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Effect of Business Risk on Performance of Deposit Taking Saccos in North Rift Counties, Kenya

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the North Rift in particular has to adjust their way of doing business in order to maximize the shareholder value and increase the market share. The main purpose of this study is to establish the determinants of dividends policy decisions on performance of deposit taking Saccos' in North Rift Counties, Kenya. Specifically, the study determined the effect of business risk on performance of deposit taking Saccos' Rift Counties in Kenya. The study was guided by Agency theory. The target population was all nine Saccos that had been registered by SASRA in the North Rift Region by the end of July 2018. The respondents included all the management and board members of the deposit taking Saccos in the North Rift Region. Primary data and secondary data was used and the data was collected using open ended questionnaires. Data was analysed using both descriptive and inferential statistics. The SPSS Version 24 was used to aid in the data analysis. The study established that Sacco returns had a positive and significant effect on performance of deposit taking Saccos ($\beta = 0.170$; $p < 0.05$). The findings of the study were of great significance to managers and policy makers to make policies which enhances the performance of the Saccos. The finding also does provide input for future academic works to be conducted on the Sacco performance.

Abstract

Saccos perform an important role in the financial sector in Kenya by providing savings and credit services to a large portion of the population. Dividend decision is the policy that the management formulates in regard to earnings for distribution as dividends among shareholders. The determinants of dividend decisions include, Sacco returns, Sacco size, business risks, growth opportunities among others. Saccos and more so deposit taking Saccos need to issue dividends to their members. Deposit taking Saccos in Kenya and

1.0 Introduction

A business entity that makes profits at the end of the financial year is expected to make a decision concerning the portion of the profit to be distributed to the providers of funds (equity shareholders) as dividend and the portion to be retained for future re-investment. The earnings distributed to shareholders are called dividends (Pandey, 2004). Hence, dividends are the portion of profits distributed to their shareholders at every

financial year. Dividends serve as an indicator of a company's present and future performance, even of its potential susceptibility to risk (Kania and Bacon, 2005). Dividend policy is primarily concerned with the decisions regarding dividend payout and retention (Nnadi, Wogboroma & Kabel, 2013). Therefore, Dividend policy can be defined as the guiding principles used by firms to determine the portion of earnings to be distributed to the shareholders as dividends.

Dividend policy is an important financial decisions that company managers have to make a wisely (Baker and Powell, 1999). Dividend policy is important because it has an effect on the shares prices thus returns to investors, the financing of firm's growth and the equity base by retaining finances together with its gearing and leverage (Kinyua, 2013). The importance of dividend is in two respects. This is where dividend is regarded as a source of long term finance to pursue profitable investment opportunities which will enable faster growth. External equity can be raised but it would attract a cost. Payment of dividends reduces funds available to finance profitable opportunities thus dividends can be retained as part of long term financing decision. Secondly, as a wealth maximization decision where investors prefer dividends rather than future capital gains mostly due to market imperfections and uncertainty. According to Moradi, Salehi & Honarmand (2009) dividend policy of a firm has long been an issue of interest in the financial literature and, despite the vast research on the topic, it remains an open subject.

In the United Kingdom a study was conducted by Alam and Hossain (2012) to examine the dividend policy of UK firms listed in London Stock Exchange. The result revealed no significant relationship between dividends and growth, industrial type, tangibility and gearing ratio. However, a fairly strong relationship was established between the firms' dividends and profit, size and risk. The researchers explain the positive relationship with risk by referring to the signaling theory. They state that riskier firms may want to signal stability and therefore chose to pay dividends to shareholders.

In Portugal a study conducted by Gomes, Perreira and Oliveira (2015) was to identify the determinants of non-financial companies' dividend policy of the Portuguese capital market. The results suggest as main indicators for the Portuguese dividend policy the stability, the value of the market, the previous pay-out and the business dimension; which influence positively the amount of dividends distribute through the company. Thus, the opportunities of growing and investment influence negatively the distribution of dividends.

A study done in Malaysia by Pandey (2001) on the dividend payment behavior of listed firms between 1993 and 2000 showed that dividend payment

ratios among different industries are different in Malaysia. The findings indicated that agricultural and consumer product corporations had the highest level of dividend payment, the reason was they had limited investment opportunities and more working capital. The results also point to the fact that profitability, firms' size and investment opportunities affect dividend payments. The results suggested that firms which pay higher dividends are larger and more profitable. Though, firms with profitable opportunities pay fewer dividends.

Al-Malkawi (2007) conducted a study in Jordan Amman stock Exchange for a period of ten years from 1989-2000. The study by examined the determinants of corporate dividend policy. The results showed the portion of stocks held by insiders and the state significantly affect the amount of dividends to be paid. The study also established that size, age, and profitability of the firms determine the dividend policy in Jordan.

A study conducted in Nigeria by Kajola, Desu and Agbanike (2015) examined the determinants of dividend policy decisions of twenty five non-financial firms listed on the Nigerian Stock Exchange between 1997 and 2011. The result indicated that profitability, firm size, leverage and changes in the dividend pay-out are significant factors that affect dividend policy decisions among the sampled firms during the period of the study.

In Ghana a study was done by Amidu and Abor (2006) on the determinants of dividend policy. The finding of the study indicated a positive association between the dividend payout ratio on one hand and cash flows, profitability and corporate tax on the other hand. The study further showed that highly liquid firms pay more dividends compared to illiquid firms. Similarly, a negative relationship was established between growth, market to book value, risk and payout ratio in the period of study.

