

**SIZE OF THE FIRM AND ITS INFLUENCE ON DIVIDEND PAYOUT AMONG
DEPOSIT TAKING SAVING AND CREDIT COOPERATIVE SOCIETIES (SACCOS)
IN KENYA**

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ABSTRACT: *In the recent past Saving and Credit Cooperatives Societies (SACCOs) have gained popularity in Kenya due to high interest rates charged by commercial banks and this has made borrowers to shift their focus to SACCOs due to their fixed interest rates on loans. In regard to dividend payment SACCOs tends to pay high dividends in comparison to commercial banks, however the level of dividend payout keeps on fluctuating and thus shareholders are not aware of what they expect in the next financial year. This paper was set to explore the influence of size on firm on dividend payout. The study focused on deposit taking SACCOs since they play a major role of capital formation in Kenya. The study used descriptive and correlational research design. The target population was the 176 the deposit taking SACCOs in Kenya, out of which a sample of 108 respondents were randomly selected from each SACCO. Data was gathered using questionnaire and document analysis and analyzed using SPSS (23). The study findings revealed that the size of the firm had a negative insignificant influence on dividend payout among SACCOs. The study recommended SACCOs should not focus so much on expanding their operations to different locations, instead should focus on products development. The study recommended further analysis on the influence of cash reserve ratio on dividend payout.*

KEYWORDS: size of the firm, dividend payout, deposit-taking, SACCOs

INRODUCTION

Background of the Study

Trading businesses are always expected to make profits and the surplus they get they either reinvested or be distributed to shareholders as dividends. Dividends are the returns to shareholders as a result of investing in a company and they are either issued in cash or as bonus shares. Arguments have been raised on what really determines the amount that shareholders will receive at the end of each financial year (Swanson & Krishnan, 2013), since dividends keeps of fluctuating. In many firms dividend policies determine what shareholders receives in return of capital invested.

Dividend policy is a set of regulations and guidelines that firms develop and implement as means of sharing their earnings between shareholders and the retained earnings (Gill, Biger &

Tibrewala, 2010). Dividend payout refers to the percentage of profits that shareholders receive in form of dividends from the total earnings of an organization (Millner, 2011). In the Finance literature it has been argued it is not always an easy task for managers to determine the ratio at which they will divide their profits to the shareholders and what they will be reserved as retained earnings. Black (1976) argued that the harder we look at the dividend policy the more complicated it becomes with pieces that cannot fit together and it is commonly referred to as the “the dividend puzzle”. Brealey & Myers (1999) described dividend policy as one of the top ten most difficult unsolved problems in financial literature. Aivazian and Booth (2003), and Bernstein (1996) re-examined the dividend puzzle and noted that some important questions remained unanswered on what really influences dividend payout among firms.

Globally, shareholders of co-operative unions have complained of low returns for their investments. The above claims are justifiable from the statistics obtained from all over the world. For instance in the year 2009, majority of the credit unions in Poland raised their capital through issuance of ordinary shares to members, but they paid dividends of 0% to 1% to shareholders (World Council of Credit Unions, 2009). In the United Kingdom, National Fire Savers Union, which is one of the largest saving and credit unions, from the year 2007 to 2016 has been paying dividends of an average of 1.5% to 3% on members deposits (National Fire Savers, 2018). According to Gingrich (2016), majority of credit cooperatives societies in South Asia pay an average of 5% to 6% as dividends to their members based on their savings.

Regionally, co-operative unions have also been accused of making low returns to their members in form of dividends. In Kenya, according to Oswendo (2017), previous studies have shown that SACCOs pay 7% to 12% of their net earnings to their shareholders. The desire to solve the dividend puzzle, the wide scope and the complexity of the dividend issue, has attracted many researchers globally, and so was this study.

