

EFFECT OF LIQUIDITY AND DIVIDEND PAY-OUT ON FINANCIAL PERFORMANCE OF DEPOSIT TAKING SACCO'S IN KENYA

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Abstract

Capital structure is one of the fundamental aspects to the success of Deposit Taking Savings and Credit Cooperative Societies. The study aimed to investigate the effect of two capital structure determinants; liquidity and dividend payout, on financial performance as measured by Return on Assets of Deposit Taking Savings and Credit Cooperative Societies, in Kenya. The study was grounded on the Pecking order and Free cash flow capital structure theories. The study utilized a mixed research design using primary and secondary data for the period 2013 to 2017. The population of the study was 174 Deposit Taking Savings and Credit Cooperative Societies. Stratified and purposive sampling technique was employed. A regression model was used to analyze the data. Results revealed that liquidity and dividend pay-out had a significant and positive effect on the financial performance of Deposit Taking Savings and Credit Cooperative Societies in Kenya. The study recommends having in place an Assets and Liabilities Committee in each Deposit Taking Savings and Credit Cooperative Society that would help manage the assets and liabilities of the institution, ensuring adequate liquidity and cashflow management. Having in place a robust dividend policy is also critical.

Keywords: *Liquidity, Dividend Pay-out, Capital Structure, Financial Performance*

1. Introduction

A savings and credit cooperative society (SACCO) is a financial association official in nature, owned, controlled, used, and democratically directed by members themselves to address their prevalent economic, social, and cultural needs (International Cooperative Alliance (ICA), 2016). One of the most important sources of financing in developing countries are SACCOs/Credit Unions, and in the last few years, they have undergone remarkable growth all over the world (Lahie & Périlleux, 2008). As at 2008, there were more than 53,000 SACCOs/Credit Union/Cooperative Financial Institution (CFI)/Mutual, serving about 97 countries with membership of over 185million, penetration of 7.7%, Savings of US\$ 995 Billion, Loans of US\$ 847 Billion, reserves of US\$ 115 Billion and total assets of 1.1 Trillion (World Council of Credit Unions (WOCCU),2008). As at 2017, there were more than 89,000 SACCO's/Credit Union/ CFIs/ Mutual, serving 117 countries with membership of over 260million, Penetration of 9.09%, Savings of US\$ 1.7Trillion, Loans of US\$ 1.5 Trillion, reserves of US\$ 195Billion and total assets of 2.1 Trillion (WOCCU, 2017).Kenya's blueprint for national development and the Vision 2030, identified SACCO societies key role in deepening financial access, mobilize savings for investments in enterprises, and personal development (Mohammed, 2013). As at December 2017, the total assets in the Kenyan SACCO subsector stood at Kshs 442 billion up from Kshs 293 billion in December 2012, a growth of Kshs 149 billion in 5 years (Ademba, 2013; Sacco Societies Regulatory Authority, 2017).

According to Poulsen (2008), capital structure is the composition or construction of a firm's liabilities. Taiwo (2012) noted that capital structure is a firm's proportion of short-term and long-term debt and is principally a mix of debt and equity retained by an organization. Capital underpins cooperatives; members come together to pool money and do more together than they could alone, therefore cooperatives may get bogged down or fail to get off the ground if

they cannot get enough capital either due to regulation or long-standing practice (Andrews, 2015). Financial performance is a measure of how well a firm utilizes its primary mode of business to generate revenue. It involves determining the results of a firm's policy and operations in monetary terms based on the allocated resources. Different methods can be used to measure financial performance, but all measures should be viewed in aggregation for example financial ratio analysis which has been a useful way of gaining a snapshot picture of SACCOs (Milcah & Muturi, 2016).

