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DETERMINANTS OF DIVIDEND SMOOTHING IN KUSCCO AFFILIATED SACCOS IN KAKAMEGA COUNTY

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ABSTRACT

The purpose of this study was to analyze the determinants of dividend smoothing in KUSCCO affiliated SACCOs in Kakamega County. Specific objectives were to examine the influence of firm size on dividend smoothing of KUSCO affiliated SACCOs in Kakamega County, investigate the influence of financial risks on dividend smoothing on KUSCCO affiliated SACCOs in Kakamega County, analyze the shareholder ownership influence on dividend smoothing on KUSCCO affiliated SACCOs in Kakamega County and to find out the influence of profitability on dividend smoothing on KUSCCO affiliated SACCOs in Kakamega County. To achieve the general objective of the study, a survey was conducted on SACCOs affiliated to KUSCCO and operational. Data on general information was collected using the questionnaire. Data analysis was done using descriptive and inferential statistics. Under inferential statistics correlation analysis and multiple regressions analysis was used. The findings indicated that profitability, firm size and shareholder ownership have positive and significant effect on dividend smoothing. This implied that their increase would result to increase in dividend smoothing. On the other hand, financial risk has negative effect on dividend smoothing of SACCOs affiliated to KUSCCO in Kakamega County. This postulated that increase in financial risk would result to reduction in dividend smoothing. Therefore, the study concluded that dividend smoothing is significantly influenced by shareholder concentration, profitability and firm size. The study recommended that there is need for Saccos to increase their profitability so as to achieve dividend smoothing over time. This can be achieved by increasing the rate of return of assets. In this case, management is recommended to utilize their assets in a profitable manner so as to achieve dividend smoothing.

Key Word: *Firm Size, Financial Risks, Shareholder Ownership, Profitability, Dividend Smoothing*

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INTRODUCTION

Dividend smoothing policy has always been a puzzled issue for Financial Analysts, this has enabled shareholders have different attitudes and managers designing different approaches to dividend policy (Bhattacharyya, 2007). The main essence of having a dividend policy by organizations is to be enabled to make decisions on determination of payout ratio and retention ratio that suits the shareholders and the management of the organization (Periyathamby & Navaratnaseelan, 2012). The approach to dividend policy by organizations depend on the level of operational earnings raised by the organization, hence the determination of whether to use stable dividend policy or resort to dividend smoothing policy as the cash inflow conditions may be within the organization (Malkawi, Rafferty & Pillai, 2010).

Kakamega County is located in the Western part of Kenya and borders Vihiga County to the South, Siaya County to the West, Bungoma and Trans Nzoia Counties to the North and Nandi and Uasin Gishu Counties to the East. The County covers an area of 3,051.3 KM2 and is the second populous county after Nairobi with the largest rural population. The altitude of the county is between 1,240 metres and 2,000 metres above sea level.

In Developed countries dividend policy tends to be more flexible as compared to the Developing countries. By including two different economic periods, economic boom period and economic recession period, managers tend to change the dividend even though the earnings are just temporarily affected(Goergen, Renneboog& da Silva, 2005).A study conducted in United Kingdom (UK) had a conclusion that, apart from using earnings, the UK firms rely on cash flows from operating activities and free cash flows to enable them to pay dividends consecutively(Al-Najjar&Belghitar, 2012).

The environment plays a role in different economies when it comes to dividend smoothing policy of an organization (Al-Yahyaeet al. 2011). Western countries and the East have different approaches to dividend policy depending on conditions that exist in a given economy. For example in Eastern economies there are four criteria reasons that makes the scenario different, that is, there are taxes imposed on dividends, companies are highly leveraged mainly through bank financing, the firms pay a large proportion of their earnings through dividends, firms are owned by a small number of investors who have controlling interest (Al-Ajmi& Hussain 2011).Organizations are willing to cut or skip dividends when profit declines and pay no dividends when losses exist (Adaoglu,2000).

Idea of smoothing arises from the desire to maintain existing conditions or to make it better than the previous conditions (Leary &Michaely, 2011).Kenyan SACCOs are still in stages of developing, affected by insufficient capital base, lack of or slow rate of Information Technology (IT) adoption, and inefficient loan pricing strategies (Munge, 2005).With such challenges, the dividend policy of major SACCOs may not be robust, especially with low and middle income earners in developing countries where the average citizen live on less than a dollar a day (Mwangi,2008). Member's contributions are a direct income to the SACCOs and without adequate finances and facilities, the management of SACCOs finds it difficult to have a proper dividend policy that is sustainable by earnings and hence the option of dividend smoothing that is effective in short run ((KUSCCO, 2000).

