DETERMINANTS OF DIVIDENDS LEVELS BY CO-OPERATIVE SOCIETIES. A STUDY OF SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN EMBU DISTRICT.

BY

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Determinants of dividends levels by
DECLARATION

I declare that this is my original work and that it has never been presented in part or whole in Kenyatta University or elsewhere for the same award as to the best of my knowledge.

Sign Josphat H. N. Mbiti 
Date 26/04/2010

D53/CE/6562/03

This research project has been submitted for examination with my approval as the university supervisor.

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This research project has been submitted for examination with my approval as the chairman of Department.

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DEDICATION

I dedicate this work to my wife Margaret Muthoni and my children for giving me the moral support and financial assistance during the time of my studies.
ACKNOWLEDGEMENT

It is my wish to thank and sincerely acknowledge all those people who contributed to the success of this research proposal. My sincere vote of thanks goes to Mr. Thuo my supervisor for his guidance, support and encouragement throughout the times of my research.

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ABSTRACT

In theory, the objectives of a dividend policy is to maximize shareholder’s return so that the value of the investment is maximized. Shareholder’s return consist of two components namely dividends and capital gains. Dividend policy has a direct influence on these two components of return (Pandey 2006). It is clear that firms give dividends to their shareholders but differ in the levels of dividends given. It has also been noted that SACCOs do give dividends to their members. However the levels of dividends given differ. This research project provided an insight into the factors that determine levels of dividends given by co-operative societies. The paper focused on how SACCOs distribute dividends to their members. It’s important to note that retained earnings are a source of finance in any given organization. It is also worth remembering that shareholders require return from their investments. Due to this, a need to find the factors that determine levels of dividends given was a major driving force in this research. In analyzing the dividend decision of SACCOs, this research project incorporated such parameters as earnings per share, dividends per share, after tax profits, retained earnings among others with the aim of establishing a consistency of their dividend decisions. Further, the paper recognized that management should come up with a policy that balances between need for future development of the firm and at the same time maximize shareholders wealth. This then implies that dividend decisions should not be taken in isolation from other decisions of the firm.
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DEFINITION OF TERMS

Dividend - A periodic payment to shareholders to compensate them for use and risk to their funds. Dividends are declared out of current earnings.

Dividend stability - This means regularity in paying some dividends annually, even though the amount paid may fluctuate over the years and may not be related to earnings.

Capital gain - This refers to increase in value of a share over time. Normally the price which the owner of a share will get when he sells the share includes the original investment plus a capital gain. Thus it occurs when an asset is sold at a price above the book value.

Member - This is a person belonging to a group or a society that has formed with a common objective or interest.

Stock dividends - These are additional shares given to members from income generated according to individual’s investment.

Ex dividends - This is when the price of a share excludes the dividends. Thus the new buyer is not entitled to the dividends declared.
LIST OF ABBREVIATIONS

SACCOS: Savings and Credit Co-Operative Societies
DIV: Dividends
EPS: Earning Per Share
IRR: Internal Rate of Return
ARR: Average Rate of Return
NPVS: Net Present Value of a Share
SPSS: Statistical Package for Social Sciences Software
NSE: Nairobi Stock Exchange
CHAPTER ONE

1.0 INTRODUCTION

2.0 BACKGROUND OF THE STUDY

The idea behind the co-operative movement in the world is that of pooling together of individuals’ scarce resources to achieve a common goal more efficiently. A mainstream co-operative comprises of a legal entity owned and democratically controlled by its members with no passive shareholders, unless they hold non-voting shares. It thus combines the equal control characteristics of many partnerships with the legal personality conferred on corporations (Pandey 2006).

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

Owen (1958) started the first co-operative movement (http://en.wikipedia/wiki/cooperative). A Welsman who made his fortune in the cotton trade, Owen believed in putting his members in a good environment with access to education for themselves and their children. This idea was put into effect successfully in the cotton mills of New Landmark, Scotland. It was here that the first co-operative store was opened. Spurred on the success of this, Owen had the idea of forming “villages of co-operation” where workers would drag themselves out of poverty by growing their own food, making their own clothes and ultimately becoming self-governing.

A co-operative may or may not pay dividends. For co-operatives falling in the category that pays dividends, income in surplus may be returned to members by way of a rebate or
bonus on their activity with the co-operative or as dividends in their shareholding in the co-operative (Pandey 2006).

Savings and credit co-operative societies are the known type of co-operatives that pay bonuses or dividends to their members. However, research on SACCOs has shown that they don’t pay dividends at the same rate / level. Hence this is the area of interest of this research.

Management within organizations should make proper financial decisions in order to establish a standard / norm that can guide progress and enrich development and growth of their organization. Financial decisions are no different in their fundamental aspects from other decisions in any given organization. All decisions are based on the concept of the comparison of alternatives, and it is in this sense that the theory of financial decisions has its roots in valuation theory, because all the alternatives in any decision making situation have to be valued in order to be compared (Kirungumi 2003).

The dividend decision is a major category of corporate long-term financial decisions. However difficult it might be to carry out a meaningful research in this area, it does seem that dividend decision should be taken with care, given the imperfections of the real world capital markets. Lumby (2003) observed that the benefit or otherwise of a particular dividend decision depends to a great extent upon how the individual shareholder is personally affected by various market imperfections.

Dividend decision is one of the most important decisions that a firm has to make. The decision, which considers the amount of funds to be retained by the organization and the amount to be distributed to the shareholders, is closely linked to both the investment and financial decisions. An analysis of the dividend decisions of any given firm basically
involves how the pre-tax profits of the firm are distributed to shareholders in form of dividends or as retained earnings which are used by the firm for future expansion and growth (Kirugumi 2003).

The most important aspect of a dividend policy is to determine the amount of earnings to be distributed to shareholders and the amount to be retained in the firm. Retained earnings are the most significant internal source of financing growth of the firm. On the other hand, dividends are desirable from the shareholders' point of view, as they tend to increase their current returns. Hence firm's management, in implementing its dividend decisions, should properly weigh its investment needs against those of the shareholders.

This then will enable the management to come up with an optimal dividend policy determined solely by the profitability of investment (Kirugumi 2003). According to Lee (1983), the wealth of the equity shareholders is increased by the management's success in optimizing the EPS, in paying commensurable dividends and in arousing the fulfilling expectations of increasing earnings and dividends to come.

Pointon and Davis (1994) mentioned that according to neoclassical percepts, firm's objective should be maximization of the shareholder's wealth. Hence the firm will be justified in retaining earnings to finance investments up to the point where the marginal revenue of the firm's last increment equals that return which shareholders should obtain on an alternative investment in another enterprise of an equilibrium risks class (Lee 1983).

Many firms follow a policy in which dividends reduction is regarded as a sign of weakness and increased dividends will be declared only if the management is convinced that the new dividends level can be at least sustained, if not improved upon in future.
years (Horne 2001). In this way, shareholders whose own consumption pattern closely follows the dividends pattern of the firm will be attracted by the knowledge that they are unlikely to encounter imperfect capital markets in order to make dividends or consumption pattern adjustments.

A signaling effect of the dividends declaration is hence an important issue for firms since several studies have shown that an increase or decrease in the expected level of dividends precipitates to a rise or fall in the market share price. Therefore the dividends declaration effect on the share price may be a major consideration in the dividends pay out decision. Hence this study sought to explore the factors that determine the level of dividends paid by SACCOs with interest to those in Embu district. Data was collected using interviews and questionnaires.

1.2. Statement of the problem

Dividends decision is one of the most cardinal decisions that a firm has to make. According to Pandey (2006), dividends are paid out of profits remaining after interest and taxation liabilities have been accounted for. Therefore a firm’s level of interest commitments is a major constraining factor on its dividends policy. Hence, when a firm is faced with a number of attractive projects, there is a pressure for it to reduce dividends in order that such projects can be financed as much as possible from retained earnings.

Dividends decision entails goals that often conflict and at the same time can affect the survival and the growth of the firm. At times, management is forced to meet shareholders needs from past profit or property dividends when faced by cash constraints (Kirungumi 2003). By trying to fulfill shareholders needs of wealth maximization, a firm can send signals that its not doing well since dividends have information content (Ezra 1963).
On the other hand, it is a basic objective of every shareholder to maximize wealth. Shareholders are the legal owners of any business organization and the directors appointed by them are the agents (Njoroge 2001). Therefore managers should give due importance to the expectations of shareholders in the matter of dividend decisions. A shareholder receives his annual return in either dividends or capital gains. The decision about what proportion of a firm’s net distributable income to retain and the proportion to pay out as dividends is a critical issue facing the firm’s management (Pandey 2006).

