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The Moderating Influence of Liquidity on the Relationship between Corporate Governance Practices and Dividend Policy of Deposit-Taking SACCOs in Kenya

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ABSTRACT

This study investigates how liquidity moderates the relationship between corporate governance practices and the dividend policy of deposit-taking SACCOs in Kenya. Using a sample of 201 SACCOs, we applied both descriptive and inferential statistical methods to analyze the data. The results show that liquidity significantly moderates the impact of corporate governance on dividend policy. Specifically, robust board characteristics, well-composed audit committees, ownership structures, and transparent financial reporting positively influence dividend policy, with these effects being more pronounced under higher liquidity levels. The findings suggest that enhancing liquidity management can amplify the positive effects of corporate governance practices on dividend distribution decisions.

KEYWORDS: *liquidity, corporate governance, Dividend policy, Saccos.*

INTRODUCTION

Background

Corporate governance has become a critical focus for financial institutions, including Savings and Credit Cooperative Organizations (SACCOs), due to its profound impact on financial performance and decision-making (Al-Najjar & Clark, 2017). Effective governance ensures transparency, accountability, and proper management of resources, which are essential for maintaining the financial health of SACCOs. In this context, liquidity—a crucial financial metric—plays a significant role. It affects the ability of SACCOs to meet short-term obligations and shapes their dividend policies (Bannier & Hänsel, 2020). Understanding how liquidity interacts with governance practices can provide valuable insights into optimizing financial management and decision-making in SACCOs.

Problem Statement

Despite the acknowledged importance of corporate governance and liquidity, there is a noticeable gap in empirical research examining how liquidity moderates the relationship between governance practices and dividend policy in SACCOs. This study aims to bridge this gap by focusing on SACCOs in Kenya, a sector that plays a vital role in the country's financial system (Hoang et al., 2020). According to the Sacco Societies Regulatory Authority (SASRA), deposit-taking SACCOs in Kenya controlled assets worth over Ksh 500 billion as of 2022 (SASRA, 2022). Given their significant financial influence, effective corporate governance is crucial for sustainability, member trust, and efficient resource management (Odera, 2019).

Recent challenges in governance within Kenyan SACCOs, such as board effectiveness, audit committee functionality, ownership structures, and transparency in financial reporting, have raised concerns (Ngugi & Jagongo, 2019). These issues can negatively impact dividend policies, which are critical for member satisfaction and the overall stability of SACCOs. However, the role of liquidity in this context remains underexplored. Effective liquidity management can enhance the benefits of good governance practices, while poor liquidity can undermine them (Olando et al., 2013). This study investigates how liquidity moderates the relationships between key governance variables—board characteristics, audit committee composition, ownership structure, and transparency—and dividend policy in Kenyan SACCOs.

Objectives of the Study

The main objective of this study is to examine the moderating effect of liquidity on the relationship between corporate governance practices and dividend policy in deposit-taking SACCOs in Kenya. The specific objectives are:

i) To determine the influence of board characteristics on dividend policy of SACCOs in Kenya.

ii) To examine the influence of audit committee composition on dividend policy of SACCOs in Kenya.

iii) To assess the influence of ownership structure on dividend policy of SACCOs in Kenya.

iv) To determine the influence of transparency on dividend policy of SACCOs in Kenya.

v) To examine the moderating influence of liquidity on the relationship between corporate governance practices and dividend policy of SACCOs in Kenya.

LITERATURE REVIEW

Corporate Governance and Dividend Policy

Corporate governance practices are integral to the financial health and sustainability of SACCOs. These practices include board characteristics, audit committee composition, ownership structure, and transparency in financial reporting (Al-Najjar & Clark, 2017). Effective corporate governance ensures that SACCOs operate transparently, make informed decisions, and manage resources efficiently, which in turn positively affects dividend policy (Ngugi & Jagongo, 2019). Studies have shown that better governance practices lead to higher dividends, as they build member trust and ensure prudent financial management (Hoang et al., 2020).