The rise of free-market capitalism, the deregulation of primary industries, and increasing global competition have affected the viability of the traditional cooperative business model (Downing & Schmidt, 2005). The challenge in sourcing internal financing partially lies in a gradual change in member behavior (Mikami, 2010). Nilsson (2001) noted that the dual role of cooperative members as investors and patrons, when coupled with increased heterogeneity that is members with diverse risk profiles, creates challenges in raising member capital within the conventional cooperative model. In response to these challenges, some governments have allowed deviations to the traditional cooperative model, some of which claim to overcome the inherent weaknesses of the traditional cooperative model, accommodating the dual needs of members as both patrons and investors (Chaddad & Cook, 2004). In Kenya, Cooperative Insurance Company (CIC) and Cooperative Bank of Kenya are unique cases where a deviation from the strict cooperative model was achieved.

For the year ended 2017, 161 Deposit Taking Savings and Credit Cooperatives (DT-SACCOs) were compliant with the absolute core capital, 163 DT-SACCOs were compliant with Core Capital to Deposits (CCD) ratio, and only 146 DT-SACCOs were compliant with the Core Capital to Assets (CCA) ratio as compared with the 173 DT-SACCOs which were compliant with the absolute core capital (Sacco Societies Regulatory Authority (SASRA), 2017). This variance in the comparative level of compliance with the capital adequacy measurements shows that most DT-SACCOs found it easy to meet both the absolute core capital and the CCD ratio, but found it very hard to achieve and maintain the CCA ratio, which then results in an exposure of a substantial portion of their asset base. This demonstrates that DT-SACCOs are relatively low in the retention of their surpluses to build their capital bases but are very quick to lend to their members and build other assets, without proportionate mobilization of deposits (savings) or capital funding plan. Further, the number of DT-SACCOs meeting the absolute core capital ratio has dropped from 173 in 2015 to 161 in 2017. This situation could also be because, as the business grows, expansion opportunities can arise that outstrip the financial ability of the DT-SACCO reliant on members' shares and internally generated capital.

1.1. Statement of the Problem

Capital structure is arguably fundamental to the success of every DT-SACCOs as it influences the realization of their objectives and goals. The SACCO sector has faced tough challenges globally, as noted by (WOCCU, 2012), including mission drifts, income generation, and insufficient capital among many others. The principles of democratic member control and members' economic participation, influence the choice of capital (Andrews, 2015). The difficulty cooperatives have in raising capital, mainly when competing with other businesses, is seen as one of the principal drawback for cooperatives in the current environment (Novkovic, 2008; Gentzoglanis, 2007; Henry, 2005).

Wasike (2012) study found that capital inadequacy, and reduced liquidity were among the key factors affecting the performance of SACCOs. Amedeo, Espenlaub, Khurshed, and Simkovic (2010) observed that some cooperatives in Kenya were finding it challenging to operate mainly because of their poor financial state. Mvula (2013) pointed out that the problems affecting the performance of SACCOs included inadequate capital, reduced profitability, and inadequate liquidity. In last several years, we have seen growing concern from the regulator on DT-SACCO financial management, mainly reflecting on Capital management, which could potentially impact on institutional performance (Anyanzwa, 2018; Marete, 2016; Wanzala, 2019; Munaita, 2018). Several DT-SACCOs have been facing challenges in meeting necessary capital threshold as stipulated by SASRA the body that regulates DT-SACCOs in Kenya.

Several studies have been carried out on the capital structure, and other relevant variables and their effects on the financial performance of organizations. These have been limited by; period, geographic scope, Industry, or firm biases, and so far, none has holistically covered all DT-SACCOs in Kenya except Mwatu & Abdul (2018) study which utilized debt, equity, and liquidity as study variables. Therefore, this study was necessitated to assess the

impact of selected capital structure determinants specifically liquidity, and dividend pay-out on the financial performance of DT-SACCOs in Kenya.

1.2. Objectives

The general objective of the study was to establish the effect of determinants of capital structures on the financial performance of DT-SACCOs in Kenya.

The specific objectives of the study were three, namely:

- i. To determine how liquidity affects the financial performance of DT-SACCOs in Kenya.
- ii. To assess the effect of dividend pay-out on the financial performance of DT-SACCOs in Kenya.
- iii. To assess the combined effect of liquidity and dividend pay-out on the financial performance of DT-SACCOs in Kenya.