In Kenya there exist three policies of dividend, that is Regular dividend that is regarded as stable dividend, Irregular dividend that changes with situational factors affecting the organization and Residual dividend where the dividend paid is set equal to the actual earnings as reduced by the amount of retained earnings necessary to finance the firm's optimal capital budget. These policies are subject to dividend smoothing to suit the reporting capabilities of the organization to achieve the objectives (Maingi, 2014). The dividend smoothing policy in Kenyan SACCOs is influenced by the

profitability, cash-flow position, growth prospects, and investment opportunities of the organizations (Wasike & Jagongo, 2013). However, organizations use dividend smoothing policy but the management normally rates the cost effects and reputation risks associated with the decisions taken (Munge, 2008).

Statement of the Problem

Dividend policy has been a subject of debate in recent financial literature. Despite the numerous numbers of researches and studies in this field, no consensus has emerged about the rival theoretical approaches to dividend policy. Dividend could be viewed as the share of profit of a firm by the stockholders on a pro rata basis that is determined by number of shares held by each shareholder. Dividend policy can affect the value of the firm and in turn, the wealth of shareholders (Baker et al., 2001). Declaration of proposed dividend by the directors at the Annual General Meeting is expected to serve as an indication that the firm is healthy and capable of sustaining and improving upon the current level of financial performance at both short and long run.

Management are in a dilemma about whether to pay a large, small or zero percentage of their earnings as dividends or to retain them for future investments. This has come about as a result of the need for management to satisfy the various needs of shareholders as well as uncertainty on the effect the dividend payout ratio will have on the market value of their firms. Boards of directors of public firms also face increased accountability for key management decisions and actions and must ensure that they run the company in the interests of shareholders. Lintner (1956) surveyed managers on their attitudes toward dividend policy and concluded that managers target a long-term payout ratio. He also found that dividends are sticky, tied to long-term sustainable earnings, paid by mature companies, and is smoothed from year to year.

Despite the robustness of neither these empirical findings, neither Lintner (1956) nor the literature that followed have been able to offer an explanation as to why firms are so reluctant to cut dividends or why they appear to smooth dividends. However, there are reasons to believe that this behavior is linked directly to whether or not a firm is publicly traded. First, empirical evidence suggests that management's reluctance to cut dividends is partly driven by investors' reactions to such announcements. While these conjectures are motivated by the presence/absence of public capital markets, it is also possible that smoothing is, at least in part, related to agency issues or asymmetric information.

Even with the prevalence and importance of dividend smoothing; there is little agreement about why firms smooth their dividends or what determines a firm's propensity to smooth. The determination of an optimal dividend payout and dividend smoothing as well as the factors that determine it have been and, are still an important area in financial management. This is evident in a comment by Leary and Michaely (2011) **'**Rather than set dividends de novo each quarter, firms first consider whether they need to make any changes from the existing rate. Only when they have decided a change is necessary do they consider how large it should be. Managers appear to believe strongly that the market puts a premium on firms with a stable dividend policy.' However, some researchers conclude that dividend smoothing is costly to firms. Yet other researchers observe that there is no clear reason why firms smooth their dividends, nor convincing evidence that investors prefer this practice (Berk and Demarzo, 2007:556; Baker and Wurgler, 2010), and lack in agreement on factors that influence managers decision to smooth dividends (Lambrecht and Myers, 2010).

This study therefore, attempted to mitigate on this differences in perception by identifying the key features that are required as a common denominator of any firm in order to spawn dividend smoothing across SACCOs in Kenya, by sorting to establish the determinants of dividend smoothing in KUSCCO affiliated SACCOs for a period of five years and hence bridge the gap that exists in Kenya on what is the determinants of dividend smoothing in

KUSCO affiliated SACCOs. This research studied the determinants of dividend smoothing in KUSCCO affiliated SACCOs proved valuable insight to investors and management.

Research Objectives

The main objective of this study was to find out the determinants of dividend smoothing in KUSCCO affiliated SACCOs in Kakamega County. The specific objectives were;

- To examine the effect of Firm size on dividend smoothing of KUSCCO affiliated SACCOs in Kakamega County.
- To investigate the effect of financial risks on dividend smoothing of KUSCCO affiliated SACCOs in Kakamega County.
- To analyze the effect of shareholder ownership on dividend smoothing of KUSCCO affiliated SACCOs in Kakamega County.
- To find examine the effect of profitability on dividend smoothing of KUSCCO affiliated SACCOs in Kakamega County.

This study sought to address the following research questions;

- **H_{01}:** Firm Size has no significant effect on dividend smoothing of KUSCO affiliated SACCOs in Kakamega County;
- **H_{02}:** Financial Risk has no significant effect on dividend smoothing of KUSCO affiliated SACCOs in Kakamega County;
- **H_{03}:** Shareholder ownership has no significant effect on dividend smoothing of KUSCO affiliated SACCOs in Kakamega County;
- **H_{04}:** Profitability has no significant effect on dividend smoothing of KUSCO affiliated SACCOs in Kakamega County.

LITERATURE REVIEW

Signaling Theory

Common view is that dividends send signals about the prospects of the firm, signaling model emanates from the view that well-informed managers use dividends to signal future performance of the company (Berk&DeMarzo, 2009). Similar signals are sent to the market if a firm issues new debt; it shows that managers feel confident that they will be able to meet the interest payments on the debt which in turn signals financial strength (Leary &Michaely,2011). The same goes for dividends; by raising the dividends, it shows that management is confident in that future earnings will be able to support this higher dividend level (Skinner, 2008).

