

**EFFECTS OF CORPORATE GOVERNANCE ON FINANCIAL  
PERFORMANCE OF SAVINGS AND CREDIT COOPERATIVE  
SOCIETIES IN MACHAKOS AND ATHI-RIVER SUB-COUNTIES**

**DUNCAN MAUNDU MUTUKU**

**A RESEARCH PROJECT REPORT SUBMITTED TO THE  
DEPARTMENT OF BUSINESS AND ENTREPRENEURSHIP IN  
THE SCHOOL OF BUSINESS AND ECONOMICS IN PARTIAL  
FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF  
THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION  
OF SOUTH EASTERN KENYA UNIVERSITY**

**2016**

## **DECLARATION**

This project report is my original work and has not been presented for academic accreditation in any other university.

Signature.....

Date.....

**DUNCAN MAUNDU MUTUKU**

**D61/MAC/20238/12**

This project report has been submitted for examination with our approval as the appointed University Supervisors

Signature.....

Date.....

**Dr. Jared Ariemba**

**Lecturer, Department of Business and Entrepreneurship**

**South Eastern Kenya University**

Signature.....

Date.....

**Mr. Albanus Munyao**

**Lecturer, Department of Business and Entrepreneurship**

**South Eastern Kenya University**

## **DEDICATION**

This study is dedicated to my parents for their introduction to learning and motivation towards education which has driven me this far and particularly throughout the research work.

## **ACKNOWLEDGEMENT**

First and foremost, I wish to thank the Almighty God for giving me sufficient grace throughout the program. Special thanks go to my supervisors Dr. Jared Ariemba and Mr. Munyao for their tireless supervisory assistance and guidance which has been instrumental throughout the research. Besides, I appreciate my friends and classmates for their advisory and moral support during the study.

## TABLE OF CONTENTS

<b>DECLARATION</b> .....	<b>ii</b>
<b>DEDICATION</b> .....	<b>iii</b>
<b>ACKNOWLEDGEMENT</b> .....	<b>iv</b>
<b>LIST OF TABLES</b> .....	<b>viii</b>
<b>LIST OF FIGURES</b> .....	<b>viii</b>
<b>ABSTRACT</b> .....	<b>x</b>
<b>ACRONYMNS AND ABBREVIATIONS</b> .....	<b>xi</b>
<b>OPERATIONAL TERMS</b> .....	<b>xii</b>
<b>CHAPTER ONE: INTRODUCTION</b>	
1.1 Background of the study .....	1
1.2 Statement of the problem .....	8
1.3 Objectives of the study .....	9
1.4 Research questions.....	10
1.5 Significance of the study .....	10
1.6 Scope of the study .....	10
1.7 Limitations of the study .....	11
<b>CHAPTER TWO: LITERATURE REVIEW</b>	
2.1 Introduction .....	12
2.2 Theoretical literature .....	12
2.3 Empirical review .....	18
2.4 Conceptual framework .....	24
2.5 Chapter summary .....	25
2.6 Research gap .....	25

## **CHAPTER THREE: RESEARCH METHODOLOGY**

3.1 Introduction .....	26
3.2 Research design .....	26
3.3 Target population .....	26
3.4 Sampling techniques.....	27
3.5 Data collection. ....	28
3.6 Validity and Reliability .....	29
3.7 Data analysis and presentation. ....	29

## **CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSIONS**

4.1 Introduction.....	31
4.2 Sample characteristics .....	31
4.3 Board composition .....	33
4.4 Board size .....	38
4.5 Leadership.....	40
4.6 Transparency and Disclosure.....	43
4.6 Multiple regression analysis .....	45

## **CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

5.1 Introduction .....	48
5.2 Summary .....	48
5.3 Conclusions .....	49
5.4 Recommendations .....	50
5.5 Suggestions for further research .....	51
<b>REFERENCES .....</b>	<b>53</b>

<b>APPENDIX 1:</b> Authorization letter .....	57
<b>APPENDIX 2:</b> Letter of introduction.....	58
<b>APPENDIX 3:</b> Questionnaire.....	59
<b>APPENDIX 4:</b> SACCOs in Machakos and Athi-river Sub-counties....	64

