



**EFFECT OF DIVIDEND PAY OUT ON THE LIQUIDITY OF LICENSED NON- DEPOSIT TAKING SACCOS IN NAIROBI COUNTY**

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## EFFECT OF DIVIDEND PAY OUT ON THE LIQUIDITY OF LICENSED NON- DEPOSIT TAKING SACCOS IN NAIROBI COUNTY

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### ABSTRACT

*Dividend decision is a finance function which involves determination of the amount distributed to shareholders as incomes or quantity to plough inside. The determination of dividend payout is influenced by the liquidity position of the licensed non-deposit taking Sacco but the degree to which dividend payout distresses the liquidity still remains a puzzle since most empirical studies accompanied have recounted unreliable consequences and no universally accepted explanation for Saccos with adequate liquidity have perceived constant dividend payment behavior. This study sought to establish the effect of dividend payout by examining the effect of capital mix and transaction cost on the liquidity of non-deposit taking Saccos in Nairobi County. The study employed descriptive research design on a target population of 13 licensed non-deposit taking Saccos. The target population was the 13 non-deposit taking Saccos which paid dividends from the year 2012 to 2015. Data analysis was prepared by means of descriptive and inferential statistics. The study revealed that dividend payout plays a major role in the liquidity because of the advanced coefficient as likened to their cash flows and working capital that subsequently the Saccos which posted high profits translated to high dividends paid out to their members. From the results it was concluded transaction cost that was measured by the interest amount of the non-deposit taking Saccos had a significant and positive influence on the liquidity of the non-deposit taking Saccos. The study aimed at recommending Saccos to ensure that profits are stable, cash flows freely flowing into the Sacco are efficiently managed so as to increase their liquidity. The results also provided critical information to the Board of Directors to determine an optimum dividend payout that would capitalize on the Sacco's profits and thus lead to intensification of the members' wealth. The study also formed a center for additional research and added knowledge to the existing body.*

**Key Words:** Capital Mix, Transaction Cost, Dividend Payout, Liquidity

## INTRODUCTION

Savings and Credit Co-operatives (SACCOs) are community membership based financial institutions that are formed and owned by their members in promotion of their economic interests (Nuwagaba, 2012). According to Owen (2009), Saccos offer a much broader range of services to broader clientele. Deposit services offered typically include business accounts, savings accounts, and fixed deposits. Saccos also offer both non-financial and financial services to its members. Besides the services the Saccos pay dividends to their members from the retained earnings that they generate at the end of the financial year and thus if clear and effective guidelines are not adhered to then this might end up affecting the liquidity of the Sacco hence its operations.

The overall challenges on credit administration by the savings and credit Co-operatives can broadly be seen in areas of policy (legal and regulatory) framework and institutional weaknesses. Indeed, despite their numerical strength, contribution to the Kenyan economy and latent potential to perform even better, Co-operatives effectiveness is still adversely affected by a number of challenges. The non-deposit savings and credit Co-operatives suffer from a weak capital base that leads to low business volumes. The situation is worsened by lack of investment in information and communication technology to provide faster and efficient services, thus limiting their competitiveness. These challenges together with the weak structural base restrain exploitation of savings and credit Co-operatives full potential (MOCDM, 2009).

Since the inception of Sacco's have been paying dividends to their members as a measure to mobilize more savings and trust of the members to the society. To this regards all Saccos in Kenya ought to submit their books of account for auditing

where thus a certain percentage of the net earning is paid to the members as dividends and bonuses. To date most Saccos continue to face the same challenges especially in their dividend payout given the background under which these organizations are operating and thus this has always led to a negative effect on the liquidity of the Sacco Societies. Most of these challenges can be traced to the Co-operative principles that govern and run the Societies thus their application (Sacco star, 2010).

(ICAWCM, 2014) observes that the turnover of the largest 300 Co-operatives in the world grew by 11.6% to reach \$2.2 trillion in 2015, equivalent to the gross domestic product (GDP) of Brazil. The overall turnover of nearly 2,000 Co-operatives in the 65 countries surveyed by the Monitor totals \$2.6 billion. The top 300 Co-operatives are active in three leading sectors: insurance (41%), agriculture and food (27%), and wholesale and retail (20%). Next come industry and utilities (5%), banking and financial services (4%), health and social care (1%), and others (2%). Of the 1,926 Co-operatives included in the Monitor, 1,313 have a turnover of over \$100 million and are spread across 50 countries.

