THE EFFECT OF DIVIDEND POLICY ON THE GROWTH OF MICRO FINANCE ORGANIZATIONS

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ABSTRACT

This research emphasized the dividend policy impact on the microfinance institutional growth. Dividend policy considered as the key approach for the guideline and regulation process of the company that usually modified for the payment of dividend to their shareholders. The problem has been identified regarding the loan facilitation and provision of sustainable dividend to the investors and shareholders. The objective of this research is to analyze the significance and impact of dividend policy on the microfinance organization's performance. The data has been collected from the secondary sources for the critical analysis in terms of qualitative and quantitative method. The result showcased the investment of $50,000 for every month and the current figures show the $36 million for every month in total. Furthermore, the finding showcases the significant impact of dividend distribution to gain the external funds. Moreover, the result of this study showcases that capital adequacy and the total asset has a significant influence on the financial performance of the commercial microfinance institutes. The conclusion demonstrated that the organization is emphasizing their company's liquidity ratio and debt position in order to improve their dividend policies.

Keywords: Microfinance, dividend policy, financial performance, liquidity, investment.

INTRODUCTION

Financial services provided by the investment companies such as deposit saving accounts, cash loans and insurance is referred to as micro-finance which is available in a small amount to the minority populations. In developing countries, the need of the financial services becomes essential in order to invest in a various project to earn the sustainable amount of profit. With the fluent investment, there is the threat of decreasing a company's performance. Microfinance activities consider as the financial services of individuals in perspective of credit, savings, funds transfer, pension, insurance and remittance in urban and rural areas both for the low-income people (Gamayuni, 2015).

Microfinance seeks to develop a financial system of institutional capacity and combat poverty. The perspective of a microfinance institute is to provide a cost-efficient plan to the poor people. The process for the microfinance institute for the provision of the loan facility to the poor people is to examine their current position in terms of financial background and ability to return the amount of loan. Most of these companies seek their client's income for the return policy of loan. Loan repayment is considered as the significant aspect to measure the quality portfolio for the long-term sustainability of MFI's. For the perspective of loan repayment, the indicators include credit risk and portfolio at risk (Kyereboah-Coleman, 2007). These factors significantly impacted in a negative way on MFI sustainability. It has been noticed that there is a positive outcome achieved from a deposit collection of clients in the form of shares and saving.

The major factors included in the microfinance operations are involvement of member's savings and cash-based operations. Conversely, the need for access to the financial capital from the saving practices or borrowing can simulate the sorts of investment under the critical situation of a formal environment. In this research study, the major emphasized on the dividend policy impact on the microfinance institutional growth (Amidu & Abor, 2006). The evaluation of key factors can help to analyze the significance of the dividend policy in managing the activities of microfinance for effective growth. The recommendation highlighted the improvement in the return on investment policies and dividend policies.

Research Aim

The aim of this research is to examine the effect of dividend policy on the microfinance organization's growth.

Research Objective

The research objectives help the researcher to formulate their study with respect to desire the aim of the topic. The objectives of this research study have been showcased as follows:

- To evaluate the factors of performances for a microfinance organization
- To analyze the significance of dividend policy in the activities of microfinance company's growth.
- To examine the impact of dividend policy on the performance of a microfinance organization.

Research Question

The research question is considered as the fundamental part of the research project that helps the researcher to achieve the aim of the research study by answering the formulated questions. Following are the research question of this research study:

- How can the dividend policy affect the performance of microfinance institutes?
- Which factors are essential to enhance the performance of microfinance institutes?

Problem Statement

Dividend policy considered as the guideline and regulation process that the company usually adopted for payment of dividend to their shareholders. The issue might arise due to the higher risk of investment in different business opportunities. The problem has been identified regarding the payment of high return to the dividend rather than put some amount of return on the capital expenditure for future project investments opportunity. Due to this case, companies can move in a critical position to lend some amount of money as a loan from a microfinance institute for the effective execution of project completion (Kajola, Adewumi & Oworu, 2015). This loan facilitation obtained from the microfinance institute can create a critical situation for a company if the company fails to pay the loan amount and can lead towards defaulting.

