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Dividend Decisions and Financial Performance of Savings and Credit Cooperatives in Kisii Central Sub- County

[1.]Nyasani Gilborne Nyaigoti Hdb311-c006-3429/2017
[2.]Dr. Julius Miroga
[3.]Dr. Gilbert Ochangwa
Jomo Kenyatta University of Agriculture and Technology

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Abstract
The financial performance of Savings and Credit Cooperatives (SACCOs) plays a critical role in ensuring their sustainability and capacity to meet members' financial needs. This study sought to examine the influence of dividend decisions on the financial performance of SACCOs in Kisii Central Sub-County, Kenya. The study adopted a descriptive research design and targeted registered SACCOs operating within Kisii Central Sub-County. Data was collected using secondary data. Descriptive and inferential statistics, including regression analysis, were used to analyze the data. The findings revealed that dividend decisions, particularly consistent dividend payout policies, significantly impact financial performance indicators such as profitability, liquidity, and member retention. SACCOs that maintained stable and well-structured dividend policies showed better financial performance compared to those with irregular or unsustainable dividend practices. The study concluded that prudent dividend decision-making is vital for improving SACCOs' financial outcomes and enhancing member satisfaction. The study recommends that SACCO management should adopt clear and sustainable dividend policies, strike a balance between dividend payouts and reinvestment, and ensure transparency in dividend decision-making. These measures would enhance financial performance.

Keyword: Dividend Decisions, financial performance of SACCOs

Introduction

The financial performance of cooperative societies, particularly Savings and Credit Cooperatives (SACCOs), is increasingly influenced by how well they manage their dividend decisions. These decisions how much of the profit is distributed as dividends and how much is retained play a crucial role in member satisfaction, investment attraction, and institutional sustainability (Olowe & Moradeyo, 2023). In today's competitive financial environment, SACCOs must strike a balance between rewarding members through dividend payouts and reinvesting for growth and sustainability.

In mature economies such as the United States, Canada, and parts of Europe, credit unions and cooperative banks have long embraced strategic dividend policies to maintain financial stability and enhance member confidence. According to the International Co-operative Alliance (ICA, 2023), cooperatives worldwide serve over 1 billion members, providing a range of financial services tailored to community needs. In countries like Canada, institutions such as Desjardins Group have implemented dividend policies that prioritize long-term member value, capital adequacy, and institutional sustainability. These institutions commonly balance dividend payouts with retained earnings to strengthen reserves and support future expansion (Desjardins Group, 2023). Such an approach helps to buffer against financial shocks and enhances institutional resilience.

Moreover, empirical studies from North America and Europe show that dividend payout ratios and retained earnings significantly influence the financial performance of cooperative financial institutions. Hernandez and Leclerc (2023) noted that credit unions that adopt consistent and predictable dividend policies enjoy higher member retention and improved financial outcomes. In the United Kingdom, building societies and mutual financial institutions align dividend distribution with risk management frameworks to ensure ongoing viability and compliance with regulatory requirements. These international experiences underscore the need for SACCOs in developing economies to benchmark their financial practices against globally accepted standards. Effective dividend decision-making not only assures members of the organization's financial health but also facilitates reinvestment, innovation, and sustained competitive advantage (Olowe & Moradeyo, 2023).

Across the East African region, Savings and Credit Cooperatives (SACCOs) continue to serve as vital financial intermediaries, especially in rural and underserved communities. These institutions offer affordable credit, savings platforms, and investment opportunities for millions of individuals and small enterprises. According to the African Confederation of Co-operative Savings and Credit Associations (ACCOSCA, 2023), East Africa is home to over 20,000 SACCOs, with Kenya, Uganda, and Tanzania leading in terms of membership and asset base. Despite their rapid growth, many SACCOs in the region face challenges related to financial management, including suboptimal dividend decisions. Inconsistent or unsustainable dividend policies have led to reduced member trust, liquidity challenges, and even collapse in some instances (Wanyoike & Kibet, 2023).