It can be argued that firms should follow a stable and consistent dividend policy so as to attract themselves a clientele of investors whose own personal tax position and need for income suits that particular dividend policy (Lee 1983). In addition to the clientele effect, the dividend decision may also be held to have an information content which signals to the market. If this is so, then management should ensure that the divided decision so adopted does not give wrong signal about the firm to the market (Pandey 2006).

Hence due to these opposing forces, a lot is yet to be done in this area and a study on the factors that determine the levels of dividends paid by co-operative societies is destined to make a contribution.

1.3 Purpose of the study

The purpose of this study was to find out the factors that determine the level of dividends paid to members by their SACCOS. Research was carried out on sampled SACCOS in Embu district to arrive at a generalization.

1.3.1 The general objective

The main objective of this study was to find out the factors that determine the level of dividends paid by SACCOS.
1.3.2 The specific objectives

This study was meant to achieve the following specific objectives;

(i) To find out whether SACCOs have a dividend policy that governs their dividend decisions.

(ii) To identify the extent to which legal rules, previous year’s dividend, investments, current year’s earnings and management policy influence dividend decisions by SACCOs.

(iii) To establish a consistency in dividend decisions by SACCOs.

(iv) To establish the impacts and effects of dividend decisions.

(v) To suggest possible recommendations that will promote efficiency in sharing of dividends by SACCOs.

1.4 Research questions

(i) Do SACCOs have a policy that governs their dividend decisions?

(ii) To what extent do legal rules, previous year’s dividends, investments, current year’s earnings and management policy influence sharing of dividends by SACCOs?

(iii) Is there a consistency in sharing of dividends by SACCOs?

(iv) What are the impacts of a dividend decision?

(v) What factors can enhance efficiency in sharing of dividends by SACCOs?

1.5. Significance of the study

The study findings will have benefits to various users. Firstly, SACCOs’ management will use these findings to formulate proper strategies that will guide them in sharing dividends. This will enhance effective running of SACCOs and also help them plan future developments properly.
Members of SACCOs will also benefit from the study findings in that they will be able to calculate and make value for their investments. Hence, these will enable them plan their expenditure well in advance. Potential inventors will as well use the same findings to make sound and wise investments decisions.

Government too will benefit in that it will use these findings to come up with a guiding policy on taxation purposes. This will help raise government revenue and hence be able to plan the future economic growth and development in the country. These findings will also benefit other researchers as it contributes to what they have done in this area and thus add knowledge. It also opens way for further research in the same area.

1.6. The scope and limitations of the study.

The scope was limited to SACCOs in Embu district because research was carried out here. A sample of the SACCOs in this district was taken to guide the research.

This research was expected to encounter certain limitations such as negative responses by interviewees. Some respondents may also reserve crucial information and not being open to the researcher. Others may not respond at all. The management of SACCOs may decline to reveal some useful information that they view to be top secrets of the organization. They may also not be willing to give this information, as they fear being exposed to others due to competition purposes.
CHAPTER TWO

2.0 LITERATURE REVIEW.

2.1 Introduction.

While there exists an extensive literature on dividend policies, less attention has been paid to the factors that determine the level/rate at which dividends are paid by organizations; more so the co-operative societies. This is the focus of the study. Different organizations pay dividends to their members at differing rates/levels and hence an investigation need to be done on what determines these levels.

Governments on the other hand also formulate policies that guide or facilitate dividends payment process. Less attention has been paid by researchers in this area of government intervention and its impacts in dividend policies. Governments have a two fold role to play in this area. Firstly, they must ensure that firms face right incentives to adjust, and secondly, they should intervene in areas where market failures are present (Knott 2004)

The dividends policy of a firm has to be taken in conjunction with other decisions of the firm such as investment plans and development prospects of the firm (Horne 2001). This means that all the decisions of a firm have to be balanced if it is to attain its objectives and those of its owners.

A member of a co-operative society should know precisely the rate of interest receivable on his or her savings and hence can make direct comparison with current returns on alternative safe investments (Knott 2004). He or she is not concerned with the underlying or future earnings of the society. By comparison, an investor has to forecast on the future returns from his or her investment. He/she normally expect to receive a continuing fairly stable but growing annual dividends and a progressive increase in the value of his/her shares (Njoroge 2001). Since dividends are the annual rewards to shareholders,
whilst retained and reinvested income provide the prospects of future growth in earnings, the ratios used by investors to assess the performance of their SACCOs were looked into in order to determine the level of dividends given.

2.2 Theories of dividends.
It is possible to borrow some knowledge from theories advanced on dividends paid by firms to find out the level of dividends paid by SACCOs. On the relationship between dividends policy and the value of the firm, different theories have been advanced. These are theories that consider dividends decision to be irrelevant and those that consider dividends to be an active variable influencing the value of the firm. In the later, there are two extreme views, i.e. dividends are good as they increase shareholders wealth and that dividends are bad since they reduce the shareholder’s value (Pandey 2006).

2.2.1 Dividends relevance theory: Walter’s model.
Walter (1963) argues that the choice of dividend policies almost always affect the value of the firm. His model shows the importance of the relationship between the firm’s rate of return, \( r \), and its cost of capital, \( k \), in determining the dividend policy that will maximize shareholders wealth. Walter’s model is based on the assumption that the firm finances all its investments through retained earnings, that firm’s rate of return and its cost of capital are constant, all earnings are either distributed as dividends or reinvested internally and that the firm has a very long life.

Walter’s formula to determine the market price per share is as follows:-

\[
\frac{P}{K} = \frac{Div}{k} + \frac{(\text{EPS} - \text{Div})}{k} \frac{k}{k}
\]

Where -:

\[
P = \text{Market price per share}
\]
Div = Dividend per share

EPS = Earnings per share

r = Firm’s average rate of return

k = Firm’s cost of capital

(Source: Pandey 2006)

2.2.2 Dividends relevance theory: Gordon’s model

This theory was developed by Gordon (1962). It relates the market value of the firm to its dividend policy. This model is based on the assumptions that the firm is an all equity firm, no external financing i.e. retained earnings would be used to finance any expansion, the firm and its stream of earnings are perpetual and that cooperate taxes to don’t exist.

Therefore:

\[ P_0 = \frac{\text{Div}}{k - g} \]

2.2.3 Dividends irrelevance theory

Miller and Modigliani (1961) pointed out that earnings retention was one way of financing investment. If a company has access to better investment opportunities, under perfect capital market conditions, investors may benefit from retention. If a proportion of earnings is retained each year beginning in year 1, this reduces the next dividend payable to \( E(1-b) \). Growth rate \( g \) is given by retention ratio of \( b \), multiplied by return on reinvested funds \( R \).

\[ V_0 = \frac{E_i(1-b)}{(K_e - g)} = \frac{D_1}{(K_e - g)} = \frac{D_1}{(K_e - bR)} \]

(Source: Pike & Neale (2003)

2.2.4 The bird - in- the -hand argument

Gordon concludes that dividend policy does affect the value of a share even when
This view is based on the assumptions that under conditions of uncertainty, investors tend to discount distant dividends (capital gains) at a higher rate than they discount near dividends. Investors behaving rationally are risk-averse and therefore have a preference for near dividends to future dividends. The logic underlying the dividends effect on the share value can be described by the bird-in-the-hand argument. This was advanced by Kirshman (1969) who put it in the following words; “of two stocks with identical earnings records and prospects, but one paying a larger dividend than the other, the former will undoubtedly command a higher price because shareholders prefer present to future values”. Thus stockholders often act upon the principle that a bird in the hand is worth two in the bush and hence they are willing to pay a premium for the stock with the higher dividend rate just as they discount the one with the lower rate (Pandey 2006).

Graham and Dodd (1974) also held a similar view when they stated that a typical investor would most certainly prefer to have his dividend today and let tomorrow take care of itself. No instances are on record in which the withholding of dividends for the sake of future profits has been hurled with such enthusiasm as to advance the price of the stock.