A study done in Kenya by Kosgei (2017) aimed to find out the determinants of dividend payout policy by listed companies in Nairobi Securities Exchange. The study used a primary data which was collected using a questionnaire to establish the determinants of dividend policy. The findings of the study indicated that there exists a significant relationship between investment decisions and dividend payout policies. The study further recommended that managers of listed companies in Nairobi Securities Exchange should ensure

effective access to information about the firm's future prospects than potential investors they should use changes in dividends as a vehicle to communicate information to the financial market about a firm's future earnings and growth.

Studies have shown that dividend policies differ across companies and sectors, and their effect on company value remains inconclusive among finance researchers. Together, with investment and financing policies, dividend policies form one of the three most important areas of decision making in corporate finance. Identifying factors that determinant firm cash distribution and cash holding decisions is of critical importance to financial managers, investors and market regulatory bodies (Komrattanapanya & Suntrauk, 2013). This study thus seeks to examine the determinants of dividend policy decisions among deposit taking Saccos in the North Rift region, Kenya.

Deposit Taking Saccos in Kenya

Kenya's sub-sector is the largest in Africa with over 19,600 co-operative societies and over 14 million members representing 33% of the total population of the country. Of the 19,600 registered co-operative societies, 10,000 of these are Savings and Credit Co-operatives whose core business is to mobilize members to save and advance them low-interest rate credit based on their savings – usually three times their savings for normal loans charged at 1% interest rate per month. The rest are agricultural marketing, housing, handicraft and ranching co-operatives.

The Deposit-taking Sacco Societies (DTSSs) is part of the larger Sacco sub-sector in Kenya which comprises the deposit-taking and the non-deposit taking Sacco Societies. The non-deposit taking segment is composed of those Sacco Societies whose business is limited to mobilization of deposits (non-withdrawable) for purposes of lending to members. The deposits are non-withdrawal in that they may be used as collaterals for loans only and can only be refunded upon the member's withdrawal (Sacco supervision annual report-2014). There were a total of 164 licensed deposit-taking Sacco Societies (DTSSs) at the commencement of the year 2017. Out of these only 11 are DTSSs in the North Rift Region (SASRA, 2017).

The Deposit Taking Sacco's (DTS) besides the basic savings and credit products, also provide

basic 'banking' services (demand deposits, payments services and channels such as quasi banking services commonly known as ATMs), FOSA and are licensed and supervised under the Sacco Societies Act of, 2008. The general trend is that Sacco's start as non-deposit taking Sacco business and grow to deposit taking Sacco business to expand the range of financial services to members. (Kenya Financial Stability Report 2010).

The Sacco Societies Act (2008) was enacted to provide for the licensing, regulation, supervision and promotion of savings and credit co-operatives by the Sacco Societies Regulatory Authority (SASRA). Thus, this Act provides for the establishment of the Sacco Regulatory Authority whose functions include licensing Saccos to carry out Deposit taking business as well as regulating and supervising Saccos (Wanyama, 2009). The enactment of the Sacco Societies Act (2008) was part of the developments within the wider scope of on-going reforms in the financial sector and meant to initiate reforms in the Sacco Industry. There were two main objectives for this reform; first being to protect the interest of Sacco members and ensuring there is confidence by public towards the Sacco sub-sector; and secondly to spur Kenya's economic growth through mobilization of domestic savings.

Despite the role of the Saccos in the economy, Deposit-Taking SACCOs continue to face a number of challenges. They face stiff competition for membership from other deposit taking institutions particularly commercial banks (Matumo, Maina & Njoroge, 2013). Saccos also experience efficiency challenges characterized by poor information delivery channels and high operational costs due to inadequate information and communication technologies as noted by Mugambi, Njeru, Memba and Ondabu (2015). In addition, they also face high demands for loans which they are unable to meet due to liquidity shortages and given that they cannot seek credit from the Central Bank of Kenya (CBK) like other commercial banks (Mugambi et al., 2015).

The other significant concern which is facing the deposit taking Saccos is the worry of the members with regard to the issue of dividends, the members' deposit being stolen and failure to refund members deposits and non-remittance of members' deductions by the employers.

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With the regulation of the SACCO sector especially SACCOs operating FOSAs by SASRA, dividend policy has to be developed to guide distribution of surpluses. The SACCO Societies Act, 2008 Section 14(4)(d), 68 (2) (a), SACCOs are prohibited from declaring dividends if they have not met the liquidity provisions which stipulate that a SACCO should at a minimum retain 15% of its savings deposits and short term liabilities in liquid assets and if they have not met other administrative requirements. The liquidity has a direct relationship with dividend policy which stipulates when and how much to distribute and the effects of cash outflows.