Repurchases can signal similar information as dividends, although there are differences between repurchases and dividends when it comes to signaling. The first one is that, in general, repurchases are used much less frequently than dividends (e.g. Jagannathan, Stephens, &Weisbach, 1999). Dividends are often paid out on a regular basis, such as quarterly, biannually, or yearly, whereas repurchases on a larger scale often occur irregularly, less frequently and are less sticky than dividends hence there is smaller likelihood of smoothing of repurchases than dividend smoothing (Skinner, 2008).

Pecking Order Theory

Pecking order theory states that a firm will pick the financing that is the cheapest, going from retained earnings being cheapest to external debt and finally external equity being the most expensive form of financing (Majluf and Myers, 1984). External financial constraints can be determining factors when it comes to dividends, firms that have a relatively high cost of external financing are expected to be less likely to pay dividends (Bates, Kahle & Stulz, 2009). Therefore, firms with higher external financing costs are more likely to smooth their dividends since this would make sure that there is internally generated capital left after dividends are paid (Beer, 1994).

Since external financing is more costly than internally generated capital, there is an incentive to maintain any internally generated cash within the company. In case of a cash flow stream that is larger than expected, firms with financial constraints are expected to maintain the extra cash within the company(Leary & Michaely2011).High and stable dividend payments demonstrate a firm's

commitment not to undertake value-destroying projects, the management should minimize cost to yield more returns to shareholders(Easterbrook, 1984). Jensen (1986) as well supported the commitment of a firm to undertake value adding projects to earn more for stable dividend payout ratio.

Agency Conflict Theory

When information asymmetries exist, agency problems can include the investors 'suspicion that the managers do not act in the best interest of the shareholders, since the managers do not receive any residual claim on the firm's earnings, there is a great risk of deviation between the interest of managers and that of the investors (Easterbrook, 1984).The risk that, the managers will act in their own interest instead of maximizing the wealth of shareholders are often incurring agency costs (Bebchuk & Fried, 2005). Agency costs refer to all costs that occur as followed by these conflicting interests such as monitoring costs or opportunity costs of the management operating sub-optimally (Jensen, 1986).

An agency-based explanation to why firms smooth their dividends arise from the implications institutional investors on decreasing agency costs due to their monitoring, in turn can lower the company's cost of equity (Allen et al., 1999).Managers can attract institutional investors if they decide to pay high dividends, institutions pay a lower tax on dividends than retail investors, and due to their strong position, institutional investors, who are desired because of their monitoring skills, have the power to impose penalties on dividend cuts (Leary &Michaely,2011). However, interviewing numerous CEOs, CFOs, and other key managers at US, firms do not really intend to use dividends as a way to attract institutional ownership (Brav, Graham, Harvey &Michaely, 2005).This lead to an assumption that a company exposed to agency problems engaging in dividend smoothing in order to regularly pay high dividends while maintaining a rather low leverage reduces agency costs (Leary & Michaely, 2011).