## LIST OF TABLES

<b>Table 3.1:</b> Target population of SACCOs .....	27
<b>Table 3.2:</b> Sample size .....	28
<b>Table 4.1:</b> Membership in SACCOs .....	32
<b>Table 4.2:</b> SACCO's years of operation .....	32
<b>Table 4.3:</b> Board members' profession .....	33
<b>Table 4.4:</b> Board composition and financial performance .....	37
<b>Table 4.5:</b> Board size and financial performance .....	39
<b>Table 4.6:</b> Leadership rating .....	41
<b>Table 4.7:</b> Board leadership and financial performance .....	42
<b>Table 4.8:</b> Surplus reported by the SACCOs .....	43
<b>Table 4.9:</b> Transparency and Disclosure rating .....	44
<b>Table 4.10:</b> Transparency/Disclosure and financial performance .....	45
<b>Table 4.11:</b> Coefficients of the effect of variables .....	47
<b>Table 4.12:</b> Model summary .....	47



## LIST OF FIGURES

<b>Figure 1.1</b> Performance of SACCOs in Machakos county. ....	7
<b>Figure 2. 1</b> Conceptual framework .....	24
<b>Figure 4.1</b> Board members' academic qualification .....	34
<b>Figure 4.2</b> Gender composition of board members .....	35
<b>Figure 4.3</b> Number of board members.....	38

## ABSTRACT

Corporate governance is a concept that involves practices that entail the organization, management and control of companies. It reflects the interaction among those persons and groups, which provide resources to the company and contribute to its performance such as shareholders, employees, creditors, long-term suppliers and subcontractors. Corporate governance has received much attention in accounting literature, with studies focusing on the impact of corporate governance and the financial performance of the firms. None of these studies have focused on the effect of corporate governance and financial performance of the Savings and Credit Cooperative Societies in Machakos and Athi-river sub-counties. This study aimed to establish the effects of corporate governance on financial performance of the SACCOs in the sub-counties. The research problem was studied through the use of a descriptive research design. The population of interest in this study was the savings and credit cooperative societies in Machakos and Athi-river sub-counties. Data collection involved self-administered questionnaires. The researcher dropped the questionnaires physically at the respondents' place of work. Data collected was both qualitative and quantitative and it was analyzed by descriptive analysis techniques. The findings were presented using tables, charts, percentages, tabulations, means and other measures of central tendency. Tables were used to summarize responses for further analysis and facilitate comparison. This generated quantitative reports through tabulations, percentages, and measures of central tendency. The findings of this study established a strong positive correlation between board composition and financial performance of SACCOs. Academic qualification and occupation had the highest influence on SACCO's financial performance with  $r(33) = 0.851$ ,  $p < 0.05$  and  $r(33)=0.845$ ,  $p < 0.005$  respectively. It was however noted that there was a weak positive correlation between gender and SACCO's financial performance,  $r(33) = 0.432$ ,  $p < 0.05$ . It was also established that there is a strong negative correlation between size of board and SACCO's financial performance,  $r(33) = - 0.784$ ,  $p < 0.05$ . This means that the fewer the board members the better the financial performance of SACCOs. Besides, a strong positive correlation between board leadership and SACCO's financial performance was determined,  $r(33) = 0.812$ ,  $p < 0.05$ . A strong positive correlation between transparency/disclosure and SACCO's financial performance,  $r(33) = 0.884$ ,  $p < 0.05$  existed. The coefficient of determination R square was 0.542 which implied that 54.2% of variation in the dependent variable is determined by the independent variables (predictors). It also means the goodness of fit test is fulfilled. This also means that all the factors (board composition, board size, leadership, transparency and disclosure) significantly predict financial performance of SACCOs, with transparency and disclosure having the highest prediction ( $\beta = 2.208$ ).