Statement of the Problem

Savings and Credit Co-operatives (Saccos) are global financial phenomena that play a key role in the financial sector of many economies globally. Savings and credit cooperative societies' organizations (Saccos) play an important role towards the development of a country. Saccos are key in mobilization of financial resources and will be a major player in realization of the national Vision 2030 (Dunda, 2010). Cooperatives do play a vital economic role in market economies as indicated by their substantial levels of asset ownership, sales, and market share. However, deposit taking Saccos in Kenya has seen the performance going down which have resulted to Saccos collapsing and others going into receivership. In 2016 alone SASRA cancelled the licences of five Savings and Credit Cooperative Organizations (SACCOs) after failing to meet financial obligations among other reasons. The Saccos are Ufundi, Transcom, Nest sacco, Green Hills Sacco (formerly Chebosobon) and Maono Daima sacco were deregistered over serious liquidity and corporate governance issues. The Saccos had liquidity challenges and were unable to meet obligations such as paying members deposits when due. The affected SACCOs had a composed membership of 18,769, Sh1.9 Billion in assets, Sh641 Million in deposits and a loan book of Sh517 Million SASRA (2016). In 2018 Mwalimu, Ekeza and Stima Investment Co-operative, are together estimated to have lost their members upwards of Sh3.6 billion through mismanagement or outright fraud by officials and boards (SASRA 2018). In the North Rift the government has revoked the licence of Moi University Sacco and placed it under liquidation.

Saccos have to adjust their way of doing business in order to maximize the shareholder value and increase the market share. They have to ensure that to remain relevant in the dynamic business environment have to become competitive. One of the important decisions thus the Saccos have to make is dividend policy decisions. Hence, the key question in this study is how dividend policy decisions could enhance performance of deposit taking SACCOs in the North Rift Region?

When Saccos are not performing well then hundreds of billions of shillings of members' savings that have either been lost or are at risk of being lost as more and more cases of financially troubled Savings and Credit Co-operative Societies (Saccos) come to the fore. In addition liquidity challenges clip in and they become unable to meet obligations such as paying members deposits as and when due. Prior studies have shown that that dividend payment patterns of firms are a cultural phenomenon, influenced by customs, beliefs, regulations, public opinions, perceptions and hysteria, general economic conditions and several other factors, all in perpetual change, impacting different firms differently, hence we can't have a uniform policy for all firms at all times (Al-Malkawi, 2007). Komrattanapanya (2013) share similar sentiments that studies on dividend policies differ across companies and sectors, and their effect on company value remains inconclusive among finance researchers. SACCOs are financial institutions which offers similar products like banks and most of them were formed long time ago but their performance is not something to be proud of compared to commercial banks and other financial institutions (Gathurithu, 2011).

According previous studies in financial debate regarding dividend policy is still called for attention. Financial researchers continuously study this topic for the purpose of determining consistent factors that affect dividend payout and attempting to reach the consensus for both developed countries and developing countries. Studies have established the determinants of dividend policy. However, much of these studies are in the developed economies and in the emerging economies like Malaysia, Thailand, India, Brazil and some in Pakistan. Few empirical studies have been conducted in Africa and mainly in Nigeria and Ghana. More so, very little if any empirical studies have been done on the determinants of

dividend policy in Saccos most specifically in Kenya.

Therefore, the main purpose of this study is to investigate the determinants of dividend policy decisions the deposit taking Saccos in the North Rift Counties, Kenya, which is one of developing countries.

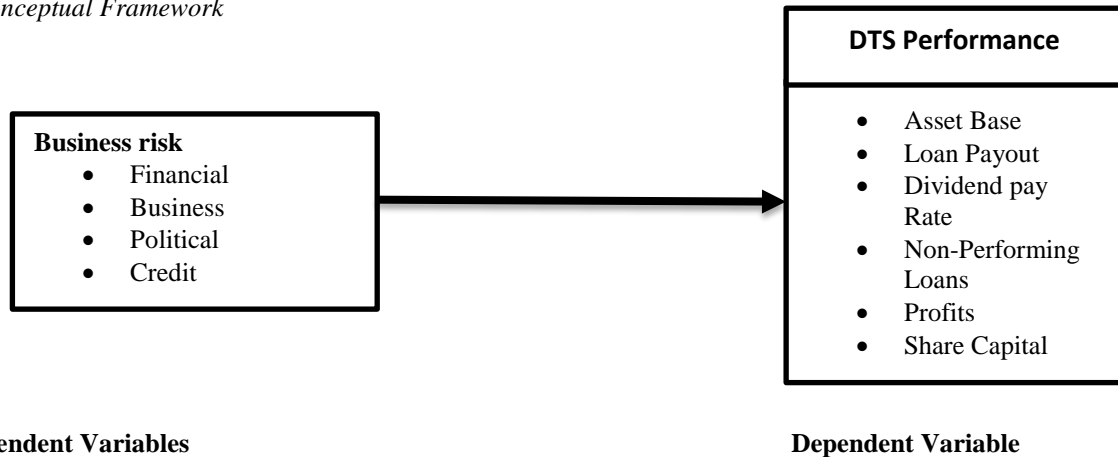
1.3 Objective of the Study

To investigate the effect of business risk on performance of deposits taking Saccos

1.4 Research Hypothesis

- i. H_{01} There is no significant effect of business risk on performance of deposit taking Saccos

1.1 Conceptual Framework



Source: Author (2019)

Figure 1.1: Conceptualizing the Relationship between Dividend Decisions Policies and Financial Performance

The conceptual framework conceptualizes the relationship between business risk and performance. Business risk was conceptualized by looking at financial, business, political and credit aspect. The dependent variable which is Deposit taking Sacco performance will be measured by looking at efficiency, Asset base, Loan pay out, Dividend payout rate, and Non-performing loans.