Liquidity and Dividend Policy

Liquidity refers to the ability of an institution to meet its short-term obligations. For SACCOs, maintaining adequate liquidity is crucial for operational efficiency and member satisfaction. Liquidity impacts a SACCO's ability to lend, meet withdrawal demands, and distribute dividends (Bannier & Hänsel, 2020). Previous research suggests that higher liquidity levels enable SACCOs to maintain stable dividend policies even in times of financial stress (Olando et al., 2013). Therefore, liquidity management is a key factor in the overall financial strategy of SACCOs.

The Moderating Role of Liquidity

The interaction between liquidity and corporate governance practices can significantly influence a SACCO's dividend policy. Effective liquidity management can amplify the positive effects of good governance practices, while poor liquidity can negate these benefits (Ngugi & Jagongo, 2019). Understanding this moderating role of liquidity is essential for developing governance frameworks that enhance financial performance and sustainability.

METHODOLOGY

Research Design

This study employs a descriptive research design to analyze the relationship between corporate governance practices, liquidity, and dividend policy in Kenyan SACCOs. Data was collected from 201 SACCO participants through structured questionnaires and financial reports from the Sacco Societies Regulatory Authority (SASRA).

Sample and Sampling Technique

A stratified random sampling technique was used to select a representative sample of 201 respondents from the SACCO industry across Kenya. This technique ensures that the sample accurately reflects the diversity of SACCOs in terms of size, geographic location, and membership base.

Data Collection and Analysis

Data was collected using structured questionnaires and financial statements from the Sacco Societies Regulatory Authority (SASRA). Descriptive and inferential statistical methods, including Pearson correlation and multiple regression analysis, were used to analyze the data. The Statistical Package for the Social Sciences (SPSS) was employed to conduct the analyses.

RESULTS AND DISCUSSION

Descriptive Statistics

The descriptive statistics for the key variables—board characteristics, audit committee composition, ownership structure, transparency, liquidity, and dividend policy—are presented in Table 1.

Table 1

Variable	Mean	Standard Deviation
Board Characteristics	4.12	0.58
Audit Committee Composition	3.95	0.62
Ownership Structure	3.88	0.55
Transparency in Financial Reporting	4.25	0.61
Liquidity	3.76	0.57
Dividend Policy	3.94	0.60

Board Characteristics received a mean score of 4.12, which indicates that, on average, people have a fairly positive view of the board's attributes. They generally believe that the board performs well, though there is some variation in opinions, as reflected in the standard deviation of 0.58. This variability is moderate, meaning while most people see the board characteristics positively, there are differing views.

Audit Committee Composition scored a mean of 3.95. This suggests that while respondents view the audit committee's makeup as generally effective, it doesn't receive quite the same level of approval as board characteristics. The standard deviation of 0.62 shows a bit more disagreement among respondents. In other words, opinions about the audit committee are somewhat more diverse.

Ownership Structure has a mean score of 3.88, which is slightly lower than that of board characteristics and audit committees. This indicates a generally favorable but less enthusiastic view on how ownership is structured. With a standard deviation of 0.55, the responses are relatively consistent, though there are still some differing opinions.

Transparency in Financial Reporting stands out with the highest mean score of 4.25. This shows that people rate the transparency of financial reporting very positively, suggesting a high level of confidence in how open and clear the financial information is. However, the standard deviation of 0.61 indicates that while most are positive, there are still some varying opinions about the level of transparency.

Liquidity scored the lowest mean at 3.76. This suggests that there are more concerns or less satisfaction with how liquidity is managed compared to the other variables. The standard deviation of 0.57 shows moderate variability, meaning there are diverse opinions about liquidity, though most tend to agree on its less favorable aspects.

Finally, Dividend Policy received a mean of 3.94, indicating a generally positive view, though it's slightly less favorable compared to transparency in financial reporting and board characteristics. The standard deviation of 0.60 reflects moderate variability in opinions, suggesting that while many people have a positive view of the dividend policy, there are still some differing perspectives.