In Kenya, the Sacco movement has evolved in the past 40 years into a formidable force for the social and economic transformation of the Kenyan people. There are over 12,000 registered co-operative societies with a membership of over 7 million; out of which 5,000 are non-deposit-taking Saccos while 230 are deposit taking (have FOSAs). About 63% of the Kenya population directly and indirectly depends on co-operative related activities for their livelihood. The Sacco sector has mobilized over Ksh 200 billion in savings which is about 31% of the national savings. About 70% of Africa's Sacco portfolio is Kenyan which also ranks 7th worldwide. Kenya sits in the group of 10 largest co-operative

movement (G10) member countries (Ademba, 2015).

The Sacco Societies Regulatory Authority (SASRA) is a semi-autonomous Government Agency under the Ministry of Industrialization and Enterprise Development. It is a creation of the Sacco Societies Act No.14 of 2008 and was inaugurated in 2009 charged with the prime responsibility to license and supervise Deposit Taking Sacco Societies in Kenya (Welcome to Sasra, 2014, paras.1). The establishment of SASRA was within the Government of Kenya's reform process in the financial sector which has the dual objectives of protecting the interests of Sacco members and ensuring that there is confidence in the public towards the Sacco sector and spurring Kenya's economic growth through the mobilization of domestic savings.

Dividends and liquidity are intertwined and the firms paying out dividends must take into consideration the liquidity position of the Sacco. Cash dividends distribution not only depends on the liquidity of a Sacco but also depends on the free cash flow, which is the amount of operating cash flow left over after payment for capital expenditures. According to Liu and Hu (2005), if the cash dividend is less than the free cash flow, it means the Sacco has residual cash, if the cash dividend is more than the free cash flow then it means the Sacco needs financing to meet the requirement of cash dividends. Amidu and Abor (2006) noted that there was positive relationship between cash flow and dividend payout ratios. Anil and Kapoor (2008) also indicated that cash flow is an important determinant of dividend payout ratio.

### **Statement of the problem**

The emergence of the SASRA regulations for non-deposit-taking Saccos in 2010 changed the dynamics in the Sacco industry. The non-

deposit-taking Saccos were now faced with increased operational costs as they now embarked on meeting the requirements of these regulations. Money which would have previously been invested was now used in coming up with banking halls, adequate office space, management information systems as well as meeting capital adequacy ratios. Non-deposit-taking Saccos were now required to be more innovative, flexible and efficient to meet the new regulatory requirements as well as to survive. A regulatory impact assessment is thus required to establish how these regulations have impacted the Saccos ability to pay its members dividends and thus ensure adequate liquidity for its operations.

Dividend payout has thus being a major concern for the non-deposit taking Saccos since most Societies pay dividends from unforeseen profits and borrowings to hold their members from withdrawing their membership from the society if they aren't paid. Brealey and Myers (2005) described dividend payout as one of the top ten most difficult unsolved problems in financial economics. This description is consistent with Black (1976) who stated that the harder we look at the dividend payout, the more it seems like a puzzle, with pieces that don't fit together.

However, studies done in Kenya have focused on SASRA regulations and their impact on the financial performance, governance and operations of Saccos. No scholar has yet studied the effect of dividend payout on the liquidity of non-deposit taking Saccos in Nairobi County. Liquidity is considered a key aspect in the performance of any Sacco. This study was therefore done to fill the existing knowledge gap in this area and to make policy recommendations based on the findings relevant to the Sacco industry. Ngaira (2011) carried out a study on the impact of Sacco

Regulatory Authority (SASRA) guidelines on Sacco operations in Kenya. She concluded that SASRA has greatly impacted on Sacco liquidity performance in terms of outreach, sustainability, general efficiency and performance of Saccos.

Kioko (2012) studied the impact of SASRA regulations on the financial performance of Saccos' in Kenya. He concluded that higher capital requirements and increase in management efficiency impacted positively to Sacco's profitability in the post regulation period. Further, he concluded that capital regulation affects financial performance in Saccos and that financial stability could be at risk as a result of shocks impinging on the economic system and absence of proper policy adjustments to mitigate the effects of these shocks. This study focused on the effect that dividend payout has on the liquidity of licensed non-deposit Taking Saccos within Nairobi as the area under scope. This study therefore sought to answer the following question; what is the effect of dividend payout on the liquidity of licensed non-deposit Taking Saccos in Nairobi, Kenya.