1.3. Hypotheses

The hypotheses tested in the study were:

H01 There is no significant effect of liquidity on the financial performance of DT-SACCOs in Kenya.

H02 Dividend pay-out does not significantly affect the financial performance of DT-SACCOs in Kenya.

H03 The combined capital structure determinants liquidity and dividend pay-out have no significant effect on the financial performance of DT-SACCOs in Kenya.

2. Literature Review

2.1. Theoretical Review

2.1.1. The Pecking Order Theory

Based on the belief that financing choices are made in such a way as to cause the least difficulty to management, the Pecking order theory (POT) is said to be a behavioral approach to capital structure (Myers & Majluf, 1984). An organization has a specific order of preferences which it follows in making financing decisions (Myers, 1984). The POT is all about financing the companies by an order from safer too riskier; it means it gives an advantage to internal financing compared to external funding; prefer debt to convertible bonds; prefer hybrid securities compared to equity. The hierarchy of financing firms, according to POT suggests, a portfolio of financing, does not eliminate any kind of funding, but merely provides an order to be followed. According to ICA (2016), Cooperatives should always consider the relative priority for raising capital from the following sources; first from its members, second from other cooperatives and cooperative financial institutions, third from social bonds and social investors, fourth and last from commercial lenders, the financial markets.

2.1.2 Free Cash Flow Theory

The central agency theory as advanced by Jensen and Meckling (1976) and the existence of information asymmetry between managers and shareholders, (Jensen, 1986) expanded the work to highlight a significant problem, the free cash flow. He defined Free Cash flow as, cash flow more than that necessary to finance all ventures which when discounted at the relevant cost of capital return a positive net present values. When organizations generate a high level of free cash flow, pay-out policies become a severe source of conflict between shareholders and managers. How to inspire managers to disgorge the cash rather than investing it at lower than the cost of capital or misappropriating it on business inefficiencies is usually the task. The theory covers; first, the advantages of debt in reducing agency costs of free cash flows, and secondly how debt can substitute for dividends.

2.2. Conceptual Framework

The conceptual framework of the study is developed from the research objectives (Kothari, 2004). The relationship between the independent and dependent variables is outlined in Figure 1.