2.2.5 Information content (signaling) hypothesis

According to this theory, investors regard dividend changes as signals of management earnings forecast. Corporations are at times extremely reluctant to cut dividends. Therefore managers don’t raise dividends unless they anticipate higher or at least stable earnings in future so as to sustain the higher dividends (Pandey 2006). This means that a larger – than expected dividend increase is taken by investors as a signal that the firm’s management forecast improves future earnings, whereas a dividend reduction signals a forecast of poor earnings.
Thus it can be argued that investors’ reactions to changes in dividends payments do not show that they prefer dividends to retained earnings but simply dictate that important information is contained in dividend announcements (Pike & Neale 2003).

2.2.6 Free cash flow hypothesis

According to this hypothesis, a firm should distribute any earnings that cannot be reinvested at a rate at least as great as the investors required rate of return. Everything else equal, firms that retain free cash flow will have lower values than firms that distribute free cash flow because those that retain actually decrease investors wealth by investing in projects with IRR < Ks (Pandey 2006).

Free cash flow hypothesis might help to explain why investors react differently to identical dividend changes made by similar firms e.g. a firm’s stock price should not change dramatically if it reduces its dividends for the purpose of investing in capital budgeting projects with positive NPVs. On the other hand a firm that reduces its dividends simply to increase free cash flow should experience a significant decline in the market value of its stock because dividend reduction is in the best interest of the stockholders (Pandey 2006). In this case an agency problem exists. Thus the free cash flow hypothesis suggests that a firm’s dividend policy can provide information about its behaviour with respect to wealth maximization.

2.3 Main review or past studies done in the area.

Dividend policy is an area of cooperate finance that has been the subject of empirical research from early days of the subject’s infancy. This is due to both continuing debate on whether dividend payments are relevant and to the readily available data on company’s dividend payments (Kirungumi 2003).
However, companies do continue to pay dividends while making issues of shares. So how are their dividends financing and investment policies reconciled? Is there an optimum dividend policy that maximizes shareholders wealth? This question has exercised the minds of academicians and financial managers in recent years, but without any completely satisfactory answer being produced (Gichana 1994).

Before Miller and Modigliani (1961), the generally held belief on both academics and practitioners was that dividends were preferred by investors to capital gains due to their certainty and that companies could therefore increase share prices by generous distribution policies. Linter (1956) surveyed the financial managers of 28 U.S companies and concluded that the dividend decision was an important one, with dividend payments being determined independently from the company’s investment decisions. He found that companies changed dividends gradually towards their desired payout ratio as earnings increased, in order to reduce the need for subsequent dividend reductions in the future should earnings decrease (Horne 2001).

A later study by Fama and Babiak (1968) showed that 201 U.S companies with high payout ratios also had high payout / earnings ratios, implying that investors valued companies with high payout more highly than companies with low payout ratios. However this research has now been thoroughly discredited. Firstly earnings and payouts ratios tend to move together as earnings fluctuate due to both ratios having earning per share as denominator. Secondly, the relationship between earnings and payout ratios might be explained, not by shareholders preference for high payout by the level of risk of companies. Companies, whose earnings are volatile and hence normally have lower earnings ratios as a consequence, usually pay a lower proportion of their earnings as dividends to reflect the instability of their earnings (Pandey 2006). After the publishing
of Miller and Modigliani’s paper (1961), a large amount of empirical investigation focused on dividends and the tax implications of their payments.

Seminal work carried out by (Brennan 1970) in the U.S put forward the proportion that the market price of a company’s shares would change in order to give the same after-tax rate of return regardless of its dividend policy. E.g. if a company were to start distributing a higher level of earnings hence increasing the amount of taxes paid by its investors, the company’s share price would fall to reflect this. The implication of Brennan’s proportion was that companies could increase their share price by adopting lower levels of earnings distributed.

Black and Scholes (1974) tested Brennaan’s proportion to see if companies with high dividend yields have greater tax security returns to compensate investors for the undesirable tax implications of high divided distribution. Their results were inconclusive and they failed to find any positive relationship between dividend yields and before – tax security returns. In contrast to Black and Scholes findings were those of Litzernbeger and Ramaswamy’s tests that concluded that the relationship between high before –tax security returns and high dividend yields could be explained by dividend information effects rather than by dividend tax effects.

Elton and Gruber (1970) investigated the existence of tax clientele by examining that share price fall at the time when shares were ex-dividend. By looking at the magnitude of the share price fall, they inferred the average marginal rate of income tax that a company’s shareholders were paying. They concluded that high dividend shares were associated with low marginal rate of income tax, hence supporting the proposition of the existence of the tax clientele. Subsequent investigation by Pettit (1972) in the U.S
and by cross land et al (1991) in the U.K has given further support to the existence of
the clientele effect. Miller and Scholes (1978) showed that U.S investors could negate
less preferential tax rate of dividends compared to capital gain by the appropriate use
of tax planning hence tending to support the applicability of Miller and Modigliani’s
dividends irrelevancy theory. Feenberg (1981) however concluded that very few
investors have taken advantage of the tax planning suggested by Miller and Scholes.
This was in part due to the transaction cost associated with such a course of action.
Research into the effect on share prices of the information content of the dividends has
been carried out by Pettit (1972).

Watts (1992) concluded that dividend changes do convey new information to
shareholders. Miller and Modigliani (1961) viewed dividend payments as irrelevant.
They argued that the investor is indifferent between payment of dividends and capital
gain. Black (1976) poses the question, “why do corporations pay dividends?” and “why
do investors pay attention to dividends?” He concludes that the above questions have
no clear answer. The harder we try to explain the phenomenon, the more it seems like a
puzzle with pieces that just do not fit together.

Miller and Rock (1985) developed a model in which dividend announcement effects
emerge from the asymmetry of information between owners and managers. Dividend
announcements provide the shareholders and the market with the general information
about current earnings upon which their estimation of the firm’s future / expected
earnings is based. Others suggest that dividend policy plays an important role in
determining a firm’s capital structure and agency costs. Easterbrook (1984) says that
firms pay out dividends in order to reduce agency costs.
According to Knott (2004), whatever dividend is thought to be best for a company, certain practical factors influence the decision. Such factors are:- Availability of profit, availability of cash, government restrictions, other restrictions e.g. a company’s articles of association and similar firms’ policies etc.

Moyer (1997) carried this argument further and stated that a firm’s dividend policy may be influenced by personal income taxes. When dividends are paid to common stockholders, they are taxed immediately as income to them has increased. If instead of paying dividends a firm retains and reinvests its earnings, the price of the stock can be expected to increase. Personal taxes owned on common stock appreciation are differed until the stock is sold.

Rao (1987) further argues that a firm should not spend a lot of its time on dividend policy if the dividends are actually determined by the investment decision taken by the management of the firm. This implies that dividends policy is merely a way of disposing excess funds. In this case a firm will first plan its investment policy and then determine whether dividends should be paid or not.

Horne (2001) in his study established that dividends policy is an integral part of the firm’s financial decisions. The dividend payout ratio determines the amount of earnings that can be retained in the firm as source of financing. However, retaining a greater amount of current earnings in the firm means that little money will be available for current dividend payments. He concludes that a major aspect of the dividend policy of the firm is to determine the appropriate earning. A firm should therefore endeavour to establish a dividend policy that will maximize shareholder’s wealth and at the same time promote growth of the firm.
2.4 Critical review of major issues

Although there are a number of factors that may explain dividends impacts on valuation, many are difficult to test. Most empirical testing has concentrated on the tax effect and on financial signaling. This is not to say that such things as preference for dividends, floatation costs, transaction costs and institutional restrictions have no effect. However, whatever result these factors may have is swamped by tax and financial signaling factor (Pandey 2006).

A firm should endeavour to establish a dividend policy that will maximize shareholders wealth (Horne 2001). Most people agree that if a company does not have sufficient profitable investment opportunities, it should distribute any excess funds to its shareholders. The firm need not pay out the exact unused portion of earnings each period. Indeed it may wish to stabilize the absolute amount of dividends paid from period to period. For the firm to be justified in paying a dividend larger than that dictated by the amount of earnings left after making all acceptable investment opportunities, there must be a net preference for dividends in the market. It is difficult to net out these arguments to arrive at the bottom line. Only institutional restrictions and some investor's preference for funds argue for dividends (Pandey 2006).