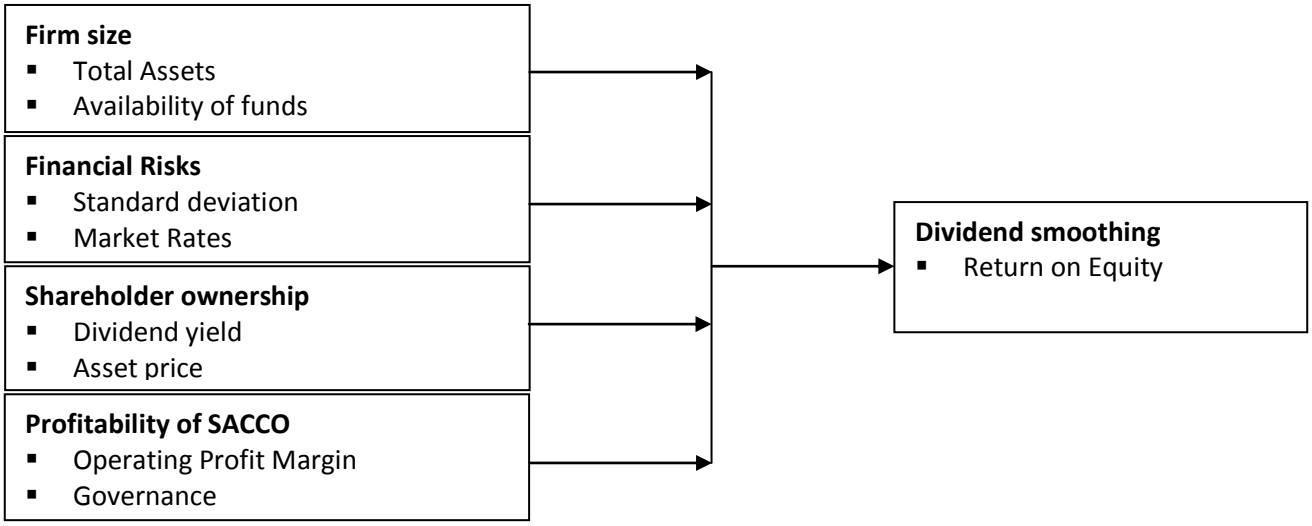

Figure 1: Conceptual Framework

Empirical Review

Large and mature firms have dividend smoothing policy that is of optimal behaviour as a result of managerial risk aversion and habit formation. Risk aversion causes managers to under invest in current periods, whereas habit formation mitigates this bias (Lambrecht& Myers, 2012). Smoothing is subsequently accomplished through borrowing and

lending, firms that are able to borrow more, are predicted to be better able to absorb shocks to income and keep their dividends stable (Gamba& Triantis,2008). More specifically, large firms have large capital base that acts as a shock absorber and hence optimal dividend is smoother than earnings (Hennessy & White, 2007).

Large firms have financial flexibility, smoothing is optimal for three distinct reasons, first, when firms are able to absorb shocks to net income through their capital structure and subsequently are able to pay stable dividends this behavior reduces information asymmetry with regards to the firm's permanent earnings (Leary &Michaely, 2011). Second, in the presence of constraints that lead to underinvestment, induced by managerial risk aversion, financial flexibility and stable dividends reduce agency costs (Lambrecht and Myers, 2012). Third, financially flexible firms invest more in future periods, however to be able to do so, these firms need to secures future low-cost access to capital markets in future period, a reputation of stable dividend provision ensure this access and hence dividend smoothing is exercised(Denis & Mckeon,2012).

Size plays an important role in Leverage strategy and performance as moderating variable. Its importance as moderating variable has become such a routine to employ in empirical corporate finance studies. There are several theoretical reasons why firm size is related to Leverage strategy, these include economies of scale in lowering information asymmetry, scale in transaction costs and market access (Krasauskaite, 2011). For an instant, in the presence of non-trivially fixed costs of raising external funds large firms have cheaper access to outside.

The aftermath of global financial crisis has exhibited unprecedented stock returns volatilities leading to huge lose and uncertainties on portfolio investments for local and international investors. This phenomenon of increased financial risks at the capital and financial markets has solicited discussions at the academic and regulatory circles in a bid to find solutions on challenges facing investor's capacity to reliably predict the highs and the lows of the stock returns (Sobia, Arshad & Szabo, 2015). Empirical literature remains nascent and contradictory on the actual determinants of stock returns sensitivity. However, Bhatiand (2012), Mehri (2015) argued that financial risk theoretically and empirically is proven to influence stock returns. Sobia,et al. (2015) established that investors in emerging markets are mere herd and noise traders as they fail to consider external and internal fundamentals in their investment decisions.

Controlled (Munge, 2005).Dividends can protect relatively uninformed investors from being expropriated by relatively more well-informed investors hence the financial risk being minimized (Michaely& Leary, 2011). When information asymmetries exist, agency problems can include the investors' suspicion that the managers do not act in the best interest of the shareholders as the managers enter into external financing, since the managers do not receive any residual claim on the firm's earnings, there is a great risk of deviation between the interest of managers and that of the investors and this causes reputation risk (Easterbrook, 1984).

Dividend smoothing can also arise from an effort to avoid costly external finance (Campello & Weisbach, 2004). However, smoothing is said to be most prevalent among firms that appear to have the least constrained access to external Capital and highest dividend levels (leary & Michaely, 2011). Firms with high level of unused debt capacity smooth their dividend more than firms with low level of unused debt capacity (Alti, 2006).

Firms that adjust their dividends quickly are the larger, less profitable, and more constrained firms. Firms with the largest unused debt capacity are the most overvalued firms and consistently firms with the most stable dividends also have higher market valuations(Lambrecht & Pawlina, 2013).Firms that are more profitable will also smooth their dividends more, in order to signal stability, sufficient free cash

flows, and high permanent earnings, consistent with the findings of Lie (2005).Firms with more profit and consequently lower levels of information asymmetry indeed smooth their dividends less. In addition, more risky firms are more likely to smooth their dividends (Leary &Michaely, 2011).

Firms usually need to smooth dividends and increase dividends only when they can maintain increased earnings (Kumar & Lee, 2001). Information asymmetry in the capital markets increases the cost of external capital and thereby provides firms with incentives for accumulating large cash holdings. Cash requirements make firms hesitate about increasing dividends for years in which the firms perform well (Michaely& Roberts, 2012).

As per Gates, (2010), who notes that in an industrialist business setting, an enterprise aims at profits. This creator proceeds with a view that diminishes the morale to optimize profits. The desire to work remains confined to an individual, and maybe with the family members. When a business is properly maintained, the owners get good profits and this makes them happy (Aubuchon, 2010). Profitability as a concept is founded on objective comparison of the cash outflows and cash inflows of any firm as far as implementation of strategic objectives is concerned (Ahmad, 2011). Profitability is one of main aspects of financial reporting for many firms (Farah & Nina, 2016).