The SACCO sector is a critical component of the financial system. According to the SACCO Societies Regulatory Authority (SASRA, 2024), SACCOs mobilized over KES 800 billion in assets by the end of 2023, with deposit-taking SACCOs accounting for over 60% of that total. Despite this growth, many SACCOs in Kenya struggle with sustainability and financial health, largely due to poor financial decision-making including dividend policies. Studies have shown that SACCOs with clear and consistent dividend decisions exhibit higher financial performance, as they manage to both reward members and retain capital for investment and loan issuance (Mwangi & Kamau, 2023).

SACCOs play a significant role in providing financial services to households, small businesses, and farmers. The sub-county hosts both deposit-taking and non-deposit-taking SACCOs, which contribute to local economic development and poverty alleviation. However, anecdotal and empirical evidence suggests that several SACCOs in the area face performance instability, with dividend decisions frequently cited as a contributing factor. A recent study by Nyamweya and Bosire (2024) found that SACCOs in Kisii that maintained a balanced dividend payout and retained earnings policy reported better financial performance indicators than those with inconsistent policies.

1.2 Statement of the Problem

Despite SACCOs playing a pivotal role in enhancing financial inclusion and socio-economic development in Kenya, many struggle with sustainable financial performance. A major factor behind this challenge is ineffective or inconsistent dividend decision-making. Dividend policies—specifically regarding payout ratios, retained earnings, and income from FOSA operations—significantly influence a SACCO's ability to grow its capital, maintain liquidity, attract and retain members, and remain competitive. However, most SACCOs lack a structured approach to making these decisions, resulting in poor financial outcomes. National data from SASRA (2024) shows that only 45% of deposit-taking SACCOs met the required capital adequacy ratio, while over 30% recorded declining member deposits, largely attributed to flawed dividend strategies. SACCOs prioritizing high short-term dividends over reinvestment reported greater liquidity stress and weaker financial results.

In Kisii Central Sub-County, these national trends are equally evident. SACCOs serving diverse groups—farmers, traders, teachers, and civil servants—often struggle with weak financial structures due to unsustainable dividend policies. According to Nyamweya and Bosire (2024), SACCOs in the region that failed to align payout ratios and retained earnings with their financial strength reported lower returns on assets and operational inefficiencies. Despite the critical nature of dividend decisions, little empirical research has been conducted in Kisii to explore how specific elements like payout ratios, retained earnings, and FOSA income ratios influence SACCO performance. Previous studies, including Matendechere (2015), indicate that dividend payout positively correlates with profitability, growth, and asset expansion. Yet, dividend inconsistency remains a pressing concern for members, revealing a significant knowledge gap—especially in Kisii County—prompting the key question: Does dividend policy affect SACCO performance in Kisii County?

1.3. Objective of the study

This study was guided by both a general and specific objectives.

1.3.1 General Objective of the Study

The general objective of the study was to determine relationship between dividend decisions and financial performance of savings and credit cooperative in Kisii Central Sub-County.

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1.3.2. Specific objectives of the Study

i. To determine the relationship between dividend payout ratio and financial performance of savings and credit cooperative in Kisii Central Sub-County.
ii. To establish the relationship between retained earnings ratio and financial performance of savings and credit cooperative in Kisii Central Sub-County.

2. Literature Review

2.1 The MM Dividend Irrelevance Theory

Modigliani – Miller theory was proposed by Franco Modigliani and Merton Miller in 1961. They were the pioneers in suggesting that dividends and capital gains are equivalent when an investor considers returns on investment. The only thing that impacts the valuation of a company is its earnings, which is a direct result of the company's investment policy and the future prospects. So, according to this theory, once the investment policy is known to the investor, did not need any additional input on the dividend history of the company. The investment decision is, thus, dependent on the investment policy of the company and not on the dividend policy.

MM argument was based on the following assumptions; Absence of corporate and personal taxes, a perfect and frictionless capital market implying absence of floatation transaction costs, efficient markets indicating that investors and managers have homogenous information regarding future investment opportunities and investment policy is independent of the dividend policy.
Modigliani – Miller theory is based on assumptions that do not look very practical in a contemporary market. This study thus aspired to affirm or dispute this theory by establishing whether or not there is a causal relationship between divided policy and the growth in SACCOs.