Statement of the Problem

The general objective of this study was to determine the influence of size of the firm on dividend pay-out among the deposit-taking Saving and Cooperative Societies (SACCOs), in Kenya. By establishing whether size of the firm had any significant influence on dividend payout among deposit-taking SACCOs in the country. High interest rates on loanable funds currently at 14% in many commercial banks and “retrospective returns” on savings of 7% to 8.5% by commercial banks on savings, has led many people to save their money in SACCOs. Members have argued that they prefer saving their money in SACCOs since they can obtain loans at a fixed interest rate of 12% per annum without any fluctuation (SASRA, 2013). This has led to increased popularity among and SASRA has registered more SACCOs in the past. According to SASRA (2016), about 65% of the SACCOs paid dividends to their shareholders. However, despite the fact that many SACCOs pay dividends at a higher rate than the commercial banks, studies have shown that there is no consistency in dividend payment among SACCOs.

Research has shown that, in Kenya SACCOs pay 7-12% of their profits as distribution to the members (Oswendo, 2017). According to Mbuki (2010), the inconsistency in the payment of dividends has raised concern among the members. Scanty and inconclusive conclusions have been made in regard to determinants of dividend payout to conclusively solve the “dividend puzzle” highlighted by Black (1976). Therefore the research sought to contribute to the existing literature

on dividend payout and assist in solving the dividend puzzles, by focusing on the influence size of the firm on dividend payout among deposit taking SACCOs in Kenya.

Research Objective

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

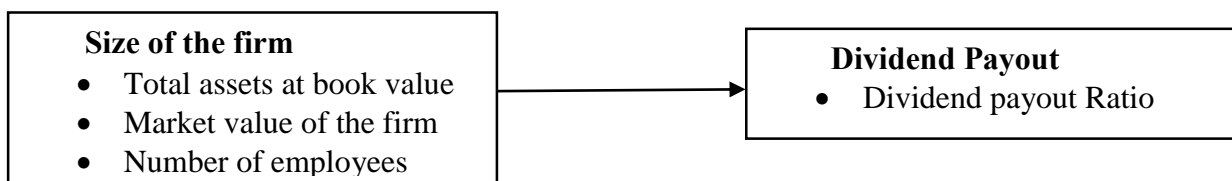
LITERATURE REVIEW

Theoretical Frame Work

The study was grounded on the Tax-Preference Theory. The theory was developed by Litzenger and Ramaswamy in 1979. The theory postulates that investors are mainly incited by capital gains rather than by dividends. The argument behind the theory is that capital gains are taxed at a lower rate than dividends. For this, reason investors prefer capital gains to dividends, despite the fact that capital gains have uncertainty and they are subjected to more risk compared to dividends. According to the theory the age of the firm determines the dividends that will be paid, since olds firms have stability of earnings compared to young firms. However, in the recent past, tax policies have been changing where, dividends received from an oversea company are not taxed and through the cross boarder listing of companies people are tending to invest more in abroad firms so that they may receive dividends. Given that the size firm influence the dividend paid, this theory helped in coming up with the independent variable the size of the firm.

The following are some of the studies which support the theory. Moser and Pucket (2009) carried out a study to examine the effect of dividend tax clienteles as a result of evidence from the changes in Tax laws. The study established that shareholders were willing to change their preference for capital gains due to change in tax status. However, this study didn't exactly show how the size of the firm determines the dividend payout. Deslandes, Landry and Fortin (2015) examined the effects of dividend tax reduction and its impact on payout policies among firms in Canadian firms. It was established that there was significant increase on firms that paid dividends as result of tax reduction. The study focused on firms from different sectors and the factors that may affect firms in one industry may be different in another sector and hence the study could not be fully lied upon to make conclusions. Lastly, the theory was applied by Singhanian and Gupta (2012) when they were examining the determinants of dividend payout among corporation and tax preference theory seems to be in support of the study. This theory helped in deducing the independent and the dependent variable of study. Since the size of the firm is related to its age and the older the firm, the larger the size and vice versa, and this has direct impact on the stability of earnings which determines the dividend payout of the firms.

2.2 Conceptual Framework



Independent Variable

Dependent Variable

Figure 2.1: Conceptual Framework

Empirical Review

Previous studies have shown contradiction about the size firm as a determinant of dividend payout of firms. In an analysis to examine the determinants of Dividend payout by agricultural firms listed on the Nairobi Security Exchange, the size of the firm showed a negative relationship with dividend payout and this was consistent with the prediction by many others (Waswa, 2013). Kozul and Mihalina (2013), carried out a research to determine the determinants of the size of dividends that were paid by firms in Croatia and factors that influenced the dividend payout ratio. The study identified profitability, and the debt level as the factors that had significant effect on the payout ratio on the companies that were examined. However, the influence of stability of earnings and the size of the companies were not statically confirmed on their influence on dividend payout. Therefore, this study could not be fully relied upon due to lack of statistical confirmation.