LITERATURE REVIEW

A literature presented by Kago (2014) to investigate the impact of reference for bureau service credit on microfinance institute financial performance. Credit reference Bureau is an organization that gathers the valuable information from different sources and uses this information to the individual customers regarding their creditability for diverse purposes. Nowadays, this is considered as a necessary element for the provision of loans and other relevant investment processes. Credit Reference Bureau (CRB) is considered as a unique company that provides data of the person's credit history in detail that includes information of the individual's identity, loans and credit accounts, the attitude of individual payment procedure and their recent inquiries. This study is the combination of various literature on the financial performance of microfinance banking activities specifically for the credit reference bureau company. This literature provides the most relevant theories to examine the impact of creditability on microfinance financial performances. This study had emphasized on the establishment of deposit-taking microfinance that can influence the performance of microfinance institutes.

To analyze the situation, Credit Reference Bureau Company had been selected. The finding evaluates the provision of dividend to the respective concerned companies to their clients. The analysis of this research study demonstrated a return on the post and pre CRB implementation in the year of 2009 and also presented a graph for the span of five years (Kago, 2014). The analysis further demonstrated the regression model equation to evaluate the effect of return on assets and the total number of defaulters at CRB annually. The finding showcased the strong impact of credit information sharing due to individual prosperity and also the overall country's economic growth. Furthermore, the financial performance of a company is rated with respect to its credit position with the influence of latter causing. The recommendation takes place on an open system that needs to be improved in perspective of financial institutes for the evaluation of credits history of borrowers.

Chibole (2014) had researched the effect of dividend policies on the financial growth of medium enterprises company specifically micro-financing companies. The aim is to evaluate these microfinance medium enterprises growth experience and the negative growth has been noticed due to poor capital structure, undefined ownership structure and poor liquidity management. These issues had created a negative impact on the medium microfinance enterprises on the profitability and communication between the competent management and staff. The critical influence of the state's affairs on the dividend policy can create a dramatic change in the financial growth of microfinance medium enterprises. The study focused on the investigation of dividend policy on the financial growth of microfinance medium enterprises and evaluate their determinants. The key determinants of this study were capital leverage, liquidity and ownership effect. To evaluate the relationship and impact, a cross-sectional descriptive data has been selected from large number of respondents. The targeted population of this research study was about 311 employees associated with medium microfinance enterprises.

The statistical analysis had been considered on the basis of survey questionnaire through regression and descriptive analysis. The finding of the research study indicated the influence of financial liquidity, capital structure and ownership effect on the growth and performance of medium microfinance companies. The result of this study can be showcased as the concept of medium enterprises to pay long-term and short-term liabilities by providing a lower dividend to the shareholders for the better position of the company's growth (Chibole, 2014). The finding also showcased that there is a significant impact of dividend provision to gain the external funds from the market. Most of the investors seek for the sustainable dividend amount in return of their investment. On the other hand, the finding also showcased that cash liquidity decides the significant role of paying a dividend to the shareholder or retain the amount for getting rid of higher debt. The future recommendation of this research enabled the researchers to evaluate the key factors for the provision of financial flexibility and protection due to uncertainty. Also, it is suggested to investigate the investment process and capacity for the specified medium microfinance institutes in terms of liquidity amount and the current position of an individual.

Another vital research conducted by Lilian (2016) on the effect of dividend policies on the microfinance commercial bank's financial performance. The key purpose of this research was to evaluate the impact of dividend policy establishment on the financial performance of the top ten microfinance commercial banks. This research study was comprised of secondary data to obtain the financial statement of selected banks. The data was analyzed for the span of five years (2011-2015). The research was formulated on the concept of descriptive research design. The key emphasized of this research study was to determine the relationship between the variables of financial performance and dividend policy. The variables for the evaluation of financial performance for the microfinance banking sector was considered asset quality, liquidity management, capital adequacy and size.

To analyze the effect, regression analysis had been used to show the impact of dividend per share, liquidity management, capital adequacy and size on the company's financial performance. Similarly, correlation analysis has been used to evaluate the relationship between the variables. The finding of this research demonstrated that capital adequacy and total asset had a significant affirmative influence on the financial performance of the respective commercial microfinance banks. Furthermore, the finding showcased dividend had no impact on the return of assets for selected commercial micro-financing banks (Lilian, 2016). The study also showcased the value of information for the creditability of an individual on the growth of the microfinance banking sector. The recommendation takes place on the basis of a finding of the research for the commercial microfinance bank's performance. In order to gain an advantage for the banking sector growth, the researcher had suggested to an emphasis on the dividend paid policy to gain the attention of the investors.