Conceptual Framework

Kombo and Tromp (2009) defines a concept is an abstract or general idea inferred or derived from specific instances. A conceptual framework is a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation. According to Smyth (2002), a conceptual framework a hypothesized model identifying the model under study and the relationship between the dependent and independent variables. An independent variable also known as the explanatory variable is the presumed cause of the changes of the dependent variable, while a dependent variable refers to the variable which the researcher wishes to explain (Kothari, 2004).

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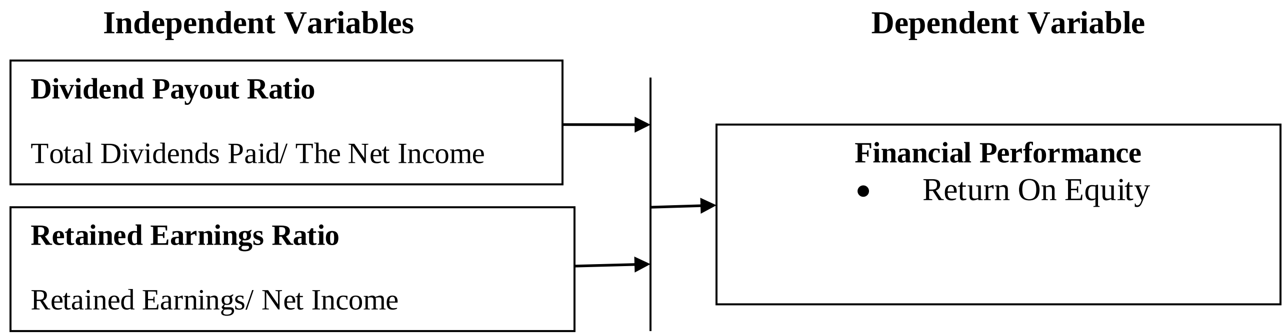

Figure 2. 1: Conceptual Framework

2.3 Empirical Literature Review

2.3.1 Dividend Payout Ratio and Financial Performance

The dividend payout ratio is a critical financial metric that reflects the proportion of net income distributed to shareholders (or members, in the context of SACCOs) in the form of dividends. It has been extensively studied as a key determinant of an organization's financial performance, particularly in financial institutions where balancing member satisfaction and financial sustainability is paramount.

Globally, numerous studies have examined the impact of dividend payout policies on organizational performance. For instance, Al-Malkawi, Bhatti, and Magableh (2023) conducted a study on listed financial institutions in the Gulf Cooperation Council (GCC) countries and found a significant positive relationship between dividend payout ratio and return on equity (ROE). Their findings suggested that stable and transparent dividend policies enhance investor confidence, attract capital, and improve profitability.

In the African context, Arowoshegbe and Idialu (2022) investigated the effect of dividend policies on the financial performance of microfinance banks in Nigeria. Using panel data from 35 institutions over a five-year period, they found that higher dividend payout ratios were associated with better financial performance metrics, particularly return on assets (ROA) and net profit margins. The study concluded that well-structured dividend policies signal financial stability and can drive institutional growth through increased member loyalty and investment.

In Kenya, the influence of dividend payout on SACCO performance has also received scholarly attention. A study by Ndung'u and Muturi (2022) on 50 SACCOs regulated by the SACCO Societies Regulatory Authority (SASRA) revealed a strong positive correlation between dividend payout ratio and financial performance, particularly in terms of ROA. The study emphasized that SACCOs that paid consistent dividends experienced higher deposit mobilization and stronger liquidity positions, contributing to overall financial health.

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Similarly, a study by Cheruiyot and Ngeno (2023) focusing on SACCOs in Nakuru County found that SACCOs that adopted moderate and sustainable dividend payout ratios achieved better financial performance than those that either over-distributed profits or retained excessive earnings. The study recommended that SACCOs strike a balance between rewarding members and retaining sufficient capital for reinvestment and compliance with SASRA's regulatory requirements.