2.5 Dividends policy

Dividend policy is an integral part of a firm's financing decision. The dividend payout ratio influences the amount of earning that will be retained in the firm as a source of financing. However, retaining greater amounts of current earnings in the firm means that less money will be available for current dividends payment (Pandey 2006).
Then a major aspect of the dividend policy of a firm is to determine the appropriate allocation of profits between dividend payments and additions to the firm’s retained earnings. Also important are other issues pertaining to a firm’s overall dividend policy such as legal, liquidity and control issues, stability of dividends, stock repurchase and administrative considerations (Kirungumi 2003).

2.5.1 Factors influencing dividends policy.

When a firm establishes a dividend policy, it need to look at a number of factors that actually should be analyzed before approaching a given dividend policy decision. These includes: - legal rules, financing needs of the firm, liquidity ratio, ability to borrow (credit worthiness of the firm), restriction in debt contracts and control. The financial manager needs to take these factors into account when establishing the level of current dividends or planning a long-term dividend policy.

According to Brigham and Weston (1990), factors influencing dividend policy will incorporate what determine the extent to which a firm pays out dividends compared to retention of earnings as a source of financing. In determining a dividend payout, the firm will analyze a number of factors. According to Horne (2001), these factors largely dictate the legal and other boundaries within which dividends can be paid. When a firm pays a dividend in excess of its residual funds, it implies that management and the board of directors believe that the payment has a favourable effect on shareholders wealth. The frustrating issue here is that there is little in the way of clear generalization from the empirical evidence. The lack of a firm’s footing for predicting the long-run effect of a specific dividend policy on valuation makes the dividends choice a most difficult policy decision (Linter 1962).
There are several alternative dividend policies that a firm can employ. These include:-
The passive residual approach, the stable dollar dividend policy, the constant payout ratio approach, the policy of paying small regular dividend plus year-end extras. In brief it is noted that from whichever point of view a firm takes i.e. investors and firm’s point of view, it has to be taken in line with goals of the organization. The implication is that a balance should be struck depending on the situation facing the firm (Rao 1987).

2.5.2 Dividends stability

Stability of dividend payments is an attractive feature to many investors. Stability here means maintaining the position of the firm’s dividend payments in relation to a trend line, preferably one that is upward sloping (Pandey 2006).

Horne (2001) argued that in addition to percentage of dividends paid out by the company in the long run, investors might value stable dividends paid for a long time. All other things being constant a share of stock may command a higher price if it pays a stable dividend over time than if it pays out a fixed percentage of earnings.

This argument is supported by Knott (2004). He observed that a fluctuating dividend is more risky than a stable dividend. Investors will pay more for stability, especially if it’s linked with steady growth. Research has shown that in general, dividends follow a pattern of stability with growth. Maintenance of the previous year’s dividend is the first consideration, with growth added when directors feel that a higher plateau of profitability has been consolidated.

According to Brigham and Weston (1990), it would however be expected that a stable dividend policy would lead to higher stock prices. A stable dividend policy is likely to
lead to higher stock prices because investors will value more highly dividends that they are certain to receive.

Rao (1987) argues that managers tend to follow a stable dividend policy since it may have a positive impact on stock prices. He has basically related dividend stability to information content of dividends. In this case, a firm’s stock price will increase with increase in dividends and vice-versa. Any change in dividends is a signal from managers to stockholders about future prospects of the firm.

To maintain dividend stability, a firm can also adopt a regular dividend policy. This occurs when firms attempt to pay the same dividend each year regardless of their earnings record. Such a policy tends to stabilize the market price of the stock and create the impression of quality and stability. Should the firm earn exceptionally high returns, it might declare an extra or a special dividend payment along with the regular dividend. This is known as “splitting the melon”. However shareholders don’t expect to be paid similarly as shown by Pointon and Davis (1994).

2.6 Existing gap

It is true that the firms have a clear disparity in the levels of dividends they pay out to their shareholders. At the same time, SACCOs have borrowed the same idea from firms such that different SACCOs pay dividends to their members but at different rates. Hence, this research project was meant to come up with a multiplying factor that SACCOs can use when calculating dividends to pay out to their members. It considered the various variables to make a generalization, which will help reduce the gap that exists in dividends payment by SACCOs.
2.7 Summary.

Earnings distributed to shareholders are called dividends and the percentage of earnings paid as dividends is called payout ratio (Pandey 2006). As a firm declares dividends, it must consider the amount to retain for expansion purposes. A high payout ratio means more money is paid out as dividends and less funds is set aside for expansion and growth. On the other hand, a lower payout results in a higher growth of the firm. Can dividend policy be used to attract more members and hence encourage growth of the firm? Whether dividends will attract more investors and hence increase value or not, higher dividends may depend on the profitable investment opportunities available to the firm. In Walter’s view, the value of a firm depends on the profitability of investment opportunities available to the firm and the cost of capital, yet another view is that due to the uncertainty of capital gains, investors like more dividends today. This implies that the market prices of shares of high payout firms will command higher premiums.

In practical world, there exist transaction costs as well as taxes. In such a world, the view is that investors like cash dividends. Also in an extreme situation like the one currently prevailing in India where dividends are not taxed while capital gains are taxed, investors will prefer dividends.

If dividends are irrelevant as argued by Modigliani and Miller, then the firm should retain earnings only in keeping with the availability of acceptable investments proposals. If there are no such sufficient investment opportunities to provide returns in excess of those that are required, the unused funds should be paid out as dividends. It is also clear that firms pay dividends at different rates. Hence this study was meant to determine that factors that influence the level of dividends paid by SACCOs.
2.8 Conceptual framework.

In theory, the objective of a dividend policy should be to maximize a shareholder's return on his investment. Shareholder's return consists of two components i.e. dividends and capital gains. Dividends policy has a direct influence on these two components of return (Pandey 2006).

What does dividends policy imply? Paying dividends involves outflow of cash. The cash available for payment of dividends is affected by the firms' investment and financing decisions. A decision to incur capital financing expenditure implies that less cash will be available for payment of dividends. Thus an investment decision affects dividend decisions. Crutchelly and Hansen (1989) examined the relationship between ownership, dividend policy and leverage and concluded that managers make financial policy tradeoffs to control agency costs in an efficient manner. Smith and Watts (1992) study concludes that a firm's dividend policy is affected by its other corporate policy choices.

Njoroge (2001) carried out a study on dividend policies, growth in asset, return on asset and return on equity. He noted that dividend payout ratio was related individually to return on equity and return in assets. He further noted that managers consider return on assets and return on equity in determining dividend payout ratio.

Another close study was carried out by Kerandi (1993) where he tested the predictive ability of dividend model on ordinary shares. Gordon (1959) also tested the relationship between dividends and income per share. He starts by explaining the variation in price among stocks. From his assumptions, it's observed that stock holders are interested in both dividends and income per share.
Farida (1993) tried to identify the parameters which are important in determination of dividends by public quoted companies. The variables under study were profits, liquidity, working capital, cash flows and investments. A regression of dividends against these five variables was used. Hence the model to be used in this study was formulated along similar lines as follows:-

**Model**

**Independent variables**

- Legal constraints
- Dividends paid the previous year
- Investments during current year
- Earnings the current year
- Management policy

**Dependent**

- Dividends levels

Source:- Mbiti (2009)

\[ Y = f(L_c, \text{D}_{t-1}, I, E, M_g) \]

Where:-

- \( Y \) = Dependent variable.
- \( L_c \) = Legal constraints (X 1)
This model is empirically stated, thus

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + U \]

Where:

- \( X_1 \rightarrow X_5 \) represents independent variables,
- \( \beta_0 \) is the constant or intercept term,
- \( \beta_1, \beta_2, \beta_3, \beta_4 \) and \( \beta_5 \) represents the respective constant values of the independent variables of the model,
- change induced in \( y \) by each \( X \) and \( U \) is the disturbance or error term.

Regression analysis was carried out to determine the relationship of the above variables to dividends paid by Sacco societies.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

This chapter elaborates on the way the research was carried out. It outlines the methodology used in the study. The chapter is organized into the following parts:-

3.1 Study design

In this study the researcher wants to find out the various parameters and the extent to which they influence payment of dividends. In particular SACCOs have been chosen due to their position in the economy. This being a descriptive and exploratory research, descriptive survey approach was used. Maholtra (1996) describes survey as a method where a structured questionnaire is given to a sample of population designed to elicit specific information. Hence in this study, primary and secondary data was used. A simple structured questionnaire with both open and close ended questions was administered to the directors and financial managers of SACCOs.