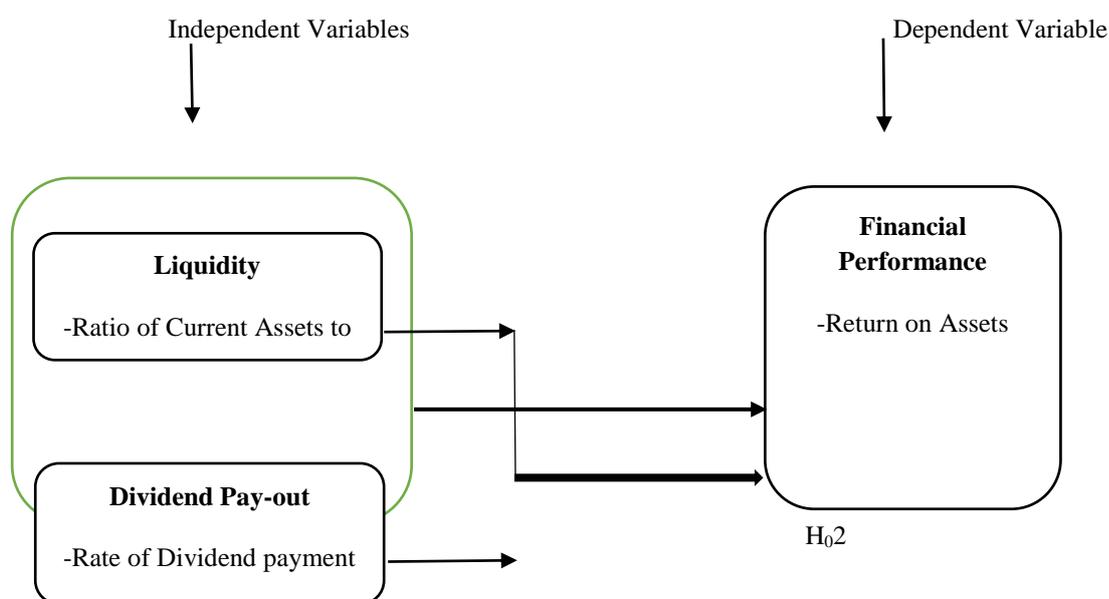


Figure 1. Conceptual framework of effect of liquidity & Dividend pay-out on Financial Performance

2.3 Empirical Review

According to Sharma and Paul (2015), the importance of liquidity as a determinant for the capital structure was indirectly suggested by at least two strands of literature, one exploring the effects of transaction cost on the cost of equity and the other explaining capital structure choices based on trade-off theories. However, the first study to directly test this implied relationship was Lipson and Mortal (2009). Their results suggest a significant negative relationship between the equity market liquidity and capital structure in a sample of US firms. According to Nwankwo (2004), adequate liquidity allows a bank to address three risks; funding risk which is the ability to substitute net outflows through withdrawals of retail deposits or nonrenewal of term deposits, adequate liquidity which is necessary to enable the bank to recompense for the non-receipt of inflow of funds such as when borrowers fail to meet their commitments, lastly risk arising from calls to honor maturity commitments or from a request for funds from important customers. Kabure (2014) in his study noted that the coming into force of prudential regulations by SASRA in Kenya changed the way deposit-taking SACCOs carried out their business. His study found that liquidity had a positive effect on the return on investments in the SACCOs. Mwatu and Abdul (2018) found a differing result to Kabure (2014) their study found liquidity to have a negative but insignificant effect on financial performance.

Malombe (2011) in her research asserts that there is a positive but insignificant relationship between dividend policy and profitability of DT-SACCOs in Kenya. Dabrowska (2009) noted decisions concerning the most optimal choice of financing and dividend policy are some of the most difficult financial decisions. In her article Does dividend policy follow the capital structure theory, she presents the results of research concerning the relationship between two capital structure theories (hierarchical theory and substitution theory), and dividend payments policies, which found that company management limits dividend payment according to the hierarchy theory and prefers internal sources of financing economic activities.

3. Research Methodology

A positivist research philosophy was adopted for this study. The research adopted a mixed research design that is the use of both quantitative and qualitative methods (Cresswell, 2013). The target population for the study constituted of the 174 DT SACCOs licensed by SASRA in Kenya. To ensure the quality of data collected in terms of ensuring its representative of the DT-SACCOs, the study categorized the DT- SACCOs into three subgroups/strata by assets size, hence use of stratified sampling. The sample of respondents was then be drawn from each stratum using purposive sampling.

The study used the Yamane (1967) formula for determining the sample size given by:

$$n = N / (1 + N e^2)$$

Where n, is the sample size

N is the population size, and e is the margin of error fixed at 5%

From our target population

$$n = 174 / (1 + 174 (0.05)^2)$$

$$n = 121.25$$

Hence our sample size was 122 DT-SACCOs.

The study used secondary data, collected from the audited financial statements of the sampled DT- SACCOs for the years 2013 to 2017, sourced from SASRA using data sheets. This provided the data on financial information necessary to ascertain the values for financial performance and determinants of Capital structure. The financial information collected was Surplus/Profit after tax, Total Assets, Total fixed assets, Current Assets, Current Liabilities, Total debt, Total equity, and dividend pay-out rate. Regression diagnostic tests for multicollinearity, heteroscedasticity, normality, and linearity were carried out to evaluate the model assumptions. Inferential data analyses was carried out and to investigate the effect of liquidity and dividend pay-out on the financial performance a regression model as presented in Equation 1 and 2 was used. Path coefficients were used to determine the direction and strength while T=statistics provided information on the significance to the relationships.

$$Y_i = \beta_0 + \beta_1(X)_i + \epsilon \quad (\text{Equation.1})$$

Where: Y_i = financial performance measured by ROA in this case

β_0 = the y-intercept (constant) for the independent variable

β_1 = regression model coefficient that is the slope which represents the degree with which the financial performance changes as the independent variable changes by one unit.