### **Study Objectives**

The general objective of this study was to determine the effect of dividend payout on the liquidity of licensed non-deposit taking Saccos in Nairobi County. The specific objectives were:

- To establish the effect of capital mix on the liquidity of licensed non-deposit taking Saccos in Nairobi County.
- To determine the effect of transaction cost on the liquidity of licensed non-deposit taking Saccos in Nairobi County

## **LITERATURE REVIEW**

### **Theoretical Framework**

#### **Transaction cost theory**

This theory collaborates loan repayment variable. Williamson (2010) identified three determinants of the transaction costs: the agents' bounded rationality, that originates incomplete contracts due to the impossibility of foreseeing, in the contracting moment, all future situations; opportunism that is originated when one of the partners pursues his own short-term self-interest; and the assets specificity, this originates that the owners of production factors will incur costs if they deviate the assets to another use, and leads to the conclusion that the best use is improved by internalization (Alli, Khan, & Ramirez, 1993). Williamson (2010) argued that asset specificity actually drives vertical integration, which contrasts with the traditional arguments of monopolistic market power. This has important policy implications because vertical integration is often viewed as being anti-competitive and subject to anti-trust litigation.

#### **Buffer Theory of Capital Adequacy**

This theory supports the Capital Structure variable. According to Calem and Rob (2008) predicted that a Sacco approaching the regulatory minimum capital ratio may have an incentive to boost capital and reduce risk in order to avoid the regulatory costs the Sacco's balance sheet. As a consequence, Saccos may prefer to hold a 'buffer' of excess capital to reduce the probability of falling under the legal capital requirements, especially if their capital adequacy ratio is very volatile. Capital requirements constitute the main supervisory instrument in Saccos.

The Central Bank of Kenya intervenes little in Saccos' activities but does directly conduct on-site examination and at times delegating this task to external auditors. By contrast, a breach of the capital requirements is considered a major infringement of Sacco's legislation and is not tolerated by the Central Bank of Kenya. Saccos will require more capital if deposits are not fully mobilized from the members. Ability of Saccos to mobilize enough deposits obviates the capital base from being eroded. Ikpefan, Ochei Ailemen (2013) carried out a study on the impact of bank capital adequacy ratios, management and performance in the Nigerian commercial bank (1986 – 2006) and thus the study observed that many banks do not have data bank for their annual financial statements. The study also observed some inconsistency in annual financial statements of banks and that of the regulatory authority.

### Liquidity Theory

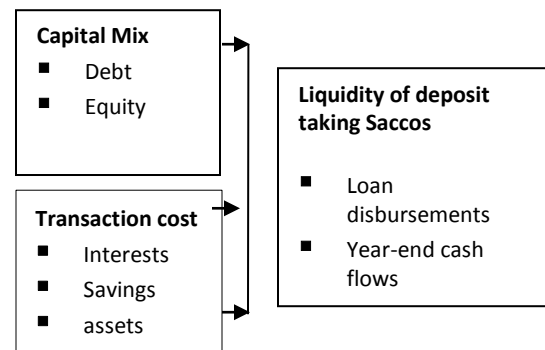
This theory proposes that credit rationed firms use more trade credit than those with normal access to financial institutions. The central point of this idea is that when a firm is financially constrained the offer of trade credit can make up for the reduction of the credit offer from financial institutions. In accordance with this view, those firms presenting good liquidity or better access to capital markets can finance those that are credit rationed.

Several approaches have tried to obtain empirical evidence in order to support this assumption. For example, (Nielsen 2008), using small firms as a proxy for credit rationed firms, finds that when there is a monetary contraction, small firms react by increasing the amount of trade credit accepted.

Financially unconstrained firms are less likely to demand trade credit and more prone to offer it, a negative relation between a buyer's access to other

sources of financing and trade credit use is expected. Petersen and Rajan (2009) obtained evidence supporting this negative relation. According to Berger and Black (2011), the use of credit rating coupled with high liquidity has positive effects on the numbers of approved loans to small businesses that is, their applications leads to much faster and effective loan uptake.

### Conceptual Framework



**Independent Variables      Dependent Variables**

**Figure 1: Conceptual framework**

### Empirical literature on effects of dividend payout on liquidity of Saccos

Very few studies have been carried out for licensed non-deposit taking Saccos but several studies have been carried out on dividends and Liquidity. Njoroge (2001), in his research on the relationship between dividend payouts and financial ratios in Kenya came up with the conclusion that in making dividend decisions, the most important variable is the return on the asset. A study done by Maina (2002), who sought to establish whether there is any relationship between dividend payments and investment decisions concluded that indeed there existed a relationship.