However, not all empirical findings point to a positive relationship. Some studies have highlighted potential downsides to high dividend payouts. For example, Otieno and Muriuki (2021) examined SACCOs in Nairobi County and found that SACCOs with excessively high dividend payout ratios often faced liquidity constraints and struggled to meet short-term obligations. This suggested that an overly generous dividend policy could compromise financial sustainability if not matched by consistent income generation and reserve accumulation.

The mixed findings in empirical literature indicate that the relationship between dividend payout ratio and financial performance is complex and may vary depending on the institutional context, regulatory environment, and financial management practices. In the case of SACCOs in Kisii Central Sub-County, it remains essential to examine how dividend payout policies are being structured and whether they are contributing to or hindering the SACCOs' financial performance.

2.3.2 Retained Earnings Ratio and Financial Performance

The retained earnings ratio is a critical element of an organization's dividend decision, reflecting the proportion of net income that is retained in the business rather than distributed to shareholders as dividends. For SACCOs, retained earnings serve as an internal source of capital that can be used to finance operations, expand loan portfolios, and meet regulatory capital requirements. Empirical evidence has shown mixed results on the influence of retained earnings on financial performance, depending on the institutional context and economic environment.

A study by Maina and Mwangi (2022) on SACCOs in Nairobi County revealed that retained earnings had a significant positive impact on financial performance, measured by return on equity (ROE) and net profit margin. The researchers attributed this to the reinvestment of retained funds into income-generating activities, such as loan disbursements and asset acquisition. The study recommended that SACCOs adopt balanced dividend policies that ensure adequate retention of earnings to support long-term growth.

Similarly, Kibet *et al*. (2023) examined the relationship between retained earnings and profitability in deposit-taking SACCOs in Uasin Gishu County. Their findings indicated a strong positive correlation between retained earnings ratio and return on assets (ROA), suggesting that SACCOs that reinvest a higher portion of their earnings tend to perform better financially. The study also found that SACCOs with consistent earnings retention strategies were more resilient during periods of economic instability.

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In the regional context, Mugisha and Musoke (2021) conducted a study on cooperative financial institutions in Uganda and found that institutions that retained a larger share of their income had higher asset bases and better liquidity positions. The study concluded that retained earnings are essential for financial stability and sustainability, especially in environments where external financing is limited.

Ochieng and Mutua (2020) found that excessive retention of earnings in SACCOs within Kisumu County led to member dissatisfaction, ultimately affecting deposit mobilization and weakening long-term performance. The study emphasized the need for SACCOs to balance between retaining earnings for growth and issuing dividends to maintain member confidence and trust.

The SASRA (2024**)** report highlighted that SACCOs with well-structured retention policies performed better in terms of capital adequacy and compliance. According to the report, 60% of SACCOs that met the 10% minimum core capital ratio had a retained earnings ratio of at least 35%, pointing to a clear link between retained earnings and financial strength. While empirical evidence largely supports a positive relationship between retained earnings and financial performance, the effectiveness of this relationship depends on how retained funds are managed and whether SACCOs maintain transparency and communication with their members regarding the use of such funds. Strategic reinvestment of retained earnings can enhance growth, profitability, and long-term sustainability.

3. Research Methodology

This study adopted a descriptive research design. A descriptive design was considered appropriate because it allows the researcher to collect, analyze, and interpret both quantitative and qualitative data to describe the existing relationship between dividend decisions and financial performance in SACCOs. The target population for this research consisted of 19 savings and credit cooperatives (SACCOs) in Kisii County Kenya. The SACCOs were selected based on their availability and willingness to participate in the study**.** The sample frame for this study consists of a list of all 21 savings and credit cooperatives (SACCOs) in Kisii County, the study had 56 stratums because the study was considering the population of each Sacco to be homogenous and therefore each saccos constituted a stratum. (See Appendix III).

4. Results and Discusion

4.1 Descriptive Statistics

This study assessed the relationship between dividend decisions and financial performance of SACCOs in Kisii Central Sub-County, based on secondary data from 2017 to 2023.