Correlation Analysis

Table 2 presents the Pearson correlation coefficients between the key variables.

Table 2.

Variable	Board Characteristics	Audit Committee Composition	Ownership Structure	Transparency	Dividend Policy
Board Characteristics	1				
Audit Committee Composition	0.787**	1			
Ownership Structure	0.389**	0.401**	1		
Transparency	0.799**	0.811**	0.362**	1	
Dividend Policy	0.698**	0.718**	0.654**	0.733**	1

Note: **p < 0.05

The results indicate strong positive correlations between the governance variables and dividend policy. Specifically, board characteristics, audit committee composition, ownership structure, and transparency are all significantly correlated with dividend policy, suggesting that better governance practices are associated with more favorable dividend policies.

Regression Analysis

Multiple regression analysis was conducted to assess the moderating effect of liquidity on the relationship between corporate governance practices and dividend policy. The results are presented in Table 3.

Table 3.

Variable	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	t	Sig.
(Constant)	-2.389	0.350		-6.828	0.000
Board Characteristics	0.506	0.153	0.273	3.314	0.000
Audit Committee Composition	0.435	0.099	0.313	4.383	0.000
Ownership Structure	0.922	0.101	0.433	9.149	0.000
Transparency in Financial Reporting	0.643	0.155	0.526	4.138	0.000

The results of the regression analysis indicate that all four governance variables—board characteristics, audit committee composition, ownership structure, and transparency in financial reporting—positively and significantly predict dividend policy. Each variable contributes to a more favorable dividend policy, with ownership structure and transparency in financial reporting showing the strongest effects. The significance levels (p-values < 0.05) and t-values for all variables confirm the robustness of these relationships, underscoring the importance of effective corporate governance in shaping dividend policies.

Moderating Effect of Liquidity

The interaction terms between liquidity and the governance variables were also included in the regression model to assess the moderating effect. The results, shown in Table 4, indicate that liquidity significantly moderates the relationships between governance practices and dividend policy.

Table 4.

Interaction Term	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	t	Sig.
Board Characteristics * Liquidity	0.312	0.102	0.221	3.059	0.002
Audit Committee * Liquidity	0.289	0.088	0.204	3.284	0.001
Ownership Structure * Liquidity	0.507	0.096	0.331	5.281	0.000
Transparency * Liquidity	0.421	0.105	0.287	4.010	0.000

Board Characteristics * Liquidity: The analysis reveals that liquidity significantly moderates the relationship between board characteristics and dividend policy. The unstandardized coefficient of 0.312 indicates that as liquidity increases, the positive effect of board characteristics on dividend policy becomes more pronounced. This means that firms with better liquidity can more effectively capitalize on strong board governance to enhance their dividend policies. The standardized coefficient of 0.221 supports a moderate interaction effect, and the statistical significance (t-value of 3.059 and p-value of 0.002) confirms the robustness of this finding. Recent studies, such as those by Nguyen and Nguyen (2022), emphasize that strong board characteristics are crucial for effective corporate governance, and our results align with these findings by highlighting how liquidity can amplify this effect.

Audit Committee * Liquidity: The coefficient of 0.289 suggests that liquidity enhances the positive impact of audit committee composition on dividend policy. In other words, when liquidity is high, the effectiveness of an audit committee in influencing dividend decisions is strengthened. This interaction is also statistically significant, with a standardized coefficient of 0.204 and a t-value of 3.284 (p-value of 0.001). This finding is consistent with recent research by Hossain et al. (2023), which underscores the role of audit committees in ensuring accurate financial reporting and governance. Our results suggest that firms with greater liquidity can better support their audit committees, thereby improving their dividend policies.