ϵ = Error term

$$Y_i = \beta_0 + \beta_1 (LIQ) + \beta_2 (DIV) + \epsilon \quad (\text{Equation. 2})$$

Where: ROA= financial performance of the DT-SACCO

β_0 = the y-intercept (constant) for the independent variables

$\beta_1 \dots \beta_2$ = regression model coefficient that is the slope which represents the degree with which financial performance changes as the independent variables changes by one unit.

LIQ = liquidity

DIV = dividend pay-out

ϵ = Error term.

4. Results

4.1. Effect of Liquidity on Financial Performance of DT-SACCOs in Kenya

The effect of liquidity on the financial performance of DT-SACCOs in Kenya was assessed using the Pearson correlation coefficient, as shown in Table 1. The output indicates that liquidity had a strong positive and significant relationship with the financial performance of DT-SACCOs in Kenya ($r=.512$, $n=98$, $p<0.05$).

Table 1 Correlations between liquidity and financial performance

		ROA	Liquidity
ROA	Pearson Correlation	1	.512**
	Sig. (2-tailed)		.000
	N	98	98
Liquidity	Pearson Correlation	.512**	1
	Sig. (2-tailed)	.000	
	N	98	98

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Authors compilation

The first objective was to determine how liquidity affects the financial performance of DT-SACCOs in Kenya. The research hypothesis formulated from the specific research objective was:

H01 There is no significant effect of liquidity on the financial performance of DT-SACCOs in Kenya.

The regression results are presented in Table 2. The R2 for the regression model between liquidity and financial performance of DT-SACCOs in Kenya was 0.262 meaning that financial leverage explains 26.2 % variation in the financial performance of DT-SACCOs in Kenya while the remaining variation is explained by other factors not included in the model. The regression model was a good fit, as indicated by a significant F statistic (F=34.161, p<0.05). The regression model obtained from the output was;

$$Y_i = .025 + 0.001 (\text{liquidity}) + \epsilon \quad (\text{Equation. 3})$$

The unstandardized regression coefficient for liquidity was 0.001. This indicates that a unit increase in the liquidity would result in 0.001 increase in the financial performance of DT-SACCOs in Kenya. The t-statistic for the regression coefficient for liquidity was significant at 5% level of significance (T=5.845, p<0.05) implying failing to confirm the null hypothesis. By these statistics, the study concludes that there is a significant positive relationship between liquidity and financial performance of DT-SACCOs in Kenya.

Table 2 Effect of liquidity on Financial Performance

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.512 ^a	.262	.255	.01609

a. Predictors: (Constant), Liquidity

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.009	1	.009	34.161	.000 ^b
	Residual	.025	96	.000		
	Total	.034	97			

a. Dependent Variable: ROA

b. Predictors: (Constant), Liquidity

Model	Coefficients ^a					
	Unstandardized Coefficients		Standardized	t	Sig.	
	B	Std. Error	Coefficients Beta			
1	(Constant)	.025	.002		13.629	.000
	Liquidity	.001	.000	.512	5.845	.000

a. Dependent Variable: ROA

Source: Authors compilation

4.2 Effect of Dividend Payout on Financial Performance of DT-SACCOs in Kenya

The effect of dividend payout on the financial performance of DT-SACCOs in Kenya was assessed using the Pearson correlation coefficient, as shown in Table 3. The output indicates that dividend payout had a strong positive and significant relationship with the financial performance of DT-SACCOs in Kenya ($r=.510$, $n=98$, $p<0.05$).