METHODOLOGY

Introduction

The methodology is the significant part of the research development that enables the researcher to an emphasis on the various techniques and elements which is essential for the study. Following are the methods that would be helpful to formulate a research study based on the effect of dividend policy on the microfinance organization's growth.

Research Approaches

The research approaches are mainly of three types that include deductive, inductive and abductive approach. The abductive approach would be helpful to design the research on the basis of quantitative values and qualitative interpretation (Tavory & Timmermans, 2014). In this research, the abductive approach would be used to analyze the effect of dividend policy on the microfinance organization's growth in terms of statistical and literature-based analysis.

Research Method

Research Method is the most essential part of the research study. It is essential to select the most appropriate method for the formulation of the research study. The research methods are generally of three types. Quantitative method is used to test the hypothesis based on the statistical data. Qualitative Analysis is used to interpret the descriptive data by using past literature and proposed theories (Green & Thorogood, 2018). Mixed method approach is used as the combination of both methods simultaneously. For this research, the data is used in terms of statistical and past descriptive literature. Therefore, the selection of a mixed method approach would be considered as the most effective approach to analyze the effect of dividend policy on the microfinance organization's growth.

Research Strategy / Design

In this research, the strategy to design a research study required extensive expertise to gather data from online secondary sources. The research had been initiated with the approval of concerned authorities to formulate the study with respect to designed interest. For this research, the data was collected from the authentic sources in terms of qualitative and quantitative secondary data. It will further include in the literature and data analysis as a supportive method in order to achieve the aim of the research. All the variables with respect to dependent and independent variable should be appropriately defined in order to design the research study in an effective manner.

Data Collection Method

Data collection for this research study is considered as a significant aspect of methodology. For this research secondary sources had been used to formulate the research in perspective of qualitative and quantitative analysis. The secondary sources helped to evaluate the statistical data and support it with the past published articles (Palinkas, Horwitz, Green, Wisdom, Duan & Hoagwood, 2015). The article included was considered as the most effective and relevant published paper that brought effectiveness to this study. The collected material had provided a direction and ability to analyze the relevant gap to develop an effective research. It also helped the researcher to analyze in both perspectives i.e. qualitative and quantitative analysis.

Statistical Analysis

In general, the statistical analysis can be performed in various method. The quantitative analysis can be analyzed with the help of SPSS, eViews, PLS-SEM and Excel. The content and thematic analysis can be performed for the qualitative data. For this research, the content analysis as a mixed approach has been used to analyze the effect of dividend policy on the microfinance organization's growth. In this analysis, content analysis had been used in the perspective of secondary qualitative and quantitative data.

RESULTS

The result section provides significant knowledge by the collection of different quantitative data in terms of dividend policy, dividend provision and investment trend in the world. The information included in this chapter has been collected to evaluate the performance of Multilateral ***Investment*** Fund (*MIF*) in a different part of the world.

Results

The key factors of a dividend policy that can affect the performance of micro-finance institutes have been showcased in the below figure:

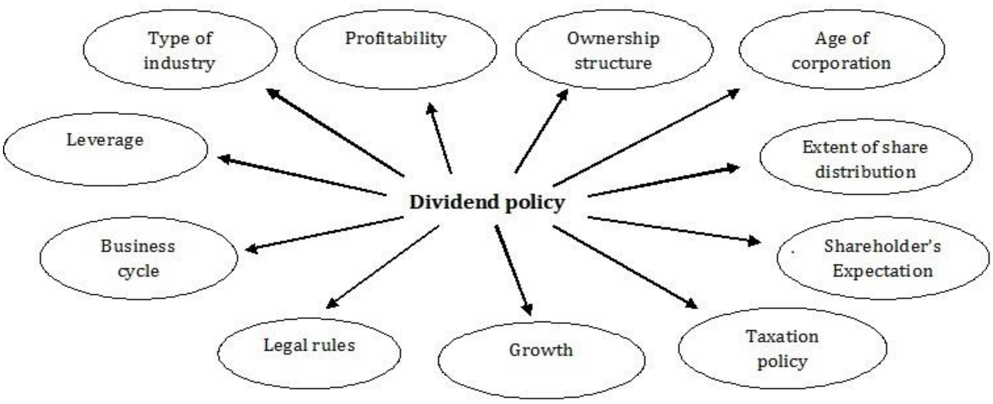

Figure 1: Factors of Dividend policy (Veristrat, 2018)