3.2 Target population

Embu district has a total of 41 co-operative societies (source: Embu District co-operative office). These institutions have at least 500 workers and over five thousands members. Also co-operative societies rage from micro to multi-purpose co-operatives depending on their membership and way of operation.

3.3 Sampling design

A sample of SACCOs which have been active for at least 10 years was drawn. A period of 10 years is considered adequate for any relatively accurate forecasts to be done (Kirungumi 2003). This period has also been used by other researchers in previous studies such as Mills (1994) and Cheruiyot (1998)
Out of the population of 41 SACCOs in Embu district, only 30 SACCOs were selected because they are active for 10 years and more. The other 11 SACCOs were left out since some are only active for less than 10 years, their annual reports could not be available while others have not renewed registration, hence not considered.

Then simple random sampling was used to select the respondents from the selected societies. It was noted that some societies are micro (with less than 50 members), medium size (51-100 members) large scale SACCOs (with more than 100 members), multipurpose co-operatives and farmers co-operative societies. The number of respondents in each category was proportionately selected as shown in the following table:

Table 3.1 Sample frame and sample size

<table>
<thead>
<tr>
<th>Name of the institution</th>
<th>Type of society</th>
<th>No. of institutions selected</th>
<th>No. of respondents per society</th>
<th>Total no. of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>SACCOs</td>
<td>Micro</td>
<td>6</td>
<td>5</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>Medium size</td>
<td>7</td>
<td>4</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td>Large scale</td>
<td>6</td>
<td>5</td>
<td>30</td>
</tr>
<tr>
<td>Farms co-operatives</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>6</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>Multi-purpose co-operative</td>
<td></td>
<td>5</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>30</td>
<td></td>
<td>120</td>
</tr>
</tbody>
</table>

Source: Embu District Co-operative Office

NB The above 30 SACCOs are those that are active for over 10 years. 11 others have been left out because they are active for less than 10 years.
3.4 Data collection procedures and instruments used

This study relies on two types of data namely primary and secondary data. Primary data was obtained from the respondents in the selected SACCOs through interviews and use of self-administered structured questionnaires (Appendix II). A few open ended questions were used in the questionnaires to collect qualitative data and also encourage the respondents to provide as much information as possible. The close ended questions on the other hand were used in order to collect specific information to the existing problems of SACCOs in dividend decisions.

Secondary data on the other hand was obtained from the available data on dividend decisions in prior years. This data was got from the co-operative societies themselves, ministry of co-operative development and the internet. The questionnaires were serialized to distinguish between those filled by managerial staff, finance officers and other staff members.

3.5 Data analysis

This research, being an exploratory study, data collected was analyzed by use of descriptive statistics such as mean, frequency tables, cumulative tables and percentages. Descriptive statistics have been used in exploratory studies and have been found to yield acceptable results (Kirungumi 2003). SPSS was also used in the analysis. Kipiku (2000) used it to determine the relationship between appraisal results and implementation results. Shalloni (1999) used it to determine the nature of factors influencing collaborative arrangements in Kenya’s major industry. Then the percentage of responses of each category was calculated. Further analysis was done using multiple regressions on the factors as they influence dividend given out by the Societies.
3.6. The expected output

The research findings were expected to come up with optimum dividend policy that would give a general guideline to SACCOs when paying dividends. It will help harmonize the disparity amongst SACCOs during dividend payments. Calculations were used by the researcher to make statements about the results, identify findings and make conclusions.
CHAPTER FOUR

4.0 DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the data analysis and interpretation as per the data collection using the questionnaires that were administered by the researcher to employees of the selected co-operatives societies. Cooperative societies sampled were Embu farmers, Embu teachers, ELGE SACCO, Uvumilivu SACCO and Mungania SACCO. The questionnaires contained two sections in which section A sought the personal data of the respondents while section B had structures and open-ended questions on dividends payment rate and procedures.

4.2 Methods of data analysis

Data was analyzed using SPSS (Statistical Package for Social sciences) according to the objectives of the study. Measures of central tendency (mean, median, frequency and percentages of the respondents are established. Regression analysis to establish any relationship in the dividends given by the Saccos to their existing policies governing dividend is found out. The aim of the study was to examine the determinants of dividends levels by the co-operative societies. The specific objectives were to establish whether SACCOs have a dividend policy that governs their dividend decisions. The study further sought to establish the impacts and effects of dividend decisions. The data findings from this study are represented in form of tables, figures and charts.

4.3 Model fit for the dividends;

Based on the earlier empirically stated model i.e.
This study established that the relationship of the dividends \((Y)\) to that of other parameters was:

\[
Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + U_t,
\]

\(X_1\) (Investment)
\[
Y = 0.257 \text{ Investment} + 1,350,325
\]

\(X_2\) (Previous year’s dividend)
\[
Y = 1.4577 \text{ previous year dividend} + 14839.5
\]

\(X_3\) (Current year’s Income)
\[
Y = 0.02392 \text{ Current year income} + 526686
\]

\(X_4\) – Legal rules was;
\[
Y = -0.1806 \text{ legal rules} + 3402839
\]

This implies that as the current income of the society, previous year’s dividends and investments improves, the dividends given out to members also increases. However, the legal rules particularly on the statutory funds had a negative relationship to the amount of dividends given by the societies. When the amount is high, the dividend is low and vice versa.

### 4.4 Dividends given by the sampled SACCOs

Sampled SACCOs whose annual reports were availed to the researcher were:

- Embu teachers SACCO,
- ELGE Savings and Credit Society,
- Embu farmers SACCO
- Mungania SACCO
- Uvumilivu SACCO
In these Cooperative societies, the researcher noted the dividend in the available years as follows;

**In Embu Teachers SACCO,**

<p>| Table 4.4: Position in the Embu teachers SACCO in the two years which could influence Dividend |</p>
<table>
<thead>
<tr>
<th>Year 2005</th>
<th>Year 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend</td>
<td>130,000</td>
</tr>
<tr>
<td>Income</td>
<td>36,945,287</td>
</tr>
<tr>
<td>Investment</td>
<td>163,928</td>
</tr>
<tr>
<td>Fixed Asset</td>
<td>1,652,980</td>
</tr>
<tr>
<td>Current earnings</td>
<td>84,078,409</td>
</tr>
</tbody>
</table>

**In ELGE Savings and Credit Society**

<p>| Table 4.5: Position in the ELGE SACCO in the two years which could influence Dividend |</p>
<table>
<thead>
<tr>
<th>Year 2005</th>
<th>Year 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend</td>
<td>340,000</td>
</tr>
<tr>
<td>Income</td>
<td>2,161,570</td>
</tr>
<tr>
<td>Investment</td>
<td>821,030.85</td>
</tr>
<tr>
<td>Fixed Asset</td>
<td>107,022.90</td>
</tr>
<tr>
<td>Current earnings</td>
<td>1,931,763.27</td>
</tr>
</tbody>
</table>

**In Embu Farmers SACCO**

| Table 4.6: Position in the Embu farmers SACCO in the two years which could influence Dividend. |
### Year 2007 | Year 2008
---|---
Dividend | 4,796,878 | 7,157,284
Income | 95,810,027 | 95,787,574
Investment | 129,878,125 | 265,881,031
Fixed Asset | 111,676,357 | 108,260,283
Current earnings | - | -

**In Mungania SACCO**

**Table 4.7:** Position in the ELGE SACCO in the two years which could influence Dividends

<table>
<thead>
<tr>
<th>Dividend</th>
<th>Year 2007</th>
<th>Year 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>27,007,999</td>
<td>44,800,574</td>
</tr>
<tr>
<td>Investment</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fixed Asset</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Current earnings</td>
<td>176,080,477</td>
<td>268,690,212</td>
</tr>
</tbody>
</table>

#### 4.5 Presence of dividends policy governing SACCO’s dividend decisions

The respondents were further asked whether their SACCOs had a dividends policy. 69.0% (n = 83) of the respondents are aware of the presence of dividends policy in their SACCOs while 28.0% (n = 34) of them are not aware of the existence of any policy in their SACCO. 3.0% (n = 3) of the respondents failed to indicate their knowledge of existence of any dividend policy. This means that for the objective to be attained, dividends payment should follow a stable pattern. It therefore implies that SACCOs pay dividends depending on the profitability of the particular SACCO. This data is illustrated in the Figure 4.3 below.
4.5.1 Extent to which income of the SACCO influence dividends

To establish as to whether income of the SACCO in a particular year had a relationship with dividends given by the SACCO, a regression analysis was done. The result revealed that, there was no significant relationship between the SACCO income to the dividends given in the year ($R^2 = 44.2$, $P > 0.05$). When the SACCO had a better income they did not automatically have to give higher dividends.
4.5.2 Extent to which current years earnings of the SACCO influence dividends

In this study, it was established that, the SACCO earnings in a particular year had a significant influence on the SACCO dividend given to the members ($R^2 = 76.6$, $P = 0.022$). When the SACCO had higher earnings, it gave higher dividends to the members.