2.0 Literature Review

Theoretical Background

The study will be guided by dividend theories. The Dividend theories provide a framework on how dividends are declared. There are two schools of thought on the issue of dividends that is those who believe that issue of dividend does not impact valuation and that school which is of the opinion that issue of dividends affect the value of the firm. Miller and Modigliani model of 1976 is the guiding model on the irrelevance of dividends while the Walter and Gordon are of the relevance of dividends.

Overview of Dividend Decision

A dividend policy can be defined as an action plan adopted by directors of a firm in making decisions regarding the essential matters of organization. Dividend policy determines the distribution of the amount of earnings between shareholders (dividend payment) and the company (reinvestment). Dividend policies are designed to suit each firm's requirements which is important to achieve firm's set objectives. The main methodologies are stable and predictable, continuous payout. Dividend policies help a company to give varied payment of dividend from time to time and annually depending on the firm's cash flows and the need to finance its operations (Pandey, 2005). Dividend policy, according to Lease, John, Kalay, Lowenstein and Sarig (2000) is the practice that management follows in making dividend payout decision or, in other words, the size and pattern of cash distributions over time to shareholders. Dividend payout policy decision is one of the controversial issues in financial management, corporate finance and financial economics. For several years, there are four major

topics have been discussed in dividend policy literature that is; the manner of determining dividend payout, the relevancy of dividends, inter-country differences in company's dividend distribution and disappearing dividends in emerging markets (Robinson, 2006).

The forms of company payout policies not only vary over time but also across countries, especially between developed and emerging capital markets. Ramcharan (2001) also observed low dividend yields for emerging markets. Generally speaking, firms in emerging capital markets face more financial constraints and limited resources to finance their investment opportunities, which may result in more reliance on retained earnings and accordingly result in lower payout ratios. But this explanation is largely speculative, since so little research has been done on dividend policy in emerging equity markets.

In the US companies studies have shown that there have been three different approaches found for the setting of dividend policy. First, there are those companies that target long term payout ratio and determine dividend payout as a percentage of earning. Secondly, there are firms that have stable dividend payments over time as they believe this is the preference of investors. Lastly, some managers consider the change in level of dividend payout being really important because it gives valuable information to the investors.

In addition, from the manager's point of view, the current rate of dividend payouts is usually used as a bench mark to set the dividend policy (Lintner, 1956). Since a change in dividend policy in a firm means a change in financial policy of that firm, there are some questions about why firms enact dividend changes, with some companies attempting to reduce dividends while others deciding not to pay dividends to shareholders. As reported by Lintner (1956), changing dividend policy illustrates changes in the firms' earnings. Firms with stable dividend policy are more preferred by investors and managers. On the other hand, as omitting the dividends can be a negative signal to the market which conveys information about the firms' financial distress; the managers are usually unwilling to omit or reduce the dividends as stated by DeAngelo and De Angelo (1990).

According to their extensive study of dividend changes, Brav et al (2005) argued that keeping the level of dividends constant is a main concern for

investment decisions. In contrast with Lintner's findings, managers are reluctant to increase dividend payment at the same time with any rise in earnings, because they no longer consider dividends as the main decision variable (Brav, Graham, Harvey, & Michaely, 2005).

In terms of dividend policy in emerging markets, one important characteristic of emerging markets has to be considered, i.e. the government exerts a control on the firms' financial decisions through some fiscal policies (Glen, Karmokolias, Miller, & Shah, 1995). Adaoglu (2000) supports this view, based on evidence from his study regarding dividend instability in public listed firms in Turkey.

Studies have shown that dividend decisions among the firms is influenced by a number of factors; among them size of the firm Mozes & Rapaccioli (1995) Agency costs Jensen and Meckling (1976) profitability Fama & French (2002) financial leverage Al-Malkawi (2008) growth opportunities Deshmukh (2005) among others.

Business Risk and Performance of of Deposit Taking SACCOs

Business risk is the uncertainty associated with organization's operating environment and reflected in the variations of operating income and hence, having a negative impact on the profitability of a given organization (Madhani, 2011). Business risk may negatively impact on the operations or profitability of a given firm. When current profits and expected future profits are uncertain, a firm confronts to the business risk. Hence, a firm is impossible to pay high dividend as profits increase (Jensen, Solberg & Zorn, 1992).

Alshubiri (2011) analysed the impact of financial and business risk on performance in ten industrial sector of Sultanate of Oman. The population is 47 firms from the period 2009 to 2013. The results indicated that there is a statistical significant impact of earnings growth at business risk on performance at significant level 5% and current ratio and financial leverage at financial risk on performance at significant level 1%. The multiple regressions showed that there is a significant impact of all business and financial risk variables on performance at significant level 10%. The stepwise regression also showed that the financial risk related to current ratio variable between all independent variables is a significant impact on performance at significant level 1%.

A study by Kisel'áková et al., (2015) analysed the impact of selected systematic and unsystematic risks to performance of the enterprises in Slovak. The study used secondary data of financial statements the selected company, which is representative of the Slovak food industry. Systematic risks were represented as β coefficient, which has been modified to levered β coefficient. In addition to the β coefficient, the study analyzed the impact of market risk and country risk. These systemic risks were compared between the selected countries in the EU. The second group of risks represented risks arising from the internal enterprise environment. The study concluded that the most significant impact on performance of the enterprise has just financial risk.