4.1.1 Dividend payout ratio

Table 4. 1: Dividend Payout Ratio

Year	Mean (%)	Min (%)	Max (%)	Std. Dev. (%)
2017	32.4	28.1	36.7	2.9
2018	33.1	27.9	38.4	3.4
2019	34.6	29.3	41.2	4.1
2020	30.5	25.1	37.8	4.9
2021	35.7	30.8	42.5	3.7
2022	36.2	32.0	45.0	4.5
2023	37.5	33.1	46.8	4.2

The dividend payout ratio showed a gradual increase from 2017 to 2023, indicating a rising trend in member compensation. The standard deviation shows moderate variability, suggesting relatively stable dividend policies. The increasing dividend payout ratio from 2017 to 2023 indicates improved profitability and stronger member returns. Lowest Mean: 2020 (30.5%) -The sharp dip aligns with COVID-19 disruptions, where many SACCOs prioritized liquidity over payouts. Highest Mean: 2023 (37.5%) Indicates recovery and better profitability, allowing SACCOs to return more to members. According to Al-Malkawi et al. (2023), consistent dividend payouts enhance investor confidence and signal sound financial health. The moderate standard deviation reflects policy stability across SACCOs in Kisii Central.

4.1.2 Retained Earnings Ratio

Table 4. 2: Retained Earnings Ratio

Year	Mean (%)	Min (%)	Max (%)	Std. Dev. (%)
2017	45.3	39.0	51.2	3.8
2018	46.7	40.4	53.9	4.0
2019	44.2	36.8	50.1	4.3
2020	47.5	41.3	55.2	3.6
2021	48.6	42.9	56.0	3.2
2022	49.8	44.1	58.4	3.4
2023	50.3	46.0	60.1	3.5

According to the findings the Highest Mean was obtained at 2023 (50.3%) Reflects conservative financial management. Lowest Mean was indicated in 2019 (44.2%) Indicateing higher distribution of profits compared to earnings retained. Retained earnings ratio also increased over time, reflecting stronger financial health and reinvestment into the SACCOs. The slight increase in mean ratios across the years implies better sustainability practices. The upward trend in retained earnings suggests SACCOs are increasingly reinvesting profits, which is crucial for capital accumulation and financial sustainability (Mwangi & Kamau, 2022). This aligns with the pecking order theory where firms prefer internal financing to external sources.

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4.2 Diagnostic Test Results

Prior to conducting inferential analysis, several regression assumptions were evaluated to ensure unbiased estimations of the study parameters. Diagnostic tests are performed prior to regression analysis to verify the validity of the regression model. They assist in identifying problems like as multicollinearity, heteroscedasticity, normalcy, and independence of residuals, which can skew results and result in erroneous conclusions. By mitigating these possible issues, researchers can improve the reliability and interpretability of their results, ensuring that the model accurately represents the underlying relationships among the researched variables.

4.2.1 Normality Test Results

A normality test is crucial as numerous statistical approaches, such as regression analysis, depend on the premise that the residuals (errors) adhere to a normal distribution. The non-normal distribution of residuals might compromise the validity of hypothesis tests, confidence intervals, and the overall reliability of the regression model. Researchers can evaluate the validity of the normalcy assumption with a normality test, enabling necessary adjustments or alternative analytical procedures to ensure accurate and meaningful results. The outcomes of the normalcy tests are presented in Table 4.3 below.

For the dividend payment ratio, the Shapiro-Wilk statistic is 0.325 with a p-value of 0.059. This result suggests a tendency towards normality since the p-value is above the conventional significance level of 0.05. The retained earnings ratio yield a Shapiro-Wilk statistic of 0.346 and a p-value of 0.103. Similarly, this p-value indicates that we fail to reject the null hypothesis of normality, suggesting that the retained earnings ratio data likely conforms to a normal distribution. In the case of FOSA income ratio, the Shapiro-Wilk statistic is 0.543 with a p-value of 0.092. Again, this indicates a failure to reject the null hypothesis of normality, although the p-value suggests there might be slight deviations from a normal distribution. In summary, the Shapiro-Wilk test results indicate that all four variables exhibit minimal departures from normality. Given that the p-values for the five predictor variables and the outcome variable exceeded the designated alpha level of 0.05, Razali and Wah (2011) propose that the data originate from a regularly distributed population.