Ownership Structure * Liquidity: The interaction between ownership structure and liquidity has a substantial positive effect on dividend policy, with an unstandardized coefficient of 0.507. This indicates that liquidity significantly amplifies the impact of ownership structure on dividend decisions. The standardized coefficient of 0.331 highlights a strong interaction effect, and the statistical significance is confirmed by a t-value of 5.281 and a p-value of 0.000. This finding aligns with the work of Chen and Li (2023), who argue that a favorable ownership structure enhances dividend policies. Our analysis extends this understanding by showing that liquidity enhances the benefits of a well-structured ownership framework.

Transparency * Liquidity: Lastly, the coefficient of 0.421 suggests that liquidity positively moderates the relationship between financial transparency and dividend policy. Increased liquidity strengthens the effect of transparency on dividend decisions, with a standardized coefficient of 0.287 and a t-value of 4.010 (p-value of 0.000), indicating statistical significance. This is in line with recent research by Zhang et al. (2024), which highlights the importance of financial transparency in corporate governance. The results suggest that firms with higher liquidity can leverage transparency more effectively to improve their dividend policies.

The interaction terms therefore highlight that liquidity plays a crucial moderating role in enhancing the effects of board characteristics, audit committee composition, ownership structure, and financial transparency on dividend policy. These findings are consistent with and build upon recent studies that emphasize the importance of liquidity in strengthening corporate governance practices and their impact on financial decisions.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The results of our moderation analysis reveal that liquidity plays a pivotal role in amplifying the effects of various corporate governance practices on dividend policy. By examining how liquidity interacts with board characteristics, audit committee composition, ownership structure, and financial transparency, we gain a deeper understanding of how firms can optimize their governance practices to enhance dividend payouts.

Firstly, the positive moderation effect of liquidity on board characteristics underscores the importance of having a strong governance structure in place. Firms with ample liquidity can leverage their well-functioning boards more effectively to influence their dividend policies. This finding aligns with recent studies suggesting that liquidity provides the necessary resources to support robust governance practices, allowing firms to implement strategies that benefit shareholders through higher dividends.

Similarly, the interaction between liquidity and audit committee composition highlights how financial resources can bolster the role of audit committees in ensuring effective financial oversight. Firms with greater liquidity are better positioned to support their audit committees, leading to more transparent and reliable financial reporting, which in turn positively affects dividend decisions. This result supports the notion that a well-resourced audit committee enhances corporate governance, particularly when liquidity is available to back their efforts.

The significant interaction between liquidity and ownership structure further emphasizes how financial flexibility enhances the impact of ownership dynamics on dividend policy. A favorable ownership structure, when combined with sufficient liquidity, leads to more substantial dividend payouts. This finding corroborates recent research indicating that liquidity strengthens the benefits of an optimized ownership structure, allowing firms to distribute higher dividends to shareholders.

Finally, the strong positive effect of liquidity on the relationship between transparency in financial reporting and dividend policy underscores the critical role that financial openness plays in dividend decisions. Firms with higher liquidity can better utilize their transparency efforts to achieve favorable dividend outcomes. This conclusion is in line with recent studies that highlight how liquidity supports the effective use of financial transparency to improve shareholder returns.

In essence, our analysis demonstrates that liquidity is not merely a financial buffer but a critical factor that enhances the effectiveness of governance practices in influencing dividend policies. Firms with better liquidity can capitalize on strong board governance, effective audit committees, favorable ownership structures, and high financial transparency to optimize their dividend payouts. This nuanced understanding helps firms recognize the strategic importance of liquidity in enhancing their governance frameworks and ultimately benefiting their shareholders through improved dividend policies.

Recommendations

Based on the findings, the following recommendations are made:

1. SACCOs should enhance their liquidity management practices to ensure they can meet short-term obligations and maintain stable dividend policies.
2. Regulatory bodies should emphasize the importance of robust corporate governance practices, including effective board composition, audit committee functionality, and transparency in financial reporting.
3. SACCOs should regularly review and improve their governance frameworks to align with best practices and ensure sustainability.
4. Further research should be conducted to explore other potential moderating variables that could influence the relationship between corporate governance and dividend policy.

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