Mudibo (2005), carried out a study on Co-operative governance in the East African experience and

concluded that structures, continuity, balance of composition and accountability are factors affecting performance in SACCOs and results in service satisfaction leading towards stimulation of better financial performance. Chege (2006), carried out a study on the effects on non-remittance of members deductions by employers in SACCOs and says that non remittance of members' deductions by employers have a negative impact on SACCOs financial performance. According to his findings, the negative effects included low turn arounds for loans, liquidity problems and lack of funds for the SACCO to meet its operational expenses. He says that if loans are not given, profitability will decline and members will not be given dividends.

Gamba and Komo (2005), in their research paper on evolution, growth and decline of the cooperative sector found that SACCO performance was adversely affected by poor and inefficient management systems, loss of governance protection, political interference and inadequate legal reforms. Munene (2006), in his study to ascertain whether there exists a relationship between profitability of a firm and sources of financing these firms quoted at the Nairobi Share Exchange (NSE), found there exists a very weak positive relationship between the two variables with a conclusion that profitability on its own is a minor capital structure.

Tokey (2009), studied the impact of liberalization in the banking industry on SACCOs found that there was need for SACCOs to adopt a corporate governance strategy for them to improve their financial performance and for them to retain competitive in the industry. Mburu (2010) carried out a study on the determinants of performance of the SACCO in Kenya. He found out that lack of business planning, conflict of interest and lack of stringent monitoring and evaluation measures are among the causes of business failure in the SACCO

sector. He recommended that there was need for the government to come up with a guiding policy on strategic planning, employee competency and regular audit of the SACCOs.

Mutisya (2010), on his research paper on investigation Into Factors Contributing to Poor Financial Management in Savings Credit and Cooperative Societies in Kenya, found out that over reliance on borrowing negatively affected effective financial services delivery. He further pointed out that poor investment decisions also impacted negatively on Sacco's financial performance as it pushed SACCOs towards investing in unprofitable business ventures. He recommended a need for SACCOs to come up with investment policies, dividend policies and liquidity management policies to guide SACCOs on decision making.

Kiragu (2010), in his research on the relationship between profitability and capital adequacy of commercial banks in Kenya concluded that capital adequacy is one of the key determinants of earnings. He found out that there was no significant negative relationship found between capital and return on equity but a significant negative relationship exists between capital and return on assets. Murage (2010), in her survey on investment practices among SACCOs in Nairobi concluded that investment practices undertaken by SACCOs had great impact on their financial performance and their level of return.

### **Conclusions from the Empirical Studies**

It is evident that from the various studies that have been carried out with regard to dividend decisions and financial performance, there indeed exists a relationship. From the studies conducted so far, it is evident that the most critical factors considered by a firm in coming up with a dividend policy are the expected cash flows, liquidity and profitability of

the firm. The value of the firm has also been another centre of debate with regard to dividend payouts and retention of the earnings for future capital gains. Contrary to these findings, a few researchers argue that there is no such relationship and hence dividends pay outs have no effect in the financial performance of the firm. It is therefore imperative from the past studies that different firms which have adopted different dividend decisions guided by different dividend policies have ended up performing differently financially. Capital adequacy and asset base being the key determinants of financial strength of a firm have differed greatly in terms of generating the key performance indicators ratios. However, it is evidence that internal sources of funds are the cheapest sources of financing SACCO operations as external financing has a cost implication and dilutes the financial position of a SACCO.

The SACCO sector is not an exception to application of these studies as the capital adequacy as stipulated by the regulator is one of the key indicators of financial performance in the SACCO. This can only be adequately be attained through retention of net profits or contributions from members in form of non-withdrawable shares. These shares are only transferable to other members when a member resigns or can be refundable to the members upon winding up of the SACCO. Dividend payouts has information contents which can favor or harm the financial health of the SACCO based on the investors point of perception, either payout as cash dividends if they consider time value of money to be their driving force, or, future capital gains if they are driven by growth factors and higher returns in the future as well as timely services from the SACCOs perspective.