Profitability is vital to the firm's manager as well as the owners and other stakeholders that are involved or associated to the firm since profitability gives a clear indication of business performance. Profitability ratios are normally used to measure revenues over a given period of time usually a financial year numerous scales are used as indicators ranging from sales level, employed capital and earnings per share (EPS) among others. There exists other profitability ratios that measure the earning capacity of the firm which once positive and favorable are normally considered as success indicators (Majed, Said &Firas, 2012).

METHODOLOGY

This study used descriptive survey research design since the study needed a systematic research method for collecting data from a representative sample of individuals using instruments composed of closed-ended and/or open-ended questions, observations, and interviews. The target population for this study was 156 respondents from 52 SACCOs affiliated to KUSCCO and in operation as at 31st December 2017. The study used questionnaires to obtain qualitative data for analysis then further validated from analysis results from secondary data quantitative analysis. Primary data was collected through the administration of questionnaires. The twenty questionnaires were coded and input into Statistical Package for Social Sciences [SPSS] version 20 for running the Cronbach reliability test. The following was the regression equation that was used to test the significance of the study hypotheses:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon_{it.}$

Y- Dividend smoothing

β_0 – Intercept of the model

X_1–Firm size

X_2 – Risk

X_3–Shareholder ownership

X_4 – Profitability

ε_{it} - Error term

FINDINGS AND DISCUSSIONS

Analysis of Descriptive Data

These are descriptive statistics based on summarized responses on the structured questions about the determinants of dividend smoothing among KUSCCO affiliated SACCOs in Kakamega County. The responses were based on Likert scale with values ranging from 5 to 1; that is; 5=Strongly Agree, 4=Agree, 3= Uncertain, 2=Disagree and 1= Strongly Disagree. The results were presented in the table form showing frequencies of responses as per each statement and its corresponding

percentage score in brackets, means and standard deviations.

Firm Size and Dividend smoothing

These were descriptive statistics on the effect of Firm Size on dividend smoothing among KUSCCO affiliated SACCOs in Kakamega County as summarized in table 1.

Table 1: Descriptive statistics: Firm Size

Statement	5	4	3	2	1	Mean	Std dev
The firm reviews the value of total assets often	7 (8)	36 (40.9)	33 (37.5)	7 (8)	5 (5.7)	3.38	0.95
The firm size is determined by total asset value	15 (17)	43 (48.9)	18 (20.5)	6 (6.8)	6 (6.8)	3.63	1.06
Members often request for information on value of their investments	13 (14.8)	39 (44.3)	25 (28.4)	7 (8)	4 (4.5)	3.57	0.99
Reviewing of members exit and entry done often	5 (5.7)	23 (26.1)	34 (38.6)	19 (21.6)	7 (8)	3.00	1.02
Assets are normally valued at market value	11 (12.5)	35 (39.8)	24 (27.3)	14 (15.9)	4 (4.5)	3.40	1.05
Valid listwise 88							
Grand mean = 3.39							

From table 1, most respondents agreed (40.9%) and strongly agreed (8.0%) that their firm reviews the value of total assets often. A mean of 3.38 postulated Saccos reviewed the value of total assets often to moderate extent. More so, 48.9% and 17.0% of respondents agreed and strongly agreed respectively that the firm size is determined by total asset value. However, 20.5% of the respondents were not sure on the same.

Further, slight majority respondents agreed (44.3%) that members often request for information on value of their investments and additional 14.8% strongly agreed on the same. A mean of 3.57 revealed that, to a moderate extent, members often request for information on value of their investments.

The study also revealed 26.1% agreed that reviewing of members exit and entry done often while 5.7% agreed on the same. However, small majority 38.6% of the respondents were undecided whether reviewing of members exit and entry done often. Lastly, small majority of the respondents agreed 39.8%) that assets are normally valued at market value and further 12.5% strongly agreed that assets are normally valued at market value. This finding agreed with findings by Hennessy and White (2007) who indicated that large firms have large capital base that acts as a shock absorber and hence optimal dividend is smoother than earnings. Further, Leary and Michaely (2011) indicated that large firms have financial flexibility, smoothing is optimal for three distinct reasons, first, when firms are able to absorb shocks to net income through their capital structure and subsequently are able to pay stable dividends this behavior reduces information asymmetry with regards to the firm's permanent earnings.

Financial Risk on Dividend smoothing

These are descriptive statistics on influence financial risks on dividend smoothing of KUSCCO affiliated SACCOs in Kakamega County as summarized in table 2.