A study by Blake and Jandhyala (2016) examined the effect of political risk on firm performance. Using a natural experiment and a difference-in-differences approach, the study found support for its argument in the context of telecommunications firms in India. The researchers proposed that firms facing adverse political actions divert significant managerial attention from routine operations to responding to the political challenge.

Noor, and Abdalla (2017) conducted a study on the impact of financial risks on the firms' performance in Kenya. The study looked at credit risk, liquidity risk, foreign exchange risk, market risk and interest rate risk. The findings of the study indicate that financial risks have a great impact on firm's performance. The study was on financial risks on firms' performance, whereas the current study is on determinants of dividend decisions of saccos looking at business risk as one of the determinant.

In Pakistan a study by Vakilifard and Oskouei (2014) on the effect of risk on firm performance: Evidence from Automobile companies listed in Tehran stock exchange. This study assessed the effect of risk factors on firm accrual-based and cash flow-based performance measures in Automobile Companies in Tehran Stock Exchange for the period from 2005 to 2010, using Spss19 software, OLS (Ordinary Least Squares) regression method. Financial leverage and operating leverage as risk factors, ROI (Return on Investments) and OCFR (Operating Cash Flow Return) as firm performance measures are considered. Results showed that financial leverage does not have significant effect on ROI and OCFR. Operating leverage affects only on ROI.

Operating leverage is negatively related to ROI. This study concluded that accrual based measure performs better than cash based one.

In Nigeria a study by Kargi (2011) investigated the effect of credit risk on the performance of Nigerian banks. The study used non performing credit portfolios and these significantly contributed to financial distress in the banking sector. Financial ratios as measures of bank performance and credit risk were the data collected from secondary sources mainly the annual reports and accounts of sampled banks from 2004-2008. The author concluded that credit risk has a significant impact on the profitability of Nigeria banks.

3.0 Research Methodology

Research Design

A research design generally entails the use of outline for collection, measurement and analysis of data. It guides the entire research process (Sreevidya & Sunitha, 2011). The study will use explanatory research design. The primary purpose of explanatory research is to explain why phenomena occur and to predict future occurrences. Explanatory study sets out to explain and account for the descriptive information. Thus, explanatory studies seek to ask 'why' and 'how' questions (Gray, 2014).

Population of the Study

The target population of the study would be management and board members of 9 Deposit Taking Saccos in the North Rift region. There are 12 board members in each Sacco who will form the unit of analysis for this study. The justification for the board members is that they are the ones who make decisions regarding the dividend policies and issue of loans, thus the general management of the Saccos. Hence, the total number of respondents was 108 that is twelve members from nine Saccos in the region.

Sampling Technique

Purposive sampling technique will be used to select deposit taking Saccos in the North rift region of the Country. However, since the population is small the entire population will be used for the study. Thus a census survey will be used to collect data from all the respondents of the study.

Data Collection Instruments

Creswell and Designm (2003) define data collection as a means by which information is obtained from selected subjects of investigation. The researcher will develop research questions for collecting primary data. The questionnaires will be self-administered in order to gather primary data on dividend policies and financial performance of deposit taking Saccos'. Questionnaires eliminate interviewer bias and ensure that the respondent has adequate to respond meaningfully (Kothari, 2004).

Data Collection Procedures

After testing the validity and reliability of the research questionnaire, the researcher sought the consent of Masinde Muliro University of Science and Technology. The research questionnaires were then administered on the respondents by the researcher in person or research assistants.

Validity and Reliability

The study tested the research instruments in order to determine their validity and reliability before commencing the study.

Validity

Validity is the degree to which an instrument correctly measures a construct or variable (Cooper & Schindler, 2011). It is the accuracy, truthfulness and meaningfulness of inferences that are based on the data obtained from a tool or a scale for each construct in the study. The study ensured that content validity of research questionnaire by consulting the university supervisor. The study also used content validity.

Reliability

Reliability is the degree to which the research questionnaire can be depended upon to secure consistent results upon repeated application. Cronbach's alpha coefficient will be used to test for the internal consistency of the research instrument. If the coefficient is above or equal to 0.70 then the research questionnaire is considered reliable (Sreevidya & Sunitha, 2011).

Data Analysis and Presentation

After data collection, the data obtained from the field was filled-in and returned questionnaires were edited for completeness, coded and entries made into Statistical package for social sciences (SPSS version 21). Screening was then performed

for the following; levels of measurements, sample size, assumptions of normality, linearity, independence of errors and homoscedasticity. Further screening covered outlier detection and establishing presence of multicollinearity. Testing for compliance with statistical assumptions of multivariate analysis provided a pillar for making statistical inferences and results. This ensured that the data are accurate, consistent with other information, uniformly entered, complete and arranged to simplify coding and tabulation. With data entry, the data collected was captured and stored. Descriptive and inferential analysis was conducted.

Descriptive Analysis

Descriptive analysis involved the use of frequencies in their absolute and relative forms (percentage). Mean and standard deviations were also used as measures of central tendencies and dispersion respectively. The purpose of conducting descriptive statistics was to reduce, summarize data and analyze items and constructs. This provided insights into the characteristics of the samples. Descriptive statistics provided a basis for inferential statistics using correlation and multiple regressions.