### **Liquidity**

Liquidity is the degree to which a security or an asset can be sold or purchased in and out of the

market without affecting its price. The fact that the trading friction is pervasive in financial markets may make one to believe that when a stock is more liquid, the better it is, and that investors may undeniably have a dividend preference which is based on a stock's liquidity (Banarjee, 2008). Dividend paying stocks thus meet investors' liquidity needs. This becomes even more important for thinly traded stocks, for which investors may either have to wait quite a long time for the buyer or take a potentially lower price.

Liquidity denotes to the easiness with which an investment asset i.e. stock, bond, and mutual funds can be changed into cash within a short period of time without significantly reducing its value (Eljelly, 2004). However, Modigliani and Miller (1961) argue that there is very little direct evidence on the possibility of a connection between liquidity and dividend rates. Liquidity is a rather broad concept which for this particular case refers to the ability to quickly buy and sell large volumes, at relatively very low cost and with the price remaining constant. Liquidity influences how attractive stocks are to potential investors.

### **Capital Mix**

A Sacco's capital structure is described as the capital mix of both equity and debt capital in financing its assets. According to Akeem *et al.*, (2014) capital structure is the combination of the debt and equity structure of a company. However, not all Saccos use a standardized capital structure hence they differ in their financial decisions under various terms and conditions. It is therefore a difficult situation for these Saccos to determine the capital structure in which risk and financing costs are minimum and that can raise the value of shareholder wealth and or maximize profits (Raheman, Zulfiquar and Mustafa, 2007 as cited in Uremadu & Efobi, 2012). The various components



of a Sacco's capital structure according to Inanga and Ajayi (1999) as cited in Akeem *et al.*, (2014) may be classified into equity capital, preference capital and long-term loan (debt) capital. Equity capital refers to the contributed capital; money originally invested in the institution in exchange for shares of stock; and retained profits; profits from past years that have been kept by the Sacco to strengthen the balance sheet, size growth, acquisition profitability and expansion of the Sacco.

### **Transaction Cost**

Williamson (2010) argued that asset specificity actually drives vertical integration, which contrasts with the traditional arguments of monopolistic market power. This has important policy implications because vertical integration is often viewed as being anti-competitive and subject to anti-trust litigation. Benston and Smith (1976) argue that financial institutions should economize on transactions costs to increase their liquidity. Transaction costs generally decrease along with its size, this benefit may mostly accrue to shareholders and investors. For institutional investors with very large orders, the reduction in market depth may reduce or even outweigh the benefit of narrower spreads (Jones and Lipson (1999, 2000). But very large transaction volumes of the Sacco may not be the right benchmark for the short-term speculator. Given that transaction costs increase in volume, the marginal short-term speculator is likely to trade modest quantities, since it's free to choose the size of the Sacco position. Thus this will be a contributory measure of the liquidity position of the Sacco in terms of the Savings and the Sacco Asset base.

### **RESEARCH METHODOLOGY**

A descriptive research design was employed in this study in order to evaluate the effects of dividend payout on liquidity of non-deposit taking Saccos. The research used quantitative methodologies to ascertain the relationship between liquidity and dividend payout.

Simple random sampling using a table of random numbers was used to select a sample of all the 13 licensed non-deposit-taking SACCOs in Nairobi, Kenya. These Saccos were chosen because they fall under SASRA regulations whose effects of their dividend payout on the liquidity will be the focus of this study.

Purposive sampling procedure was used in the study to select the sample. Purposive sampling allowed the researcher to use circumstances that have the mandatory information with respect to the objectives the study (Mugenda and Mugenda, 1999). The target population comprised of all 13 licensed non-deposit taking SACCOs in Nairobi, Kenya .

Once the data was collected then it was edited, organized and cleaned. The data was tested for linearity, normality, homoscedasticity and Co-linearity to warrant that the assumptions of the regression model holds. It was then accumulated in Ms excel and then disseminated to the Statistical Package for Social Sciences (SPSS) Version 20 for exploration.

## FINDINGS

### Effect of capital mix on the liquidity of licensed non-deposit taking Saccos in Nairobi County.

**Table 1: Total debt for the 13 licensed non-deposits taking Saccos from 2012 to 2015**

TOTAL DEBT				
YEAR	2012	2013	2014	2015
<b>TOTAL</b>	1,416,420,271	2,397,142,929	2,225,731,824	2,944,448,914
<b>PERCENTAGE</b>	69.24	-7.15	32.29	

Table 1 shows total debt over the four years of study for the 13 licensed non-deposit taking Saccos. It showed that the total debt increased in the first two years then took a decline in the third year and finally increased in 2015. This contradicted with the findings of Gweyi (2014),

who investigated the effect of financial leverage on financial performance of non-deposit taking Saccos in Kenya and found out that there was an increase in the Debt/Equity ratio and ROE variables for the given area of study.