The above figure shows the significant factors of a dividend policy that are essential while the development of dividend policy. The factors include profitability, ownership structure, taxation policy, legal rules, the growth of a company, leverage, business cycle, industry type, the age of corporation, shareholder's expectation and extent of share distribution. Their impact will further explain in the discussion section (Koo, Ramalingegowda & Yu, 2017).

After the development of dividend policy, it is necessary for the company to emphasize on the dividend distribution. The distribution of dividend amount mainly depends upon the requirement of a company liquidity and profitability. The below graph shows the significant distribution of dividend with respect to listed companies.

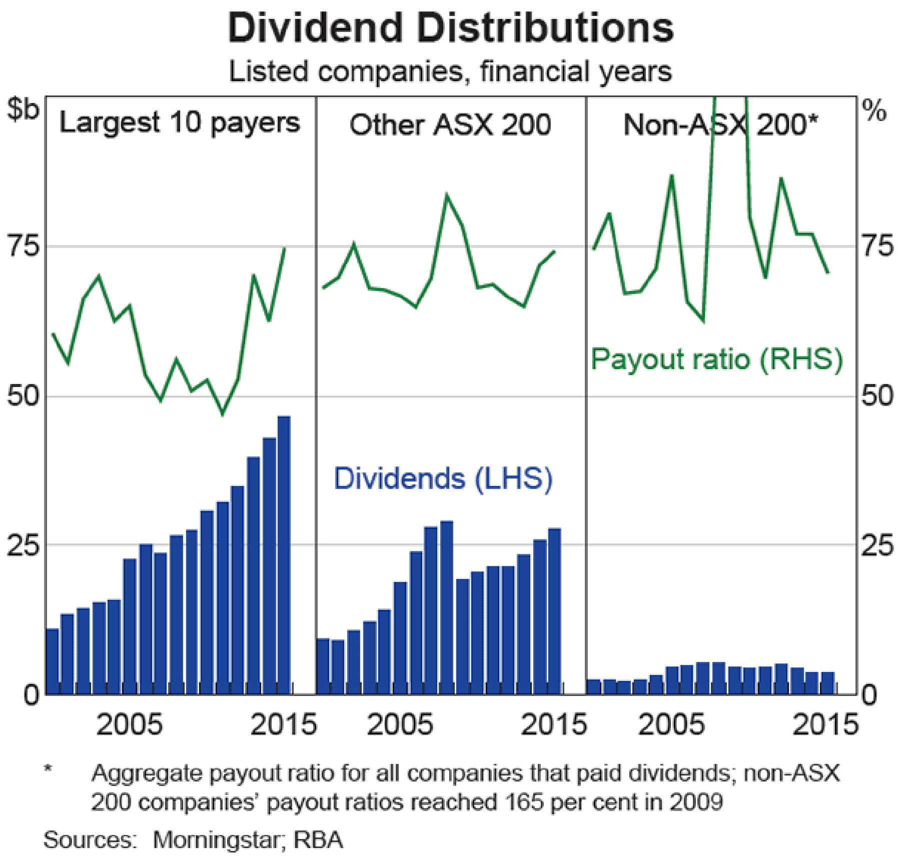

Figure 2: Dividend distribution with respect to different companies (rba, 2018)

The above figure shows the vital distribution of dividend with respect to different types of the company during the span of 2005 – 2015. At the vertical axis, the enhancement has been showcased with respect to dividend amount. The first column highlights the top ten largest payers of the dividend (Zhu & Yang, 2016). The second column highlights the ASX 200 companies' dividend providers. The third column highlights the Non-ASX 200 dividend providers.