**Figure 4.5:** SACCO’s current earnings and the dividends given to members

4.5.3 Extent to which Investments owned by SACCOs influence their dividends

Higher investments by a Society significantly influenced the dividends the SACCO gave to its members ($R^2 = 97.6$, $P = 0.000$, $P < 0.05$). This implies that those SACCOs which had bigger investments gave higher dividends to members than those that have not invested a lot.

**Figure 4.6:** SACCO’s Investments and the dividends given to members
4.6 How dividends are shared

The researcher sought to find out how dividends are shared. Of the workers interviewed, SACCOs offer shareholders a choice of receiving dividends in cash or in shares of the society. This decision is taken by shareholders at the ordinary annual general meetings at which the accounts of the year are approved. However the society’s by-laws must specifically allow such a choice. Paying the dividends based on individual shares allow the society to make a distribution of earnings while retaining the corresponding cash.

The results show that there is no tax advantage for the shares issued in payment of dividends. The value of the share received is taxed as if it were paid in cash. A shareholder who chooses to be paid in the form of shares must therefore pay tax on dividends without having received any cash; which may present a problem. The study shows that offering to pay dividends in shares lead to some limited redistribution of ownership among the shareholders, since some will accept and others will decline. 10% of the respondents indicated that shareholders are paid dividends in form of shares while 90% received their dividends in cash. These results are illustrated in the table 4.8 below.

Table 4.8 Payment of dividends to members

<table>
<thead>
<tr>
<th>Form of payment</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>108</td>
<td>90.0</td>
</tr>
<tr>
<td>In shares</td>
<td>12</td>
<td>10.0</td>
</tr>
<tr>
<td>Total</td>
<td>120</td>
<td>100.0</td>
</tr>
</tbody>
</table>
When paying dividends, the Society finds it most important to consider need for expansion of the SACCO and payment of dividends. It is considered just important to retain earnings and to look at previous years dividends.

**Table 4.9** Society response to the factors to consider when sharing dividend

<table>
<thead>
<tr>
<th>Factor</th>
<th>Mean response (I-Most important)</th>
<th>Implication of the mean value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need for expansion</td>
<td>1.17</td>
<td>Very important</td>
</tr>
<tr>
<td>Payment of dividend</td>
<td>1.50</td>
<td>Very important</td>
</tr>
<tr>
<td>Need to retain earnings</td>
<td>2.17</td>
<td>Important</td>
</tr>
<tr>
<td>Previous years dividend</td>
<td>2.17</td>
<td>Important</td>
</tr>
</tbody>
</table>

It was established that to the society’s management, the decision on dividends is just important (mean 1.67). However the decision on financing issues is very important (mean 1.33) and that on investment is very important too (mean 1.33).

During good years, the SACCOs consider mainly increase retention in dispatching excess income.

**4.7 Demographic information**

The researcher issued out 50 questionnaires to senior management staff and another 100 to the junior management staff of the SACCOs. A total of 120 questionnaires were returned. This represented 80% return rate. The senior management returned 40 questionnaires, while from the junior staff, 80 questionnaires was received back. The failure by some respondents to return the questionnaires was attributed to sudden leave of some respondents while 15 questionnaires were returned filled with data that was
deemed not useful for the study. Some respondents on the other hand simply failed to return the questionnaires.

4.7.1 Gender of the respondents

The respondents were required to state their gender. Data collected showed that majority, 60% (n = 72) of them were females while 40% (n = 48) were male respondents. More females participated in the study than males. It was found that there were relatively wide disparity between females and males working at co-operatives societies. This implies that cooperative societies have implemented the affirmative action. Women are well represented in the decision-making organ of the societies. The table 4.1 represents the responses of the respondents.

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>FEMALE</td>
<td>72</td>
<td>60.0</td>
</tr>
<tr>
<td>MALE</td>
<td>48</td>
<td>40.0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>120</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.7.2 Age of the respondents

The study also sought to establish the age distribution of the respondents. It was indicated from the findings that majority of the respondents, 39.2% (n = 48) were aged between 36 - 45 years. 31.65% (n = 38) of the respondents were aged 26 - 35 years. 19.2% (n = 23) of the employees were aged over 45 years respectively. Respondents who are aged below 25 years were 10% (n = 12). These findings show that most of the employees are at the age bracket of 36 and 45. The age group of these employees
revealed that most of them have less than ten years to work for the organization. The limits also show that the SACCOs can experience succession-planning problems, as the employees who are in the retirement bracket are a majority. This therefore calls for short and long term strategic financial management planning, as there is need to bring on board young investors who are likely to work with SACCOs for a long period to see the function of the strategy. The employees in the middle age; (26 – 35 years) need to have a proper career planning in line with table 4.2 below.

Table 4.11 Age distribution of the respondents

<table>
<thead>
<tr>
<th>Age in years</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 25</td>
<td>12</td>
<td>10.0</td>
</tr>
<tr>
<td>26-35</td>
<td>38</td>
<td>31.6</td>
</tr>
<tr>
<td>36-45</td>
<td>47</td>
<td>39.2</td>
</tr>
<tr>
<td>Over 45</td>
<td>23</td>
<td>19.2</td>
</tr>
<tr>
<td>TOTAL</td>
<td>120</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Figure 4.7: Age distribution of the respondents.
4.7.3 Level of education of the respondents

The study sought to establish the respondents' level of education. Majority of the respondents, 45% (n = 54) of the respondents had diploma level of education, 29.2% (n = 35) were graduates while 12.5% (n = 15) of the respondents had a certificate level of education. It was however noted that 13.3% (n = 16) of the respondents have masters level of education. This implies that most SACCOs could be lacking personnel with right qualifications to carryout managerial finance plans. Table 4.3 represents this data.

Table 4.12: Level of education of respondents

<table>
<thead>
<tr>
<th>Level of Education</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificate</td>
<td>15</td>
<td>12.5</td>
</tr>
<tr>
<td>Diploma</td>
<td>54</td>
<td>45.0</td>
</tr>
<tr>
<td>Undergraduate</td>
<td>35</td>
<td>29.2</td>
</tr>
<tr>
<td>Post Graduate</td>
<td>16</td>
<td>13.3</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>120</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.7.4 Position of respondents in the Organization

Respondents were further asked to state their position in the societies. 48.0% (n = 58) of the respondents occupied senior cadres in the organization. This cadre was the majority in the study sample. The respondents with standard terms in the SACCOs were 37% (n = 44). Executive personnel were only 15.0% (n = 18). This showed that majority of the employees work under few executives, implying that executive employees of the SACCOs have a wide span of control which can bring with it control and supervision problems.
4.8 The impacts of dividends declaration.

The study sought to establish what impacts a dividend declaration has to the society. Majority of the respondents (35%) indicated that it was a critical requirement for the SACCOs to pay dividends while 28% of them felt it was essential for the SACCOs to survive. 7% and 6% of them felt that it assisted in implementation of saving and was a necessary burden respectively. These results imply that there’s willingness among SACCOs’ employees to embrace dividend declaration. It therefore shows that the impact will not be met with a lot of resistance from the workers.

![Figure 4.8: Positions held by respondents in the organization](image1)

![Figure 4.9: Impact of dividends declaration](image2)
4.9 Benefits of dividends decisions

When asked to indicate what benefits their SACCOs were likely to achieve by adopting a given dividends decision. 22% of the respondents indicated that it created process efficiency while 20% of them felt it was a source of competitive advantage. Those who indicated improvement of service quality as one of the benefits of dividend decisions were 12% of the total study sample. It therefore implies that workers realize the benefits that are likely to accrue to SACCOs if dividends are put in place.