Table 2: Descriptive statistics: Financial Risk

Statement	5	4	3	2	1	Mean	Std.dev
The firm reviews Financial risks identification process often	23 (26.1)	31 (35.2)	31 (35.2)	2 (2.3)	1 (1.1)	3.83	0.89
The firm has employed qualified officers for financial risk assessment	13 (14.8)	39 (44.3)	13 (14.8)	21 (23.9)	2 (2.3)	3.45	1.08
Reports about financial risks are availed to members often	22 (25)	45 (51.1)	12 (13.6)	8 (9.1)	1 (1.1)	3.90	0.92
There exist committees for Financial risks management	21 (23.9)	38 (43.2)	13 (14.8)	13 (14.8)	3 (3.4)	3.69	1.10
Follow up is done on implementation of financial risk measures.	12 (13.6)	48 (54.5)	14 (15.9)	11 (12.5)	3 (3.4)	3.63	0.99
Valid listwise 88							
Grand mean = 3.70							

From table, 2, 435.26.3% and 26.1% of respondents agreed and strongly agreed respectively that their firm reviews financial risks identification process often. On the other hand, 35.2% of the respondents were undecided. A mean of 3.83 suggested that Sacco reviewed financial risks identification process often. Further 44.3% of the sampled respondents agreed that their Sacco has employed qualified officers for financial risk assessment and 14.8% strongly agreed on the same.

More so, 51.1% of respondents agreed that reports about financial risks are availed to members often while 25.0% of the respondents agreed on the same. However, only one of the respondents strongly disagreed that reports about financial risks are availed to members often. The results also revealed that most of the respondents (43.2%) agreed that there exist committees for financial risks management and 23.9% strongly agreed on the same. A mean of 3.69 implied that there exist committees for financial risks management. Lastly, 54.% of respondents agreed that follow up is done on implementation of financial risk measures while 13.6% strongly agreed on the same. A mean of 3.63 postulated that follow up is done on implementation of financial risk measures. According to Newquist and Schatz (2007), firms with high reputation enjoy numerous benefits such as more loyal customers, better employees, more sustained earnings, higher future growth and lower costs of capital. Moreover, the reputation risk that the managers will act in their own interest instead of maximizing the wealth of shareholders often incurs agency costs. There is return volatility on use of external financing functions both like a risk measure and an information asymmetry measure hence greater volatility is associated with higher uncertainty and accordingly greater information asymmetry (Michaely& Leary, 2011).

Shareholder ownership on Dividend smoothing

These were descriptive statistics on the influence of shareholder ownership on dividend smoothing among KUSCCO affiliated SACCOs in Kakamega County as summarized in table 3.

Table 3: Descriptive statistics: Shareholder ownership

Statement	5	4	3	2	1	Mean	Std. Dev
The firm access external capital financing	32 (36.4)	35 (39.8)	7 (8)	9 (10.2)	5 (5.7)	3.91	1.17
The firm has limit on external financing capabilities	15 (17)	48 (54.5)	15 (17)	6 (6.8)	4 (4.5)	3.73	0.98

The firm adjust the capital structure often	16 (18.2)	25 (28.4)	29 (33)	9 (10.2)	9 (10.2)	3.34	1.19
There exist committees for ownership management	13 (14.8)	54 (61.4)	13 (14.8)	5 (5.7)	3 (3.4)	3.78	0.89
The firm has a high level of unused debt capacity.	6 (6.8)	37 (42)	23 (26.1)	15 (17)	7 (8)	3.23	1.07
Valid listwise 88							
Grand mean =3.53							

From table 3, small majority of the respondents strongly agreed (36.4%) and agreed (39.8%) that their firm access external capital financing. On the other hand, 10.2% of the respondents disagreed on the same. A mean of 3.91 revealed to moderate extent, their Saccos access external capital financing. The results also revealed that 54.5% of the respondents agreed that their Saccos has limit on external financing capabilities while 17.0% were neutral on the same assertion.

Further, small majority of the respondents (28.4%) of respondents agreed that their firm adjust the capital structure often and additional 18.2% strongly agreed on the same. A mean of 3.34 postulated that Saccos adjust the capital structure often. The results also revealed that 61.4% and 14.8% of the respondents agreed and strongly agreed that there exist committees for ownership management although 14.8% of the respondents were neutral.

Lastly, 42.0% of the respondents agreed that their Saccos have a high level of unused debt capacity and further 6.8% strongly agreed on the same. A mean of 3.23 indicated that Sacco moderate level of unused debt capacity. The findings are in agreement with Lambrecht and Myers (2012) who indicated that firms that are able to move quickly and adjust their capital structure that ultimately affect the ownership structure are better able to smooth their dividends. Survey evidence by Graham and Harvey (2001) indicated that 81% of firms do indeed have an implicit or explicit debt ratio target, where leverage ratios are mean reverting.

Profitability on Dividend smoothing

These are descriptive statistics on the influence of profitability on dividend smoothing in KUSCCO affiliated SACCOs in Kakamega County as summarized in table 4.