Inferential Analysis

Inferential analysis was done to determine the effect of internal marketing strategy on employee performance and moderating role of employee commitment, thus, testing the hypotheses of the study. Linear Multiple Regression and correlation analysis were used to assess the strength of the relationships between the specified variables. The Linear Multiple Regression analysis was conducted, with the assumption that: variables are normally distributed to avoid distortion of associations and significance tests, which was achieved as outliers were not identified; a linear relationship between the independent and dependent variables for accuracy of estimation, which was achieved as the standardized coefficients were used in interpretation. Various statistics were extracted and interpreted with respect to the various models. The study employed a multiple regression model since to test for moderation, employee commitment was first treated as an independent variable.

Multiple Regression Model Description

The study adopted the following multiple linear regression model:

$$Y = \beta_0 + \beta_1 X_1 + \epsilon \dots \dots \dots \text{Equation 3.1}$$

Where; **Y** represents performance of deposit taking Saccos in North rift, Kenya

β_0 represents the y-intercept

β_1 , represent coefficients of determinants of dividend policies

X_1 , represent independent variables

ϵ represent error term

4.0 Research Findings and Discussions

Response Rate

The study targeted 12 executive committee members from nine Saccos in the North Rift Counties. The study therefore had 108 respondents and managed to collect data from 95 respondents. This represented 87.96 per cent response rate. However, this response rate was deemed satisfactory as suggested by Field (2013) who recommends 75% as a rule of the thumb for minimum responses.

Table 4. 1: Response Rate

Responses	No	Percentages
Usable questionnaires	95	87.96%
Unused	13	12.04%
Administered questionnaires	108	100

Pilot Study Results

The questionnaire tool was subjected to a pilot study to determine its reliability. The pilot study involved 10% of the sampled respondents hence, 10 respondents were randomly picked from Saccos in North rift Kenya in Eldoret town. The pilot results are presented in Table 4.2;

Table 4. 2: Reliability Results

Objective	Alpha value	Number of items

Performance of	0.829	5
Business Risk	0.750	4

The pilot results indicated that the reliability of the performance of deposit taking Saccos was 0.829 using Cronbach's alpha test of reliability; the reliability of the business risk was 0.750. The study results revealed that all the variables gave an alpha test value of greater than 0.70, therefore all the items were regarded reliable. According to Sekaran and Bougie (2011) a cronbach's alpha of 0.7 and above is considered good.

Demographic Characteristics of the Respondents

The study sought to establish the general information of the respondents. The study sought to establish the category, gender, years of experience and highest educational level of respondents. The study results are presented in Table 4.3;

4.4.1 Distribution of Respondents by Gender

This study analyzed how respondents were distributed according to their gender. The results of the analysis are presented in Table 4.3

Table 4. 3: Gender of the Respondents

Gender	Frequency	Percent
Male	64	67.4
Female	31	32.6
Total	95	100.0

The study findings on the gender of the respondents showed that 67.4% were male while 32.6% were female. This shows that the study managed to collect data from both genders and their opinions were represented in the study.

Distribution of Respondents by Years serving in the Committee

Respondents were asked to indicate the number of years of experience they have had in the in the real estate sector to assess their familiarity in the field and hence assure validity of their responses, the results are as indicated in Table 4.5.

Table 4. 4: Respondents Years in the Committee

Years of Work	Frequency	Percent
1-5 Years	19	20.0
6-10 Years	63	66.3

11 Years and above	13	13.7	Bachelor's Degree	49	51.6
Total	95	100	Post-graduate	20	21.0
			Total	95	100

The study results on the respondent's years of experience indicated that 20.0% of the respondents had been in the committee between 1-5 years; while 66.3% had been in the committee of 6-10 years whereas 13.7% had experience of 11 and above years. The findings of this study indicate that the respondents had adequate experience to respond to the questions and are informed the dividend decisions the Sacco.

Distribution of Respondents by Highest Education Level

Respondents were asked to indicate their highest education level. This item was to assess their level of skills and to establish whether they were in a position to answer the questionnaire accurately and the results were as indicated in Table 4.5.

Table 4. 5: Distribution of Respondents by Education Level

Educational Level	Frequency	Percent
Certificate	5	5.3
Diploma	21	22.1

The study findings on the education level of the respondents indicated that 5.2% were certificate level, 22.1% were diploma graduates; 51.6% were bachelor's degree graduates; 21.0% were post-graduate. This implies that the respondents were knowledgeable and therefore understood the study questions and this could be interpreted to mean that they gave a true and fair view of the study questions.

Descriptive Statistics

The descriptive statistics are presented in the section that follows; the information was sought in relation to the study objectives. In this section the study used descriptive statistics, which include mean, standard deviation and variance.

Business Risk and Performance of Deposit Taking Saccos

The study sought to determine the effect of business risk and Performance of Deposit Taking Saccos in the North Rift Kenya. The study responses were presented in Table 4.6

Table 4.6: Business Risk and Performance of Deposit Taking Saccos

Statements		SA	A	U	D	SD	Mean	Std Dev
i. The financial risk of Sacco determines the dividend policy of the Sacco.	F	27	40	15	8	5	4.00	1.187
	%	28.1	42.4	15.8	8.6	5		
ii. Business risk influences dividend policy of the Sacco	F	8	57	14	12	4	3.55	0.969
	%	7.9	60.4	15.1	12.2	4.3		
iii. Political risks determines the dividend policy of the Sacco	F	8	57	14	12	4	3.55	0.764
	%	7.9	60.4	15.1	12.2	4.3		
iv. The Sacco's dividend policy is determined by credit risk the Sacco faces	F	10	48	19	16	2	3.16	0.606
	%	10.8	50.4	20.1	16.5	2.2		

The study results on the effect of financial risk of Sacco determine the dividend policy of the Sacco. Majority of the respondents 80.0% were of the opinion that financial risk of Saccos are affecting dividend policy of the Saccos. This was further supported by (mean=4.00; Std Dev 1.1187). These findings were thus implies that the financial risk

influences the performance of Saccos in the north Rift region.