## **ACRONYMNS AND ABBREVIATIONS**

<b>SACCOs</b>	Savings and Credit Co-operative Societies
<b>GNP</b>	Gross National Product
<b>KUSCCO</b>	Kenya Union of Savings and Credit Cooperative Organization
<b>SACCO</b>	Savings and Credit Cooperative
<b>SASRA</b>	Sacco Societies Regulatory Authority
<b>SSA</b>	Sacco Societies Act
<b>WOCCU</b>	World Council of Credit Unions
<b>AGM</b>	Annual General Meeting
<b>FOSA</b>	Front Office Service Activities
<b>KES</b>	Kenya Shillings
<b>VAT</b>	Value Added Tax
<b>CEO</b>	Chief Executive Officer
<b>MFI</b> s	Micro-finance Institutions
<b>USA</b>	United States of America
<b>CBK</b>	Central Bank of Kenya
<b>KASNEB</b>	Kenya Accountants and Secretaries National Examination Board
<b>ILO</b>	International Labour Organisation
<b>NSE</b>	Nairobi Stock Exchange
<b>SPSS</b>	Statistical Package for Social Sciences

## **OPERATIONAL TERMS**

<b>Governance</b>	Refers to the decisions that define expectations, grant power, and verify performance for the purpose of administering and running of the SACCOs.
<b>Corporate governance</b>	The set of processes, customs, policies, laws, and practices affecting the way a corporation (or company) is directed, administered and controlled.

# **CHAPER ONE**

## **INTRODUCTION**

This chapter forms the foundation of the research and presents the background of the study, problem statement, objectives of the study, the research questions, significance of the study and its scope and the limitations experienced.

### **1.1 Background of the Study**

A Savings and Credit Co-operative (SACCO) is a democratic, unique member driven, self-help union. It is owned, governed and managed by its members who have the a common bond: working for the same employer, belonging to the same church, labour union, social fraternity or living/working in the same community (KUSCO). In a cooperative society people come together voluntarily for the purpose of solving their socio-economic problems through self-help initiatives, mutual support and investment ventures aimed at equally benefiting the group and members. The most common types of co-operative societies in Kenya include but not limited to; Savings and credit co-operatives, housing co-operatives, consumer co-operatives, transport co-operatives, marketing co-operatives, horticulture co-operatives, handicraft co-operatives, industrial co-operatives, building and construction co-operatives, service co-operatives and multi-purpose co-operatives.

Corporate governance is the process carried out by the board of directors, and its related committees, on behalf of and for the benefit of the company's shareholders and the other Stakeholders, to provide direction, authority, and oversights to management. It means how to make the balance between the board members and their benefits and the benefits of the shareholders and the other stakeholders (Kobia, 2012).

Several studies have been done to establish relationship between governance structure and firm's performance. One argument is that a strong corporate governance structure, could lead to a high financial performance (Enobakhare, 2010). It will help to promote a firm's performance and protect stakeholder's interests. Buchana (2009) found that corporate governance should lead to better financial performance since managers are better supervised and agency costs are decreased. Poor corporate governance on the other hand is a fertile ground for corruption and poor financial performance. Bhasa (2004) found that firms with weaker corporate governance perform poorly compared to those with stronger corporate governance in terms of stock returns, profitability, riskiness and dividend payments.

Developing countries are now increasingly embracing the concept of good corporate governance, because of its ability to impact positively on sustainable growth. It is believed that, good governance generates investor goodwill and confidence. Firms are now improving their corporate governance practices knowing it increases valuations and boosts the bottom line. Corporate governance is seen as the process and structure used to direct and manage the business affairs of company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, while taking into account the interest of other stakeholders. Claessens et al., (2002) maintains that better corporate frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more favourable treatment of all stakeholders. Scholes (1999) contends that good corporate governance is important for increasing investor confidence and market liquidity.

Financial performance is the result of a firm's policies and operations in monetary terms. Financial performance is the result of any of the many different activities undertaken by an organization. Common examples of measuring financial performance include; operating income, earnings before interest and tax and net asset value (Coleman, 2004). The essence is to provide for the organization the maximum return on the capital employed in the business. Based on WOCCU's standards of measuring performance, the factors which determine the performance of SACCOs include; asset base, liabilities, performance of the loan book, corporate governance and the quality of staff and regulations in the industry.

Sacco Societies Regulatory Authority (SASRA), rates the financial performance of deposit taking SACCOs based on total assets, member deposits, loans advanced, total capital and the surplus reflected in financial statements which was the basis of measuring financial performance in this study. Financial performance of a firm is a function of underlying factors and organisation which work cohesively to produce results. These aspects include but limited to board size, powers and function of the board, board-management relationship, transparency and disclosure, board composition, organizational values, leadership styles and terms of appointment of directors (Mutunga, 2002). This study sought to establish the effect of board size, board composition, transparency, disclosure and leadership on the financial performance of the SACCOs in Machakos and Athi-river sub-counties.