It is necessary to consider the policies of microfinance investment institute in order to the provision of the loan at a defined interest rate. The dividend policies may affect the policies of microfinance investment banks to reconsider their designed policy for the improvement in interest rate based on the tax policy (Jacob & Michaely, 2017). Below is the graph of a microfinance bank policy rate in terms of provision of loans.

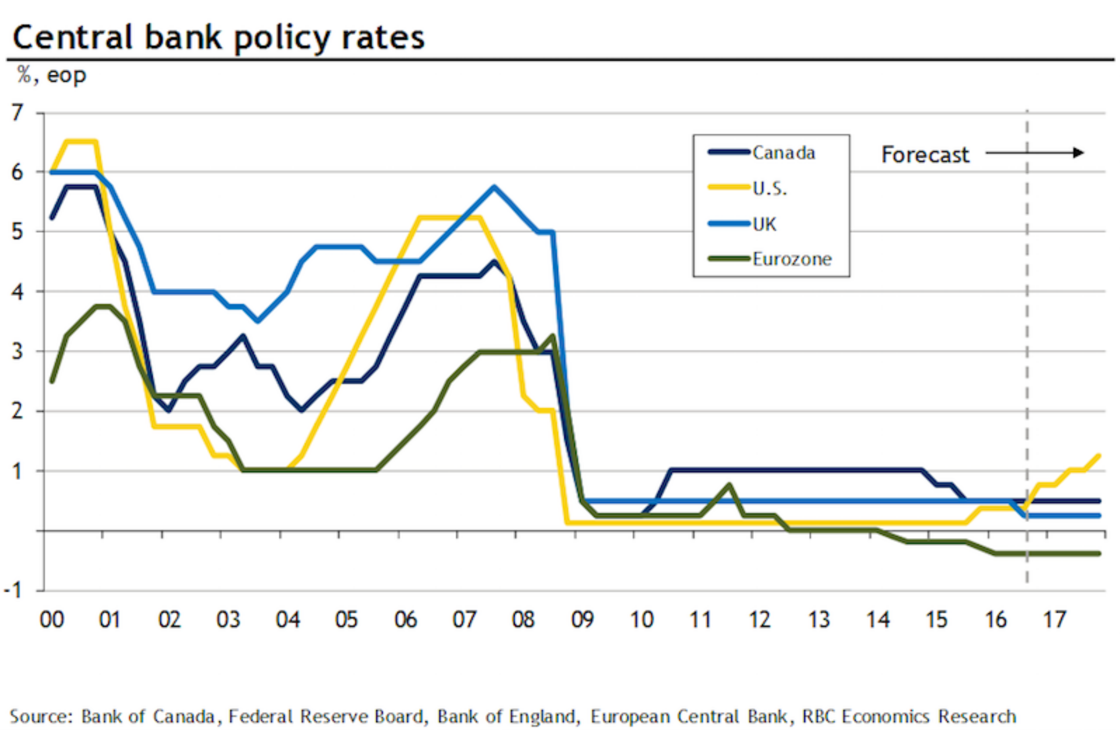

Figure 3: Central Bank policy rates (macleans, 2018)

The above graph showcases the deviation in the policy rates with respect to different countries. The dark blue line shows the central bank of Canada policy rate deviation, yellow light shows the United States central bank policy rate distribution (macleans, 2018). The light blue line shows the central bank of the United Kingdom policy rate deviation and Green line shows the central bank of Eurozone policy rate deviation from the span of 2000 – 2017.

On the other hand, to identify the investment percentage every month that microfinance investment institute made for the improvement in the performance of these institutes. This opportunity can enhance the overall profitability of a company. Following is the investment of average MIF for every month in different projects.