Table 4. 3 Normality Test

	Shapiro-Wilk	
	Statistic	**Sig.**
Dividend Payment Ratio	.325	.059
Retained Earnings Ratio	.346	.103

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4.3 Inferential Analysis

4.3.1 Correlation Analysis

Table4.4: Correlation Analysis between Dividend Decisions Variables and Financial Performance of SACCOs

Variable	Financial Performance	p-value
Dividend Payout Ratio	0.612**	0.000
Retained Earnings Ratio	0.481**	0.002

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

The findings from the correlation analysis revealed that all the independent variables dividend payout ratio, retained earnings ratio have significant positive relationships with the financial performance of SACCOs in Kisii Central Sub-County.
Specifically, the dividend payout ratio showed a strong positive correlation with financial performance ($r = 0.612$, $p < 0.01$.

The retained earnings ratio was also positively associated with financial performance ($r = 0.481$, $p < 0.01$), albeit at a moderate level. This aligns with Modigliani and Miller's (1961) dividend irrelevance theory, which argues that reinvested earnings can contribute significantly to long-term growth and profitability, especially when external financing is costly or limited as is often the case in SACCOs.

4.3.2 Regression Analysis

Table 4. 5: Regression Analysis Results

Predictor Variable	Unstandardized Coefficient (B)	Standard Error	t-Value	p-Value
(Constant)	1.542	0.322	4.79	0.000
Dividend Payout Ratio	0.428	0.106	4.04	0.000
Retained Earnings Ratio	0.315	0.124	2.54	0.013

The regression analysis results indicate that all four independent variables dividend payout ratio, retained earnings ratio have a positive and statistically significant effect on the financial performance of SACCOs in Kisii Central Sub-County.

Specifically, the dividend payout ratio has a coefficient of 0.428 ($p < 0.01$), indicating that an increase in dividend payout is associated with improved financial performance. This aligns with the findings of Abdullahi et al. (2021), who observed that higher dividend payouts enhance

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member satisfaction and investment confidence, thereby boosting overall performance in cooperative financial institutions.

The retained earnings ratio also demonstrates a positive relationship (B = 0.315, p = 0.013). Retained earnings enable SACCOs to reinvest in core operations and maintain liquidity, which is essential for long-term growth and resilience. This supports the argument by Gitman and Zutter (2015) that internal financing through retained earnings contributes to operational sustainability.

5. Conclusions and recommendations

The study aimed to examine the relationship between dividend decisions and the financial performance of Savings and Credit Cooperatives (SACCOs) in Kisii Central Sub-County. The results of the regression analysis indicated that dividend payout ratio, retained earnings ratio, FOSA income ratio, and loan portfolio quality all have a statistically significant and positive influence on the financial performance of SACCOs.

The findings demonstrate that dividend payout decisions play a crucial role in shaping SACCO financial outcomes. A higher dividend payout positively influences member loyalty and investor confidence, leading to improved financial results. Similarly, retained earnings serve as an important source of internal financing, contributing to operational sustainability and growth.
Notably, income from FOSA services emerged as the strongest predictor of financial performance, underscoring the importance of revenue diversification through member-centered financial services. Additionally, the quality of the loan portfolio remains critical to SACCO success, as poor loan performance can negatively affect liquidity, profitability, and sustainability.
Based on the findings and conclusions of this study, the following recommendations are proposed to enhance the financial performance of SACCOs in Kisii Central Sub-County: Adopt a Balanced Dividend Policy - SACCOs management should implement a balanced dividend policy that not only meets members' expectations for returns but also ensures sufficient funds are retained for reinvestment. Striking this balance is key to sustaining both short-term satisfaction and long-term growth.

Strengthen Retained Earnings Practices - SACCOs should enhance policies that promote prudent retention of earnings. These retained funds should be strategically reinvested in productive ventures or used to improve service delivery, thereby boosting organizational stability and growth.

Future studies could extend the geographical scope beyond Kisii Central Sub-County to include other regions or a national-level analysis. This would allow for comparisons and generalization of findings across different SACCOs and economic contexts.

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