Further majority of the respondents 71.0% were of the opinion that business risk influences dividend policy of the Sacco while 16.5% of the respondents disagreed. This was further supported by (mean=3.55; Std Dev 0.969). In addition,

majority of the respondents 71.0% were of the opinion that political risks determine the dividend policy of the Sacco while 16.5% disagreed. This was further supported by (mean=3.55; Std Dev 0.764). These results imply that when the country faces political turmoils and uncertainty Saccos dividend policy is affected.

Lastly, majority of the respondents 70.5 were of the opinion that the Sacco's dividend policy is determined by credit risk the Sacco faces while

Table 4.7: Performance of Deposit Taking Saccos

			S.A	A	N	D	S.D	Mean	Std. Deviation
i.	The Sacco declares profits annually	F	22	8	13	27	25	3.72	1.265
ii.	The share capital of the Sacco is adequate	%	23.2	8.4	13.7	28.4	26.3		
iii.	The Sacco has adequate Asset Base	F	28	22	5	32	18	3.25	1.107
		%	29.5	23.2	5.3	33.7	18.9		
iv.	The amount of non-performing loans are manageable	F	26	34	8	10	17	3.24	1.139
		%	27.3	35.7	8.4	10.5	17.9		
v.	The dividend pay rate is adequate to the shareholders	F	6	16	12	32	30	3.04	1.300
		%	6.4	16.4	12.3	32.8	31.6		

The study results on indicators of performance revealed that 30(31.6%) of the respondents were of the view that saccos declares profits annually while 52(54.7%) of the respondents disagreed with this statement that saccos declares profits annually. This was further supported by (mean=3.72; Std Dev 1.265). These findings implied that not all Saccos declare dividend in annual basis in the North Rift Region.

In addition, the respondents were asked as to whether the Sacco has adequate asset base 50(52.7%) of the respondents were of the view that Saccos have adequate asset base within them, on the contrary 50 (52.7) of the respondents disagreed with the statement that Saccos in the north rift have adequate asset base. This was further supported by (mean=4.49; Std Dev 0.606). These findings were thus implying that Saccos in the north rift have inadequate asset base.

In another question the respondents were asked to give their view regarding whether the amount of non-performing loans are manageable. The results indicated that 60 (63.2%) of the respondents agreed with this statement while 27 (28.4%) of the

2.2% disagreed. This was further supported by (mean=3.16; Std Dev. 0.606). From these findings it implies that credit risk in the Saccos dividend policy of North Rift Saccos.

Performance of Deposit Taking Saccos

The study finally sought to determine the indicators of performance of Deposit Taking Saccos in the North Rift counties. The study results were as tabulated in Table 4.7.

respondents disagreed to this statement. This was further supported by (mean=3.24; Std Dev 1.139). The implication of this finding is that Saccos in the North Rift Counties have manageable non-performing loans.

Lastly when the respondents were asked whether dividend pay rate is adequate to the shareholders 22 that is 22.8% of the respondents agreed that the dividend rate is adequate. On the other hand 61 of the respondents that is 64.6% disagreed with this statement. This was further supported by (mean=3.04; Std Dev 1.300). This is an implication that majority of the Saccos do not pay dividends rates which are adequate.

Inferential Statistics

Multiple Regression Analysis

Multiple regression analysis is a powerful technique used for predicting the unknown value of a variable from the known value of two or more variables. In this study multiple regression will help predict the combined effect of Sacco returns, size, business risk and growth potential, on Deposit Taking Saccos performance in in North

Rift Counties. The results of multiple regression analysis are shown in Table 4.8.

Table 4.8: Multiple Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.860 ^a	.739	.712	.01897

- a. Predictors: (Constant), Business risk
b. Dependent Variable: Performance.

From Table 4.8, R-Squared is used to evaluate the goodness of fit of a model. In regression, the R square coefficient of determination is a statistical measure of how well the regression line approximates the real data. It measures the proportion of the variation in dependent variable in this case strategic innovation implementation, explained by independent variables. The adjusted R-squared is a modified version of R-squared that has been adjusted for the number of predictors in the model. The adjusted R-squared increases only if the new term improves the model more than would be expected by chance. It decreases when a predictor improves the model by less than expected by chance while the standard error of the estimate is a measure of the accuracy of predictions.

From the results on model summary R= 0.860, R-square = 0.739, adjusted R- square= 0.712, and the SE= 0.01897. The coefficient of determination also called the R square is 0.739. This implies that the effect of the predictor variables (business risk) explains 73.9% of the variations in performance of Saccos taking deposits in the north rift Counties. This implies that a 1 unit change in the predictor

Table 4.9: ANOVA Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.722	3	3.241	92.346	.000 ^b
	Residual	3.437	29	.119		
	Total	13.159	32			

- a. Dependent Variable: Performance.
b. Predictors: (Constant), Sacco returns, size, business risk and growth potential

The findings of the study in Table 4.9 showed that there was a statistically significant relationship between the independent variables and the dependent variable (F= 92.346; p=0.000). This therefore indicates that the multiple regression model was a good fit for the data. It also indicates that Sacco returns, size, business risk and growth potential all influence performance of Saccos taking deposits in the North Rift Counties.

variables (Sacco returns, size, business risk and growth potential) has a strong and a positive effect on performance of Saccos taking deposits in the North Rift Counties.