### Effect of transaction cost on the liquidity of licensed non-deposit taking Saccos in Nairobi County.

**Table 2: Total interest on member deposits for the 13 Saccos from 2012 to 2015**

TOTAL INTEREST				
YEAR	2012	2013	2014	2015
<b>TOTAL</b>	108.90%	108.70%	111.50%	106.50%
<b>PERCENTAGE</b>	8.38	8.36	8.58	8.19

Table 2 shows total interest on member deposits over the four years of study for the 13 licensed non-deposit taking Saccos. It shows that the total interest on member deposits was 8.3769% in 2012 then decreased to 8.3615 in 2013 thereby increasing to 8.5769 in 2014 and finally decreased to 8.1923 in 2015. The results for 2014 had the highest amount of total interest rate on member deposits this had a positive significant effect on the

liquidity of the Saccos as more interest was earned from the member deposits. In 2015 the interest rate was the lowest thus a negative significant effect on the liquidity of the licensed non-deposit taking Saccos. The results were in line with the findings of Mwangi (2010) in his empirical study to identify parameters which are important in the determination of dividends by publicly quoted companies.

### Liquidity of the licensed non-deposit taking Saccos

**Table 3: Total loans to members for the 13 Saccos from 2012 to 2015**

TOTAL LOAN TO MEMBERS				
YEAR	2012	2013	2014	2015
<b>TOTAL</b>	20,417,035,356	26,037,639,533	30,712,844,728	35,436,634,483

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**PERCENTAGE**

27.53

17.96

15.38

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Table 3 shows total loans to members over the four years of study for the 13 licensed non-deposit taking Saccos. It shows that the total loans to members were on an increasing trend from 2012 to 2015. The increase in the total loans amount granted to the members had a significant effect on the liquidity of licensed non-deposit taking Saccos

where as more loans were given out to members the liquidity position of the Saccos improved. The results were in line with the findings of Malombe (2011) who found a positive but significant relationship between dividend policy and liquidity of Sacco's in Kenya this was similar to the findings of my study.

**Table 4: Total current assets for the 13 Saccos from 2012 to 2015**

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TOTAL CURRENT ASSETS				
YEAR	2012	2013	2014	2015
TOTAL	10,954,619,129	11,548,471,718	11,627,902,603	8,795,291,224
PERCENTAGE	5.42	0.69	-24.36	

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Table 4 shows total current assets over the four years of study for the 13 licensed non deposit taking Saccos. It shows that the current assets were steadily increasing for the first three years then took a decline in the last year. The current assets were a measure of the liquidity position and level of the licensed non-deposit taking Saccos. The increase in current assets of the Sacco had a positive effect on the liquidity of the Sacco. Therefore the results were similar the findings of Nzioka (2014) in his study on the effect of dividend policy on financial performance of companies quoted at the Nairobi Securities Exchange (NSE).

licensed non-deposit taking Saccos in Nairobi County. The results were summarized as below;

The transaction cost that was measured by the interest amount of the deposit taking Saccos had a significant and positive influence on the liquidity of the non-deposit taking Saccos. Achieng (2013) attempted to investigate the effect of financial leverage on financial performance of deposit taking Saccos in Kenya found out that there was correlation between the Debt/Equity ratio and ROE variables concluding that there was a statistically significant correlation between the two variables which contradicts to my findings in this research.

**SUMMARY, CONCLUSION AND RECOMMENDATIONS****Summary**

It is expected that most members will join SACCOS which have been liquid due to their going concern basis. It is therefore evident that a positive relationship existed between dividend payout and liquidity. The purpose of the study was to establish the effect of dividend payout on liquidity of

Capital mix was measured by the total debt and total equity and thus it had a negative influence on liquidity of licensed non-deposit taking Saccos though not significant. Gweyi (2014) investigated the effect of financial leverage on financial performance of deposit taking Saccos in Kenya found out that there was correlation between the Debt/Equity ratio and ROE variables concluding that there was a statistically significant correlation between the two variables which contradicts to my findings in this research

In summary, there is a significant relationship between dividend payout and the liquidity of the licensed non-deposit taking SACCOs in Nairobi County.