Table 3 Correlations between Dividend Pay-out and Financial Performance

		ROA	Dividend pay out
ROA	Pearson Correlation	1	.510**
	Sig. (2-tailed)		.000
	N	98	98
Dividend pay out	Pearson Correlation	.510**	1
	Sig. (2-tailed)	.000	
	N	98	98

** . Correlation is significant at the 0.01 level (2-tailed).

The second objective was to assess the impact of dividend pay-out on the financial performance of DT-SACCOs in Kenya. The research hypothesis formulated from the specific research objective was:

H02 Dividend pay-out does not significantly affect the financial performance of DT-SACCOs in Kenya.

The regression results are presented in Table 4. The R² for the regression model between dividend pay-out policy and financial performance of DT-SACCOs in Kenya was 0.260 meaning that financial leverage explains 26.0 % variation in the financial performance of DT-SACCOs in Kenya while the remaining variation is explained by other factors. The regression model was a good fit, as indicated by a significant F statistic ($F=33.723$, $p<0.05$). The regression model obtained from the output was;

$$Y_i = .008 + 0.002 (\text{Dividend pay-out}) + \epsilon \quad (\text{Equation. 4})$$

The unstandardized regression coefficient for dividend pay-out policy was .002. This indicates that a unit increase in the dividend pay-out policy would result in 0.002 increase in the financial performance of DT-SACCOs in Kenya. The t-statistic for the regression coefficient for dividend pay-out policy was significant at 5% level of significance ($T=5.807$, $p<0.05$) implying failing to confirm the null hypothesis. By these statistics, the study concludes that there is a significant positive relationship between dividend pay-out and the financial performance of DT-SACCOs in Kenya.

Table 4 Effect of Dividend Pay-out on Financial Performance

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.510 ^a	.260	.252	.01612

a. Predictors: (Constant), Dividend Payout

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	.009	1	.009	33.723	.000 ^b
1	Residual	.025	96	.000		
	Total	.034	97			

a. Dependent Variable: ROA

b. Predictors: (Constant), Dividend Payout

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients Beta		
1	(Constant)	.008	.003		2.905	.005
	Dividend payout	.002	.000	.510	5.807	.000

a. Dependent Variable: ROA

Source: Authors compilation

4.3 Effect of Combined Liquidity and Dividend pay-out on Financial Performance

The third objective was to assess the combined effect of liquidity and dividend pay-out on the financial performance of DT-SACCOs in Kenya. The research hypothesis formulated from the specific research objective was:

H03 The combined capital structure determinants liquidity and dividend pay-out have no significant effect on the financial performance of DT-SACCOs in Kenya.

The regression results are presented in Table 5. The R² for the regression model for the combined effect of liquidity and dividend pay-out on the financial performance of DT-SACCOs in Kenya was 0.450 meaning that liquidity and dividend pay-out explain 45.0 % variation in the financial performance of DT-SACCOs in Kenya while the remaining variation is explained by other factors not incorporated in the model. The regression model was a good fit as indicated by a significant F statistic (F=42.074, p<0.05), implying failing to reject the null hypothesis. Based on these statistics, the study concludes that there is a significant combined effect of liquidity and dividend pay-out on the financial performance of DT-SACCOs in Kenya. The regression model obtained from the output was;

$$Y_i = .015 + 0.001(\text{liquidity}) + 0.001(\text{dividend pay-out}) + \epsilon \quad (\text{Equation. 5})$$

The standardized regression coefficient for liquidity was 0.487. This indicates that a unit increase in the financial liquidity would result in 48.7% decrease in the financial performance of DT-SACCOs in Kenya. The t-statistic for the regression coefficient for financial liquidity was significant at 5% level of significance (T=6.514, p<0.05).

The standardized regression coefficient for the dividend was 0.371. This indicates that a unit increase in the dividend would result in a 37.1% increase in the financial performance of DT-SACCOs in Kenya. The t-statistic for the regression coefficient for dividend was significant at 5% level of significance (T=4.961, p<0.05).