Al-Kunari (2010), carried out a research to identify the factors that influenced corporate dividend payout decisions. The study used panel data for the analysis and firms listed on the emerging Gulf Cooperation Council stock market were analysed. The study revealed size of the corporation as one of the significant factors that influenced dividend payout. The research findings indicated that companies listed on the GCC stock exchange paid dividends to reduce agency conflict, avoid exploiting minority shareholders, and enhance their company's reputation (Al-Kunari, 2010).

Odawa (2015), examined the determinants of dividend payout policy among public limited banks and used a case study of Stanbic Bank. The study indicated that size and profit of the bank were identified to have a positive relationship with determinant of dividend payout. In another study by Kathuo and Joshua (2017), examined the determinants of dividend payout decisions among the listed banks in Kenya. It was established that profitability and cash flows had a positive relationship with dividend policy while the size of the bank had insignificant effect on the dividend policy. The above studies carried out in Kenya mainly focused on limited banks and not in SACCOs, this was indication that few studies have been carried out on SACCOs.

Research Gaps

The study sought to bridge the geographical and regulatory environments of studies carried out in the developed countries and developing countries as well as bridge time gap difference. Secondly, most of the studies focused on commercial banks and hence there was gap in SACCOs therefore the study sought to establish whether size of the firm had the same influence same influence on dividend payout among the deposit taking SACCOs. Lastly, the study was to be different from the other studies as it primarily focused on deposit-taking SACCOs.

RESEARCH METHODOLOGY

Research Design

Descriptive and correlational research designs were used in the used. The descriptive research design was use to explain the phenomenon of dividend payout while correlational design was used to establish the relationship between the size of the SACCOs and its dividend payout.

Target Population and Sampling

The target population of the study was the 176 deposit taking SACCOs in Kenya, registered by SASRA as at 31st December, 2017. A sample of 108 SACCOs were selected randomly and from each Sacco's one respondent as selected randomly. The Yamane formulae was used to determine the sample.

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

Data Collection Methods and Procedure

The study used primary data and document analysis. Where questionnaires were used to collect primary data and document analysis was done through review of financial statements. The questionnaires were administered through drop and pick procedure to reduce pressure on the respondents (Kumar & Phrommathed, 2005).

Reliability and Validity

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

Data Analysis, Processing and Presentation

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

DATA ANALYSIS, FINDINGS AND DISCUSSION

Reliability Test Result and Response Rate

The Cronbach alpha values was 0.821 which was greater than 0.7. This implied that the constructs measured had the adequate reliability for the subsequent stages of analysis. The rate of response rate was 81.5%. This response rate was good and representative and it conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting.

Descriptive Findings on Size of the Firm

The study sought to examine the influence of the size of the firm on dividend payout among deposit taking SACCOs in Kenya. A Likert scale ranging from 1 to 5 was used to gather information on this research objective. Where; 1=Strongly Agree, 2=Agree, 3=Neutral 4=Disagree and 5=Strongly Disagree. In this study the size of the firm was measured in terms of total assets, market value and the total number of employees in a SACCO.

The descriptive findings revealed that increase in number of employees did not motivates managers to pay high dividends (mean =4.33) and a standard deviation of 0.601 and represented by 69.44% as shown in table 4.4. This implied that majority of the respondents disagreed with the statement and low standard deviation implies that there was consistency in answers given. The statement on increase in market value motivates managers to pay high dividends had the lowest mean of 3.08 and the highest standard deviation (0.847). 39.81% of

the respondents were undecided while 26.85% disagreed and 14.86 % of the respondent agreed with the statement. The wide range of disparity was explained by the high standard deviation (0.847) in the measure.