Accordingly the composition of the board requires a broad mix of skills and competencies tailored to drive forward the goals and strategy of the SACCO. Board composition takes into account gender balance, geographical distribution, ethnicity, age, occupation, experience and education of the directors (SASRA, 2013)

The agency theory assumes that owners of an organization and those that manage the organization have different interests. Hence owners will face the problem that managers are likely to act according to their own interests rather than the owners' interests (Jensen and Meckling, 1976). In this regard, boards are required to monitor managers on behalf of the owners. In performing this role, members are expected to be independent and monitor the actions of managers as agents of the owners to ensure they are acting in accordance with the owners' interests (Jensen and Meckling 1976). The theory suggests that board composition is important for effectively monitoring top management.

Boards have to be diverse in terms of skills, experience, and gender balance. This creates a balance on boards and leads to effective monitoring and subsequently to the successful financial performance of the organization. Adjaud et al., (2005) examined the link between the governance mechanisms and performance of MFIs in Central and Eastern European countries. They studied how managerial compensation, board size and independence, prudent regulations, and auditing affect financial and outreach performance. The results with regard to boards show that boards with greater external representation have better financial performance, and boards with employee representation result in poorer financial and social performance.

John and Senbet (1998) studied the relationship between female board members and the performance of 250 US firms from 2000 to 2006. Their findings indicate a positive relationship between firm performance and the level of female representation inside the boardroom. They further show that organizations that perform well tend to appoint more females to their boards so as to concede to government pressure, especially in developed countries.



Enobakhare et al., (2010) examined corporate governance mechanisms and the financial performance of organizations in Nigeria. They looked at board size as the number of board members and board composition as proportion of the external board members. Their results regarding board composition were found to partially and positively influence organizations' financial performance. They also reported that small size was effective up to certain numbers, after which it becomes ineffective. This implies that large boards are not very efficient. The size of board ranges between 5 and 9 directors depending on the size of the SACCO in order to facilitate efficiency and effectiveness SASRA, (2013). The CEO is an additional member without voting rights. Properly and appropriately constituted boards effectively discharge their roles and responsibilities to the stakeholders.

Horne (1989) defines leadership as the process of influencing others to understand and agree on what needs to be done and how to do it, and the process of facilitating individual and collective efforts to accomplish shared objectives. Aluchna (2005) defines leadership as a process whereby an individual influences a group of individuals to achieve a common goal.

The literatures contend that leadership, regulations and corporate governance affect the financial performance of cooperatives. Wang'ombe (2005) asserted that the cooperatives reform and modernization program admitted that cooperatives in Tanzania have suffered from poor leadership and bad management where leaders associated with lack of accountability to members, were deceitful and corrupt. Deceit and corruption are related with poor credit risks management since corrupt or staff might issue loans contrary to the SACCOs' regulations. Best practice leadership skills and approaches positively influence the financial performance of SACCOs.