Table 4: Descriptive statistics: Profitability

Statement	1	2	3	4	5	Mean	Std.dev
Profitability determines the dividend payout ratio	20 (22.7)	36 (40.9)	14 (15.9)	15 (17)	3 (3.4)	3.63	1.12
The firm relies on profitability for capital expenditure	13 (14.8)	49 (55.7)	10 (11.4)	9 (10.2)	7 (8)	3.59	1.11
The firm reviews the policy on payout ratio often	5 (5.7)	51 (58)	19 (21.6)	11 (12.5)	2 (2.3)	3.52	0.87
Profitability is not the main objective of the firm	5 (5.7)	47 (53.4)	18 (20.5)	17 (19.3)	1 (1.1)	3.43	0.91
The firm has high level fixed interest liabilities.	22 (25)	37 (42)	17 (19.3)	7 (8)	5 (5.7)	3.73	1.10
Valid listwise 88							
Grand mean =3.58							

From table 4, small majority respondents strongly agreed (22.7%) that profitability determines the dividend payout ratio and 40.9% of the respondents agreed. A mean of 3.63 implied that profitability determines the dividend payout ratio. Further, 55.7% and 14.8% agreed and strongly agreed

respectively that firm relies on profitability for capital expenditure. A mean of 3.59 indicted that Saccos relies on profitability for capital expenditure.

The results also revealed that most of the respondents agreed (58.0%) that their Sacco reviews the policy on payout ratio often while 5.7% strongly agreed on the same. However, 21.6% were undecided on whether the firm reviews the policy on payout ratio often. The results further revealed that 53.4% of the respondents agreed that profitability is not the main objective of the firm. A mean of 3.43 indicated that profitability is not the main objective of the firm at moderate extent. Lastly, slight majority of the respondents agreed that their Sacco has high level fixed interest liabilities as shown by 42.0% and further 25.0% strongly agreed on the same. A mean of 3.73 indicated that Saccos have high level fixed interest liabilities.

This finding further concurred with findings by Lambrecht and Pawlina (2013) who found out that firms that adjust their dividends quickly are the larger, less profitable, and more constrained firms. On the other hand, Firms that are more profitable will also smooth their dividends more, in order to signal stability, sufficient free cash flows, and high permanent earnings, consistent with the findings of Lie (2005). Firms usually need to smooth dividends and increase dividends only when they can maintain increased earnings (Kumar & Lee, 2001).

Inferential statistics

Table 5: Correlations

		FS	FR	SO	Pr	DS
FS=Firm Size	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	88				
FR=Financial Risk	Pearson Correlation	.382**	1			
	Sig. (2-tailed)	.000				
	N	88	88			
SO=Shareholder ownership	Pearson Correlation	.539**	-.598**	1		
	Sig. (2-tailed)	.000	.000			
	N	88	88	88		
Pr=Profitability	Pearson Correlation	.435**	-.493**	.737**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	88	88	88	88	
DS=Dividend smoothing	Pearson Correlation	.550**	-.642**	.707**	.689**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	88	88	88	88	88

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

Multiple regression analysis

Multiple regression analysis was conducted to assess the joint influence of independent variables (Firm Size, Financial Risk, Shareholder ownership, and Profitability) on the dependent variable (dividend smoothing). The multiple regression results were shown in table 6.

Table6: Multiple regression results

Model Summary

					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.807[a]	.651	.634	.3863089	.651	38.711	4	83	.000

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ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	23.108	4	5.777	38.711	.000[b]
	Residual	12.386	83	.149		
	Total	35.495	87			

a. Predictors: (Constant), Profitability, Shareholder ownership, Financial Risk, Firm Size

b. Dependent Variable: Dividend smoothing

Multiple regression analysis showed the multiple regression results of the combined influence of the study's independent variables (Firm Size, Financial Risk, and Shareholder ownership and Profitability). The model's R squared (R^2) was 0.651 which showed that the study explained 65.1% of variation in dividend smoothing in KUSCCO affiliated SACCOs in Kakamega County, while other factors not in the conceptualized study model accounted for 34.9%, hence, it was a good study model.

Furthermore, Analysis of Variance (ANOVA) showed the mean squares and F statistics significant (F=38.711, p<.001), thus confirming the fitness of the model and also implied that the study's independent variables (Firm Size, Financial Risk, Shareholder ownership and Profitability) have significant contributions to dividend smoothing variance in KUSCCO affiliated SACCOs in Kakamega County. Finally, the values of unstandardized regression coefficients with standard errors in parenthesis indicated that all the study's independent variables (Firm Size; β1 = 0.221 (0.087) at p<0.05, Financial Risk; β2 = -0.276 (0.076) at p<0.01; Shareholder ownership; β3= 0.185 (0.106) at p<0.05, Profitability; β4 = 0.263 (0.080) at p<0.01 significantly influenced dividend smoothing in KUSCCO affiliated SACCOs in Kakamega County (dependent variable).

In this regard, the study's final multiple regression equation was;

$$\mathbf{Y = 0.232 + 0.221X_1 - 0.276X_2 + 0.185X_3 + 0.263X_4}$$

Where;

y= dividend smoothing in KUSCCO affiliated SACCOs in Kakamega County.