Majority of the respondent 75.93% of the respondents disagreed that increase in number of employees motivated managers to pay high dividend while 5.56% of the respondents were undecided. The average mean for measures of size of the firm is 3.84 implying that majority of the respondent disagreed with the influence of size on dividend payout as shown in table 4.5. It would be deduced that the increase in member of assets and increase in number of employees did not motivates managers to pay high dividends. Implying that the number of assets and number of employees would increase the firm still pay low dividends.

Table 4.1: Descriptive Analysis for Size of the Firm

Source: Research Data (2018)

Measures of the Variable	Increase on assets motivates managers to pay high dividends	Increase in market value motivates managers to pay high dividends	Increased number of employees motivates mangers to pay high dividends
Frequency			
Strongly agree	-	6 (5.6%)	-
Agree	-	10 (9.26%)	-
Neutral	13 (12.03%)	43 (39.81%)	6 (5.56%)
Disagree	53 (49.07%)	29 (26.85%)	47 (43.52%)
Strongly Disagree	22 (20.37%)	-	35 (32.41%)
Total Valid	88 (81.48%)	88 (81.48%)	88 (81.48%)
Missing	20 (18.51%)	20 (18.51%)	20 (18.51%)
Total	108 (100%)	108 (100%)	108 (100%)
Mean	4.10	3.08	4.33
Standard Deviation	.626	.847	.601

4.3 Correlation and Regression Findings on Size of the Firm

The objective of the study was to examine the influence of the size a firm on dividend payout among deposit taking SACCO's in Kenya. The correlational findings revealed that there was negative relationship ($r = -0.455$) between size of the firm and dividend payout among sampled firms. The coefficient of determination (R^2) revealed that size of the firm contributed to 20.7% of the dividend payout while the remaining 79.3% can be explained by other factors. The results are shown in table 4.2 (a).

Table 4.2 : Size of the Firm Model Summary
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	-.455 ^a	.207	.198	.639

a. Predictor: (Constant), Size of the firm

To test the significance of the model, F-test was carried out and based on the analysis of Variance (ANOVA). The F-test results showed that the model was significant (F (1, 86) = 22.443 and a P-value of 0.000) at 5% level of significance as depicted on table 4.3 .

Table 4.3: Size of the Firm Model Summary
ANOVA^a

Model		Sum of Squares	df	Mean Square F	Sig.	
1	Regression	9.172	1	9.172	22.443	.000 ^b
	Residual	35.146	86	.409		
	Total	44.318	87			

a. Dependent Variable: Dividend payout

b. Predictors: (Constant), Size of the firm

DISCUSSION ON SIZE OF THE FIRM

The descriptive findings indicated that majority of the respondents disagreed that size of the firm influenced dividend payout. The correlational findings indicated that was a weak negative relationship ($r=-0.455$) between size of the firm and dividend payout. The regression model summary indicated that variability of dividend payout could only be explained 20.7% by changes in change in the size of the firm which is an insignificant variability when all other factors are held constant. In further analysis multiple regression revealed that when size was combined with other factors it was insignificant. This implies that it is not obvious that large firms will pay high dividends and it was also possible for small firms to pay higher dividends given that they may low number of shareholders. The research findings were consistent with Waswa (2013) and Kozul and Mihalina (2013), findings who identified that there was negative relationship between size of the firm and dividend payout.

This could have brought by increase in assets which reduces the amount distributable to shareholders as dividend. The new knowledge from the research findings in regard to the size of the firm was that an increase in the number of employees leads to increase in wage bills which in return would reduce the amount the amount of dividends distributed to shareholders. In finance literature size of the firm is measured by the stage of growth, however, the study have revealed that when the size of the firm is measured in terms of assets, number of employees and the market value it may not necessary have a positive relationship with the dividend payout as revealed by the study findings.

CONCLUSION AND RECOMMENDATIONS

It was concluded that size of the firm had a negative insignificant influence on dividend payout among the deposit taking SACCOs in Kenya. Based on the conclusion it was recommended SACCOs should not focus so much on expanding their operations to different locations as this

would increase their operating expenses and in return reduce the net earnings attributable to shareholders. It was further recommended that before a new branch is opened a feasibility analysis should be carried out and if the cost of expanding exceeds the profit it ought to be abandoned. In such a situation a SACCO should focus on product development rather than on business expansion.

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