This study therefore assumes that the difference of 26.1% of the variations is as a result of other factors not included in this study. The standard error(S) of the regression provides the absolute measure of the typical distance that the data points fall from the regression line. S is in the units of the dependent variable. The standard error is an important indicator of how precise an estimate of the population parameter the sample statistic is Standard error(S) must be less than 2.5%. As presented in table 4.15 (S=.01897) which is 1.9%. This indicates that the regression model is precise using the units of the dependent variable.

Assessing the Fit of the Multiple Regression Model

Multiple regression analysis was conducted to test the influence among predictor variables on performance of Saccos taking deposits in the north rift Counties. All the four null hypotheses were tested using F statics. The test results are shown in Table 4.9.

Regression Coefficients

The study employed multiple regression analysis to test the hypotheses. Multiple regression analysis was conducted to test the influence of predictor variables on performance of Saccos taking deposits in the north rift Counties. This was done with a significance level of 0.05, such that when

the significance value is less than the 0.05 the null hypothesis is rejected and when it is above 0.05 we fail to reject the null hypothesis (Ringle, Sven &

Michael, 2015). These results were presented in Table 4.10.

Table 4.10: Regression Coefficients

Model	Coefficients			T	Sig.
	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta		
(Constant)	0.369	0.224		1.648	0.207
Business Risk	-0.071	0.014	-0.057	11.876	0.000

Dependent Variable; Performance of Deposit Taking Sacco

The null hypothesis H_{01} indicated that business risk has no significant effect on performance of deposit taking saccos in the north rift counties. However, the study findings indicated that there was a negative and significant effect of business risk on performance of performance of deposit taking saccos ($\beta = -0.071$; $p < 0.05$). The study therefore rejected the null hypothesis at 95% level of significance and accepted the alternative hypothesis. This implies that when the risk of the business is higher the performance of deposit taking Saccos is affected. This could mean that Sacco's performance is affected by business risk.

These study findings are in line with Noor, and Abdalla (2017) study on the impact of financial risks on the firms' performance in Kenya. The findings of the study indicate that financial risks have a great impact on firm's performance. The study was on financial risks on firms' performance, whereas the current study is on determinants of dividend decisions of Saccos looking at business risk as one of the determinant. In addition it is similar to a study by Kargi (2011) in Nigeria. The study concluded that credit risk has a significant impact on the profitability of Nigeria banks.

$$Y = 0.369 + -0.071X_1 + \dots \dots \dots \text{Equation 4.1}$$

From the regression equation and the results in Table 4.12, the coefficients refer to the slope of the regression line and amount of variance each predictor contributes to the general regression equation. Therefore, adjusting Sacco returns by 1 unit would lead to a 0.170 units change on Performance of Deposit taking Saccos in the North Rift Counties. It was also noted that changing 1 unit of Sacco size would lead to a 0.263 units change on Performance of Deposit taking Saccos in the North Rift Counties. In addition a 1 unit change in business risk would lead to a -0.071 units change on Performance of Deposit taking Saccos in the North Rift Counties. Lastly, a 1 unit

change in growth potential would lead to a 0.231 units change on Performance of Deposit taking Saccos in the North Rift Counties. Hence, all variables are statistically significant predictors of the dependent variable.

5.0 Summary, Conclusions and Recommendations

Summary of Findings

This study was designed to find out the effect of determinants of dividend decisions on performance of deposit taking Saccos in North Rift Counties, Kenya. A sample of 95 respondents was engaged in the study. Questionnaire with a 5 point likert scales was used to collect data. After the data had been collected, it was analyzed using both descriptive and inferential statistics and was presented using tables.

The sought to assess the effect of business risk on performance of deposit taking Saccos in the North rift counties. The study indicated that there was a significant and negative effect of business risk and performance of deposit taking Saccos. This implied that savings business risk is a predictor for performance of deposit taking saccos. These findings meant that the null hypothesis was rejected.

Conclusions

From the findings, the following conclusions can be established;

It was concluded that business risk negatively affects Sacco performance. Hence, it was concluded that the deposit taking Saccos in the North rift should ensure that they manage the risks in order to boost growth. More so the Saccos need to diversify the ventures in order to reduce the risk that affects them.

Recommendations

Based on the results, findings and conclusions the following recommendations have been made:-

Recommendation for Policy and Practice

This study recommends that the government through the Sasra should establish and implement policies that enhance performance of the Saccos. In addition the Sacco managers should establish policies and guidelines which will promote the best interest of the members.

Suggestions for Further Research

From the regression output, it was revealed that the study variables explain 73.9% of the variations in Deposit taking Saccos in North rift Saccos. This study therefore assumes that the difference of 26.1% of the variations is as a result of other factors not included in this study. Further research is therefore advocated for to focus on other factors that affect performance of real estate in Kenya. These factors include political, legal, social, economic and geographical factors. Secondly, future studies need to be carried out to establish the role of government policies in the performance of Saccos. Also further studies can establish the role of corporate governance on performance of deposit taking Saccos.

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