Table 4.13: Benefits of dividends decisions

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive advantage</td>
<td>25</td>
<td>20.0</td>
</tr>
<tr>
<td>Process efficiency</td>
<td>33</td>
<td>27.0</td>
</tr>
<tr>
<td>Service quality</td>
<td>24</td>
<td>20.0</td>
</tr>
<tr>
<td>Members satisfaction</td>
<td>23</td>
<td>19.0</td>
</tr>
<tr>
<td>All the above</td>
<td>5</td>
<td>4.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>120</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.10 Factors important in setting out a dividends policy

When setting dividend policy in the society, 40% (n = 48) of the respondents indicated that it is most important to consider future investment. 32.0% (n = 38) of them noted that it is important to have management policy. 20.0% (n = 24) felt there is need to consider current years earnings while 8.0% (n = 10) of the respondents felt there is need to follow legal rules. These findings attest that in setting out of a dividend policy by SACCOs, previous year’s earnings are not very effective.
Table 4.14 Statements that best describe considerations in setting dividends policy.

<table>
<thead>
<tr>
<th>Statements</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Future investments</td>
<td>48</td>
<td>40.0</td>
</tr>
<tr>
<td>Management policy</td>
<td>38</td>
<td>32.0</td>
</tr>
<tr>
<td>Current year’s earnings</td>
<td>24</td>
<td>20.0</td>
</tr>
<tr>
<td>Legal rules</td>
<td>10</td>
<td>8.0</td>
</tr>
<tr>
<td>Previous Year’s earnings</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>120</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.10.1 Other factors important in sharing dividends

- Liquidity position of the SACCO
- Share capital of the SACCO
- Loan repayment trend
- Comparison of the individual SACCO to its neighboring SACCOs
- SACCO’s investment policies
- Available surplus
- Commitment by the Society

4.11 Problems faced when sharing dividends

When they are sharing dividend, most SACCOs experience the constraints of;

- The committee fail to see the need of expansion of the society
- The societies compare themselves with neighbouring SACCOs
- Little surplus and low cash flow
- Poor management who are not willing to pay back coop. loans
- Investment strategy plan and policy
- Trend of loan repayment
- Current earnings of the society

4.12 Impacts of dividends declared on the society

Better dividends declared by a society was found to positively impact on the society by;

- Creating confidence in the members
- Resulting to additional share deposits
- Gives the society more stiffer competition with others
- Attracts more customers
- Members become royal, happy and patriotic.

On the other hand, when there is no/little dividends declared, it was noted that;

- The society has a decrease in membership and
- Members complain so much.

It was however noted that, dividends declared can have a negative effect on the flow of money in the society. Sometimes the societies may overdraw their accounts so as to pay dividends that might take time to recover.

4.13 Recommendation to managers

The society managers are therefore advised to;

- Retain their trend of giving dividends in their societies,
- Follow strictly the legal rules and requirements for the running of the SACCOs,
- Have a uniform dividend policy for each year.
CHAPTER FIVE

5.0 CONCLUSION AND RECOMMENDATION

5.1. Introduction
This chapter is based on the findings of the study. It highlights the important
Determinants of dividend levels that SACCOs should establish and the possible
Advantages that they can get. Also discussed in this chapter are the limitations
Encountered when conducting the study and suggestion on areas for further study on this
Area of dividends payment.

5.2 Conclusion
Having conducted this study on various SACCOs in Embu district to determine levels of
dividends, several key aspects were brought to light. In areas of dividend policy, the
Management of SACCOs should not isolate the dividend policy from the other decisions
of the society namely financing and investment decisions. This is because a
Consideration of one decision in total disregard of others could spell doom to the
Societies' operations. Though the SACCOs should invest as much as possible, the
Societies' management should not forget that investors who are shareholders require a
Regular cash flow from funds invested. Likewise this could also imply incurring of extra
cost if say funds for investment have to be acquired externally. It is also apparent that
Management of SACCOs could set a dividend policy that does not expose the
Shareholder or the society to risks of uncertainty. To ensure success in carrying out of a
Dividend policy, a society should adopt a flexible approach that balances the various
divergent needs. For instance a dividend policy can be set in such a way that it gives
Shareholders freedom of either accepting dividends or investing in shares. This method
Allows the society to meet the needs of the shareholders and at the same time make it
possible for the company to carry out investment activities. In setting out the dividend policy, management should also ensure that the SACCO’s competitiveness is not compromised. A society’s competitiveness is determined by its valuation in the stock exchange and this is determined by the dividend policy followed. At all times, management may be forced to drop a certain action if they feel that the firm’s valuation is going to be adversely affected.

Though the SACCOs visited have a stable divided policy, much has to be done to maintain the status quo. Embu Farmers SACCO Ltd to be specific is experiencing a negative campaign as noted in the recent drought which reduced the production of farming. This means that this SACCO in future may be forced to address its policy and definitely the dividend decision will have to be re-evaluated in light of the recent challenges. In fact Embu farmers SACCO Ltd’s dividend policy seem to be more erratic and vulnerable to weather changes as compared to that of other SACCOs. The dividend policy must be credible; that is it should be consistent with the earnings that the SACCO achieves. In long term, no dividend profile, regardless of how smooth it is, can have favourable effects unless it appears sustainable. In other words, it must not be inconsistent or incompatible with the earnings profile.

As long as the SACCOs have opportunities to invest at a satisfactory return, managers can set a target dividend payout ratio that will be higher or lower depending on whether the SACCO has reached maturity or it is still growing. Fluctuations in net earnings can be smoothened over in the per-share dividend so that it does not move erratically and send the wrong signal to investors. A high dividend helps to ensure stability of the share price but in no way guarantees it. Therefore dividend payment is a mechanism through
which the investment by shareholders is rewarded. In addition SACCOs with a good dividend payment history offers a good investment option for investors as dividend are paid only out of profits and this in turn demonstrates sound profit making policies and their implementation by SACCOs.

5.3 RECOMMENDATIONS

Based on interaction with the subject and the research findings, the following recommendations are made:-

i) The ability of a SACCO to manage its capital efficiently and flexibly is important for the uncertain economic and market outlook.

ii) Before declaring and paying profits, a SACCO should transfer a specified percentage of its distributable profits up to an extent of certain percentage probably 10% to free reserves of the SACCO.

iii) SACCOs should develop a comprehensive system of internal control including policies, procedures and guidance for program activities that are robust enough to ensure that the requirements are being met.

iv) SACCOs need to develop and implement a well-defined and disciplined risk assessment process. Such a process is essential to monitoring program status and identifying any risks of potential inadequate findings of announced programmes.

v) SACCOs should develop a communication strategy / vision that includes building an understanding and support for the various components of the society.

vi) SACCOs should improve transparency pertaining to dividends by reporting publicly items such as dividends paid.
6.0 REFERENCES


Chicago.


Fama E.F 1974: The empirical relationship between dividend and investment decisions of firms.

Farida A. 1993: An empirical study to identify parameters which are important in the determination of dividends by public quoted companies; unpublished MBA thesis U.O.N.


Kerandi Andrew 1993: Testing the predictive ability of Dividend valuation model on ordinary shares; Unpublished MBA thesis U.O.N.


Madivia and Fox: International financial management 2007; Thomson Learning, high Holborn, Bedford row London.


LIST OF SACCOS

Small scale SACCOS
1. Walton SACCO society Ltd
2. Kigari SACCO society Ltd.
3. Gastameco SACCO society Ltd.
4. Elge SACCO society Ltd
5. Uvumilivu SACCO society Ltd
6. Bonanza SACCO society Ltd

Medium size SACCOS
1. ACK Mwireri SACCO society Ltd
2. Embu Nuts SACCO society Ltd.
3. Bimas SACCO society Ltd
4. Embu Gaturi Housing SACCO Ltd
5. Embu car washer SACCO society Ltd

Large SACCOS
1. Embu teachers SACCOs Ltd.
2. Parents plan SACCO society Ltd
3. Mungania Tea growers SACCO society Ltd
4. Neno SACCO society Ltd
5. Rukuriri tea growers SACCO society Ltd.