## **Conclusion**

This project examined the effects of dividend payout on liquidity of the licensed non-deposit taking Saccos in Nairobi County.

The study concluded that there is a positive but insignificant relationship between dividend payout and the liquidity of licensed non-deposit taking Saccos in Nairobi County. Nzioka (2014) in his study on the effect of dividend policy on financial performance of companies quoted at the Nairobi Securities Exchange (NSE) concluded that there is a significant relationship between dividend pay-out ratio and dividend per share. It further indicated that the relationship is not only significant but also direct such that a unit change in dividend per share is followed by a unit positive change in retained earnings.

The study found out that the capital mix had a negative effect on the liquidity of the non-deposit taking Saccos. Gweyi (2014) attempted to investigate the effect of financial leverage on financial performance of non-deposit taking Saccos in Kenya found out that there was correlation between the Debt/Equity ratio and ROE variables concluding that there was a statistically significant correlation between the two variables which contradicts to my findings in this research

The study found out that the transaction cost on the interest rate of member deposits had a significant effect on the liquidity of the licensed non-deposit taking Sacco. High totals on the interest rate of member deposits had a positive towards the liquidity of licensed non-deposit taking

Saccos. The results were similar to the findings of Matendechere (2014) in her study on determining the relationship between dividend payout and performance among Sacco's in Nairobi County where she found out that recommended that firms should pay high interest rates on member deposits since they are relevant and they affect the value of the firm.

## **Recommendations from the study**

Deposit taking SACCOs should develop dividend payout policies to guide them in establishing and guiding them in surplus distributions. This will guide them on when to pay dividends, how to pay dividends and when to retain surpluses.

The study recommends constant percentage of earnings dividend payout as it creates certainty in the members expectations. Since the share market is positively responsive to the dividend announcement, Saccos should always strive to pay divided consistently for their members to perform well. Though the members always expect a return on investment in the form of dividend, however the payment of dividend should not undermine a Sacco's investment policy.

Dividend payout has an effect on the liquidity of non-deposit taking Saccos. Thus, the SACCOs should pay dividends to ensure that they have a positive outlook in the future. This is pertinent with the dividend theories of bird-in-hand theory, information signaling effect theory, tax differential theory and agency theory. These theories propose that dividend payout is relevant to the liquidity of the Sacco; other factors kept constant. It is also recommended that Saccos should maintain a clear and consistent dividend payout for the dividend to affect the liquidity of the Saccos.

### **Suggestion for Further Research**

The study investigated the effect of dividend payout on the liquidity of the licensed non-deposit taking Saccos, however with the establishment of SACCO Societies Regulatory Authority (SASRA) the operating environment for SACCOs is changing since it has introduced restrictions on investments that SACCOs can invest in and has put stringent conditions which limit the payment of dividends. Therefore the study suggests further research on the impact of SACCO Societies Regulatory Authority on dividend payment and the economic performance of SACCOs in Kenya.

The study also suggests that further studies should be done to cover all types of Co-operative societies including those which do take deposits. Where the researcher will do a comparison between the regressions results obtained to examine the difference in terms of signaling for the different types of Co-operative societies. From my findings, future academicians can consider the following for further studies: the relationship between dividend decisions and management perception to financial performance and effects of external sources of funds to liquidity of SACCOs and financial performance.

The study suggests further research on the impact of Sacco Societies Regulatory Authority on dividend payment and the economic performance of Sacco's in Kenya. The establishment of Sacco Societies

Regulatory Authority (SASRA) the operating environment for Sacco's is changing since it has introduced restrictions on investments that Sacco's can invest in and has put stringent conditions which limit the payment of dividends. The study also suggests that further the relationship between dividend decisions and management perception on performance and effects of external sources of funds to profitability of Sacco's and performance. Other studies on the effect of management practices on of Sacco's and other financial institutions companies should be undertaken in order to establish management practices that lead to better organizational performance. Such studies should be targeted to benefit the organizations by formulating strategies to take advantage of the tax provisions in the income tax act that will enhance the organizational performance and counter the ever changing fiscal policy environment to ensure Sacco business performance is continually enhanced.

Although this study has been carried out for SACCOs with FOSAs, companies with different ownership structure on the NSE might use different means in communicating their future earnings prospects to the external shareholders as companies that are mostly controlled by the management and employees which might not use dividend signaling as a tool. A study may thus be carried out on companies with highly concentrated and dispersed ownership to determine the effect of dividend payout on liquidity.

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