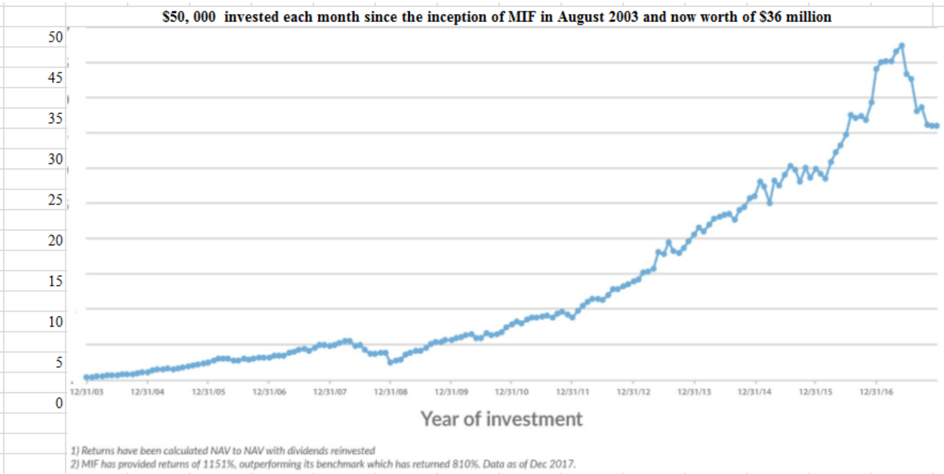

Figure 4: Investment progress of MIF with respect to each month from the year 2003 - 2016 (Dawn, 2018)

The above figure shows the enhancement in the investment made by the MIF for selected companies. The span is selected from the span of 2003 – 2016. The investment has been noticed to $50,000 for every month and currently, the figures show the $36 million for every month in total (Dawn, 2018). After the enhancement in the 2003 policies of Microfinance investment companies, the significant growth has been noticed in the performance of Microfinance institutes.

DISCUSSION

In this chapter, the discussion has been made on the statistical data included in the result section. This chapter critical discussion with the support of past literature in order to achieve the objective of the research study.

The first and second objectives of this research study are to evaluate the factors of dividend policies and its significance in the growth of a microfinance organization. The objective has been achieved by the effective study proposed by Chibole (2014) on the evaluation of dividend policy in terms of microfinance institute performance. The finding of this research showcases the identification of significant factors including capital structure, ownership structure, and liquidity management. The finding of this research demonstrated as cash liquidity decides the significant role of paying a dividend to the shareholder or retain the amount for getting rid of higher debt. In the result section, the key factor has been evaluated that include profitability, ownership structure, taxation policy, legal rules, the growth of a company, leverage, and extent of share distribution (Kajola, Adewumi & Oworu, 2015). If we compare these two findings, it can be analyzed that there is a significant relationship between the provision of dividend policy and investment company's growth. If the company emphasized their dividend policies, there is a chance of significant enhancement in the Microfinance institutes investment and performance.

Another significant literature covers the research objective two and three that are based on the significance and the impact of dividend policy on the performance of microfinance organizations. The result showcases that there is a need for understanding the distribution of dividend to the shareholders and the policies of a company or Microfinance institute. The dividend distribution may vary due to the company's trend and approach for the distribution policy to the shareholders (Zhu & Yang, 2016). Some of the company focuses on the retain earning to attain a better position for the upcoming projects. However, some of the companies believe that the provision of dividend can help them to gain the attention of the investors. Moreover, the dividend is the responsibility of the company to provide a sustainable amount of dividend from their company's profit to the shareholders. This can be supported with the significant finding of Lilian (2016) that demonstrates as the capital adequacy and the total asset has a significant affirmative influence on the financial performance of the respective commercial microfinance banks.

CONCLUSION

While significant progress has been seen in the dividend policies, it can be concluded that the organization is emphasizing their company's liquidity ratio and debt position in order to improve their dividend policies. The literature shows the significant impact of variation in the dividend policies on the Medium size investment banks and microfinance institute's performance. On the other hand, it is concluded that companies had emphasized on their asset management, liquidity management in order to provide a sustainable amount of the dividend provision to gain the attention of the investor for future project financing.

While it is concluded that the result shows the significant enhancement in the provision of dividend after the policy modification in the year 2003. Furthermore, vital change has been noticed in the companies, investment banks, and microfinance institutes performance after provision of high dividends to the shareholders. Considering this statement, it can be recommended to the authorities of development for dividend policy that they need to emphasize on the improvement of dividend policy and gain an advantage of effective company's performance and profitability. It is also recommended that investment companies need to focus on the company pattern of the return on investment policies and effectively evaluate the current position and past dividend policy for the investment opportunity.

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