can reject the null hypothesis that profitability does not influence dividend payout in DT-SACCOs in Kenya. The conclusions are in concurrence with the dividends preference theory that investors are more likely to invest in companies that give dividends promptly other than making profit reservations.

The study recommended for measures to be put in place that ensure that profits increase to have a higher payout of dividends in the deposit-taking SACCOs in Kenya. Measures to increase profitability should involve a reduction in the costs of operations and costs of production to increase profits.

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