Table 5 Effect of Combined Liquidity and Dividend pay-out on Financial Performance

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
2	.671 ^a	.450	.439	.01422		
a. Predictors: (Constant), Dividend pay-out, Liquidity						
ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
2	Regression	.017	2	.009	42.074	.000 ^b
	Residual	.021	103	.000		
	Total	.038	105			
a. Dependent Variable: ROA						
b. Predictors: (Constant), Dividend pay-out, Liquidity						
Coefficients ^a						
Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients		
2	(Constant)	.015	.003		6.100	.000
	Liquidity	.001	.000	.487	6.514	.000
	Dividend pay-out	.001	.000	.371	4.961	.000

a. Dependent Variable: ROA

Source: Authors compilation

5. Conclusions and Suggestions

5.1. Effect of Liquidity on Financial Performance of DT-SACCOs in Kenya

Inferential regression results show a significant positive relationship between liquidity and financial performance. The study indicated that liquidity as an only determinant of capital structure influenced 26.7% of financial performance and a unit increase in liquidity would result in a 0.1% increase in the financial performance of the institution. Hence the rejection of the null hypothesis. The significance of liquidity on performance indicates the more liquid the DT-SACCO, the better its financial performance. This is so as it allows the DT-SACCO to meet its obligations promptly and key, in this case, being loan disbursements which in turn earns revenue by way of interest income improving the financial performance of the organization. This study is consistent with findings of Wang, (2002) who observed that the cash conversion cycle (CCC) has a negative relationship with the financial performance measured by returns on assets (ROA) or returns on equity (ROE) that is, liquidity has a positive relationship with financial performance. However, the findings of this study are inconsistent with that of Mwatu and Abdul (2018), who found a negative but insignificant relationship between liquidity and financial performance. The study objective was to determine how liquidity influences the financial performance of DT-SACCOs in Kenya, with results showing it has a significant positive relationship with financial performance. Liquidity is the lifeline of most financial institutions hence why a regulated institution such as microfinance banks, commercial banks, and DT-

SACCOs in Kenya have a prescribed minimum. For DT-SACCOs to improve liquidity, they need to enhance their branch location presence, through physical presence or use of technology and further have adequate savings and deposits products. However a concern is on the measure of liquidity for DT-SACCOs which is only on withdrawable demand deposits, given that there is no separation of withdrawable and nonwithdrawable deposits from a utilization perspective, it would be prudent for the regulator SASRA to amend this computation to factor in both category of deposits so as to get a realistic liquidity position picture of DT-SACCOs. Further, it would be important to set up a central liquidity fund to act as a lender of last resort when a DT-SACCO has liquidity challenges.

5.2. Effect of Dividend Pay-out on Financial Performance of DT-SACCOs in Kenya

Inferential regression results show a significant positive relationship between dividend pay-out and financial performance. The study indicated that dividend pay-out as an only determinant of capital structure influenced 26% of financial performance and a unit increase in financial leverage would result in 0.2% increase in the financial performance of the institution. Hence the rejection of the null hypothesis. In Kenya, most people join DT-SACCOs which have been profitable due to their going concern basis; these institutions are also seen to pay-out a higher dividend. The increase in member number drives up key parameters required from growth, fuelling improved financial performance holding all other factors constant. Malombe (2011), in her research, asserts that there is a positive but insignificant relationship between dividend policy and profitability of DT-SACCOs in Kenya. Thus, one can conclude out of the fact or perception, that in some cases higher dividend-paying DT-SACCOs are better performing hence attract more members, with membership growth being a key driver to the growth of DT-SACCOs. This fuels increased resources for DT-SACCO utilization through increased share and savings contribution leading to improved financial performance. Whereas increased dividend pay-out is key for membership attraction and retention DT-SACCOs management and leadership have also to consider the sustainability of the same and weigh the cost of borrowing to finance ventures as opposed to retention, which avails cheaper funds. Hence the need for the development of robust dividend policies in DT-SACCOs. This is critical, especially when it is said some DT-SACCOs borrow to pay dividends creating an illusion that all is well.

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