FARMERS CO-OPERATIVE SOCIETIES
1. Embu farmers Co-Operative society Ltd
2. Embu dairy Co-Operative society Ltd
3. Murue F.C.S Ltd
4. Kithungururu F.C.S Ltd
5. Central Ngandori F.C.S Ltd
6. Kibugu F.C.S Ltd
7. Kirurumwe F.C.S Ltd
8. Nembure F.C.S Ltd
9. Ivinge F.C.S Ltd
10. Gakundu F.C.S Ltd
11. Kyeni F.C.S Ltd
12. Gatondo F.C.S Ltd
13. Muramuki F.C.S Ltd
14. Thambana F.C.S Ltd
15. Kiviuvi F.C.S Ltd
16. Mikiki F.C.S Ltd
17. Rianjagi F.C.S Ltd
18. Kiangagwa F.C.S Ltd
19. Kamweri F.C.S Ltd
20. Kanjugu F.C.S Ltd

MULTI-PURPOSE CO-OPERATIVE SOCIETIES

1. Mutwiria multi-purpose co-operative society Ltd
2. Mwiria multi-purpose co-operative society Ltd
3. Kamavindi / Gatunduri multi-purpose co-operative society Ltd
4. Eacon multi-purpose co-operative society Ltd
5. Ena multi-purpose co-operative society Ltd

Source: Embu District Co-operative Office.
8.0 BUDGET

(i) Research proposal

<table>
<thead>
<tr>
<th>Item</th>
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<td>Transport and traveling</td>
<td>8,000/=</td>
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<tr>
<td>Stationary</td>
<td>5,000/=</td>
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<tr>
<td>Printing</td>
<td>4,500/=</td>
</tr>
<tr>
<td>Library Services</td>
<td>1,000/=</td>
</tr>
<tr>
<td>Internet Services</td>
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<tr>
<td>Miscellaneous</td>
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(ii) Research Project

<table>
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<th>Ksh.</th>
</tr>
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<tbody>
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<td>Transport and traveling</td>
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<tr>
<td>Stationary</td>
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<td>Draft preparation</td>
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<tr>
<td>Printing</td>
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<tr>
<td>Binding</td>
<td>1,500/=</td>
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<tr>
<td>Communication</td>
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<tr>
<td>Miscellaneous Expenditure</td>
<td>2,000/=</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>25,700/=</strong></td>
</tr>
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</table>
Dear Respondent,

I am a Masters Degree Student in the school of Business Studies, Department of Business and Accounting at K.U. I am carrying out a research on the factors that determine level of dividends by Co-operative Societies.

This questionnaire is aimed at eliciting information, which will be useful in the above mentioned research as part of the MBA (Finance) degree requirement. You have been honourably selected as a respondent in this study. The information you give will be strictly used for academic purposes only and will be treated with utmost confidentiality.

Your co-operation and response will be highly appreciated.

Thank you.

Yours faithfully,

Josaphat H. Njeru Mbiti
APPENDIX II

DIVIDENDS RATE QUESTIONNAIRE FOR SACCOs’ MANAGEMENT AND STAFF

Please respond to all the questions in this questionnaire appropriately and honestly.

Do not write your name or the name of your SACCO. You are assured that the information you give will be treated with strict confidence and will only be used for research purposes. For open ended question, please be brief and specific.

PART A

Please tick (✓) appropriately where necessary.

1. Please indicate your gender.

Male ☐ Female ☐

2. What is your Age?

(a) Below 25 years ☐
(b) 26-35 years ☐
(c) 36-45 years ☐
(d) Over 45 years ☐

3. Please indicate your highest level of academic qualifications

(a) Certificate ☐
(b) Diploma ☐
(c) Graduate ☐
(d) Masters Degree ☐
(e) Any Others (Specify) .................................................................
4. Please indicate your years of service in this organization.
   (a) Below 5 Years
   (b) 6-10 Years
   (c) 11-15 years
   (d) 16-20 years
   (e) Above 20 years

5. What is your job description?
   (a) Finance officer
   (b) Departmental head
   (c) Management Staff
   (d) Manager /Director /CEO

6. For how long has your society been in operation?
   a) Below 10 years
   b) 11- 20 years
   c) 21- 30 years
   d) Above 30 years

PART B

7. (i) Please use the Key provided to complete the following statements

<table>
<thead>
<tr>
<th>Statement</th>
<th>Comment</th>
<th>Yes /No</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) This Co-operative has a divided Policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Dividend should be paid depending on the profitability of the SACCO</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) Dividend declared should be constant</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
8. How does your society respond to the following when sharing dividends?

Key: 1 = Most important, 2 = Important, 3 = Less Important.

i) Need for expansion

ii) Payment of dividends

iii) Need to retain earnings

iv) Previous year’s dividend

9. Indicate how each of the following is taken by the management. Use the key:-

1 = most important, 2 = important, 3 = least important

a) Dividends decision

b) Financing decision

c) Investment decision

10. During good years what consideration do you follow in dispatching excess income?

a) Declare regular dividends

b) Increase dividend payout

c) Increase retention

11. The following are the sources of financing a co-operative society can use.

Rank each of them using the following key: 1 = most applied, 2 = moderately used, 3 = least used, 4 = not at all.

a) Raising additional share capital

b) Use of retained earnings

c) Interest from loans advanced to members

d) Use of bank loans

(ii) Briefly comment on the most used…………………………………………………………………………………………
12. (i) Of the following dividend types, state the one(s) that your society adopts. Use the key provided to comment. **1 = most preferred, 2 = preferred 3 = least preferred 4 = not at all.**

<table>
<thead>
<tr>
<th>Dividend type</th>
<th>Comment e.g. 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Cash dividend</td>
<td></td>
</tr>
<tr>
<td>b) Stock dividend</td>
<td></td>
</tr>
<tr>
<td>c) Property dividend</td>
<td></td>
</tr>
</tbody>
</table>

(ii) Please indicate consistency of each of them. Use the key; **1 = Most Consistent, 2 = Consistent, 3 = Less consistent**

(a) Cash dividend

(b) Stock dividend

(c) Property dividend

(13) i) The following factors are important in setting out dividend policy. Use the key provided to comment on the statement.

**(1 = Most Important, 2 = Important, 3 = Least Important)**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Comment eg 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Future investments</td>
<td></td>
</tr>
<tr>
<td>b) Management policy</td>
<td></td>
</tr>
<tr>
<td>c) Previous year’s dividends</td>
<td></td>
</tr>
<tr>
<td>d) Legal rules</td>
<td></td>
</tr>
<tr>
<td>e) Current year’s earnings</td>
<td></td>
</tr>
</tbody>
</table>

(ii). Briefly highlight other factors you consider important in sharing dividends.

a) .................................................................

b) .................................................................

c) .................................................................
14. What are the major constraints your society faces when sharing dividends?
   a) .................................................................
   b) .................................................................
   c) .................................................................
   d) .................................................................

15. State the impacts of a dividend declared.
   a) .................................................................
   b) .................................................................
   c) .................................................................

   (ii) How does your society adjust to these impacts?
   a) .................................................................
   b) .................................................................
   c) .................................................................

16. What recommendations would you give to managers of SACCOs in order to reduce the disparity in dividend rates among SACCOs?
   ..............................................................................
   ..............................................................................
   ..............................................................................
   ............
### APPENDIX III

**Appendix III a:** Analysis of Variance for SACCO earnings and the dividend

<table>
<thead>
<tr>
<th>Source</th>
<th>DF</th>
<th>SS</th>
<th>MS</th>
<th>F</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
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<td>3.169E+13</td>
<td>3.169E+13</td>
<td>13.0782</td>
<td>0.022</td>
</tr>
<tr>
<td>Error</td>
<td>4</td>
<td>9.692E+12</td>
<td>2.423E+12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>5</td>
<td>4.138E+13</td>
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</tbody>
</table>

**Appendix III b:** Analysis of Variance investment to the dividend

<table>
<thead>
<tr>
<th>Source</th>
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<th>MS</th>
<th>F</th>
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</tr>
</thead>
<tbody>
<tr>
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<td>0.000</td>
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<td>Error</td>
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<td>2.706E+11</td>
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<tr>
<td>Total</td>
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<td>4.574E+13</td>
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<td></td>
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</table>