X_1= Firm Size

X_2= Financial Risk

X_3= Shareholder ownership

X_4= Profitability

Table 7: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.232	.280		.830	.409
Firm Size	.221	.087	.196	2.538	.013
Financial Risk	-.276	.076	-.296	-3.632	.000
Shareholder ownership	.185	.106	.191	1.739	.036
Profitability	.263	.080	.316	3.279	.002

a. Dependent Variable: dividend smoothing

Hypothesis testing

First**,** study hypothesis one (H_{01}) stated that firm size has no significant effect on dividend smoothing of KUSCO affiliated SACCOs in Kakamega County. Multiple regression results indicated that firm size has significant influence on dividend smoothing in KUSCCO affiliated SACCOs in Kakamega County (β = 0.221 at p<0.05). Hypothesis one was therefore

rejected. The results indicated that a single increase in firm size will lead to 22.1% improvement in dividend smoothing in KUSCCO affiliated SACCOs in Kakamega County.

Secondly, study hypothesis two (H_{02}) stated that financial risk has no significant effect on dividend smoothing of KUSCO affiliated SACCOs in Kakamega County. Multiple regression results indicated that financial risk practice has significant influence on dividend smoothing in KUSCCO affiliated SACCOs in Kakamega County (β =- 0.276 at $p<0.01$). Hypothesis two was therefore rejected. The results indicated that a single increase in financial risk will lead to 27.6% reduction in dividend smoothing in KUSCCO affiliated SACCOs in Kakamega County.

Thirdly, study hypothesis three (H_{03}) stated that shareholder ownership has no significant effect on dividend smoothing of KUSCO affiliated SACCOs in Kakamega County. Multiple regression results indicated that shareholder ownership has significant influence on dividend smoothing in KUSCCO affiliated SACCOs in Kakamega County (β = 0.185 at $p<0.05$). Hypothesis three was therefore rejected. The results indicated that a single increase in shareholder ownership will lead to 18.5% increase in dividend smoothing in KUSCCO affiliated SACCOs in Kakamega County.

Fourthly, study hypothesis four (H_{04}) stated that profitability has no significant effect on dividend smoothing of KUSCO affiliated SACCOs in Kakamega County. Multiple regression results indicated that Profitability has significant influence on dividend smoothing in KUSCCO affiliated SACCOs in Kakamega County (β = 0.263 at $p<0.05$). Hypothesis four was therefore rejected. The results indicated that a single increase in Profitability will lead to 26.3% increase dividend smoothing in KUSCCO affiliated SACCOs in Kakamega County.

CONCLUSIONS AND RECOMMENDATIONS

Based on the literature review, findings and discussions, the study concluded that firm size has a positive effect on dividend smoothing of KUSCO affiliated SACCOs in Kakamega County. Large Saccos are more likely to smooth their dividend as compared to small Saccos due to adequate resources such as assets. Further, large firms are more likely to smooth their dividend as compared to smaller firms due accessibility to leverage options and bigger profit margins.

However, the study concluded that financial risk has negative effect on dividend smoothing of KUSCO affiliated SACCOs in Kakamega County. This implies that increase in financial risk such as credit risk, liquidity risk would result to reduction in dividend smoothing as Saccos are forced to align their dividend payout within the context of financial risk they are facing.

The study also concluded that, shareholder ownership has significant positive effect on dividend smoothing of KUSCO affiliated SACCOs in Kakamega County. This postulated that concentration of ownership among few individual would results to significant increase in dividend smoothing. Further, the concentration information could make informed decisions leading to improved firm's performance, better returns and better understanding of market situations and there smooth dividend often.

The study concluded that listed firms that are more profitable are more likely to smooth their dividend. It implies that firms change dividends infrequently and dividends are much less volatile than earnings. Profitability is vital to the firm's manager as well as the owners and other stakeholders that are involved or associated to the firm since profitability gives a clear indication of business performance.

The study recommended that for Saccos to achieve dividend smoothing there is need for management to observe ownership concentration. Having majority shareholders in the ownership structure of firm would help to achieve dividend smoothing due to information asymmetry issues.

The study also recommended that there is need for Saccos to increase their profitability so as to achieve dividend smoothing over time. This can be achieved

by increasing the rate of return of assets. In this case, management is recommended to utilize their assets in a profitable manner so as to achieve dividend smoothing.

The study also recommended that for large Sacco, they need to use less leverage in their capital structure. This is because debt increases the riskiness of the stock and hence equity shareholders will demand a higher return on their stocks from time to time

Lastly, the study indicated that Saccos should take advantage of their size to achieve dividend smoothing. This because large firms are able to smooth their dividend when they have sizeable total assets.

Areas for further research

This research was mainly focused on finding the factors that determine the dividend smoothing of KUSCO affiliated SACCOs in Kakamega County. This research can be extended to look for other factors that determine the dividend smoothing, since the researchers believe there are many more that were not included in this research such as growth opportunity and capital structure.

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