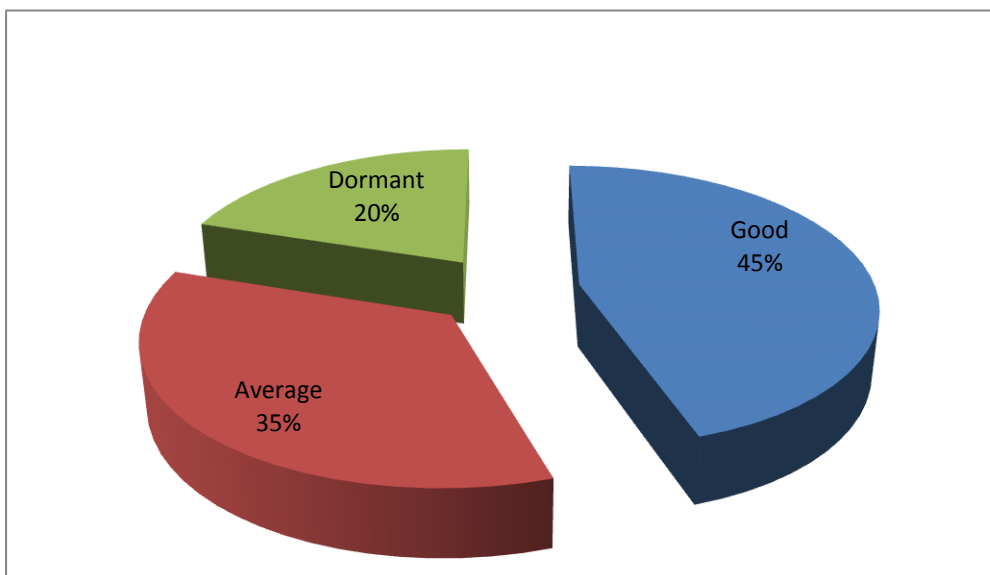
Corporate transparency describes the extent to which a corporation's actions are observable by outsiders. This is a consequence of regulation, local norms, and the set of information, privacy, and business policies concerning corporate decision making and operations openness to employees, stakeholders, shareholders and the general public. From the perspective of outsiders, transparency can be defined simply as the perceived quality of intentionally shared information from the corporation (Horne, 1989). He suggests that there are three primary dimensions of corporate transparency: information disclosure, clarity, and accuracy. To transparency, corporations infuse greater disclosure, clarity, and accuracy into their communications with stakeholders. For example, governance decisions to voluntarily share information related to the firm's ecological impact with environmental activists indicate disclosure; decisions to actively limit the use of technical terminology or complicated mathematical notations in the firm's correspondence with suppliers and customers indicate clarity; and decisions not to bias, embellish, or otherwise distort known facts in the firm's communications with investors indicate accuracy. The strategic management of transparency therefore involves intentional modifications in disclosure, clarity, and accuracy to accomplish the firm's objectives.

It is important that financial information and operating results of an organization are prepared and disclosed in an easily understood manner. It should also be borne in mind that the information is used both inside and outside the company. In addition to financial information, organisation should disclose policies relating to the business ethics, the environment and other public policy commitments as this information can be important to investors and interested people in better evaluating the relationship between companies and the communities in which they operate. The remuneration policy for members of the board and key executives, as well as information about the

board members should also be disclosed. The information should describe their backgrounds and whether they are regarded as independent by the board (PwC, 2006)

Further, PwC advises that an organization should disclose all important risk factors and its anticipated reaction that may include risk specific to the industry or geographical areas in which the organization operates, financial market risk, risk related to funding and risk related to environmental liabilities.

Despite the growing co-operative movement in Kenya, some SACCOs in Machakos and Athi-river sub-counties have been thriving well with others becoming dormant or collapsing (Machakos county ministry of co-operative development, 2014). This study sought to establish if corporate governance practices employed or their deficiency have had effects on the financial performance of the SACCOs in the Machakos and Athi-river sub-counties.



**Figure 1.1 Performance of SACCOs in Machakos county**

**Source: Machakos County Ministry of Co-operative Development statistical report, 2014**

## **1.2 Statement of the Problem**

Corporate governance principles have always been important for getting good rating scores for large and publicly-held companies. They are also becoming much more important for investors, potential investors, creditors and governments (Goyal, 2002). Corporate governance therefore receives high priority on the agenda of policymakers, financial institutions, investors, companies and scholars (Rutherford, 1994). A number of studies have sought to investigate the relation between corporate governance mechanisms and financial performance (Berglof and Thadden, 1999). Most of the studies have shown mixed results without a clear-cut relationship. A study by Becht, (2002) shows that corporate governance practices positively influence the profitability of the organization while MacAvoy and Millstein (2003) found that board composition does not have any effect on financial performance. Further, the limited studies in the area have focused mainly on developed economies (Becht, 2002). Therefore, it was crucial to examine the relationship in the context of a developing economy.

Locally, Jebet (2001) conducted a study on corporate governance the case of quoted companies in Kenya, Muriithi (2005) did a study on the corporate governance mechanisms and performance of firms quoted on the NSE. Kibiru (2005) researched on corporate governance and organizational performance the case of companies quoted at the NSE while Ratemo (2008) did a study on the corporate governance practices and performance: the case of banking industry in Kenya. None of these studies have focused on the corporate governance and financial performance of SACCOs in Machakos and Athi-river sub-counties.

Deposit-taking SACCOs are prerequisites for savings mobilization among the low income households who have limited access to mainstream commercial banks. They represent a major element of the financial system and provide services to a large number of low income households in Kenya. Deposit-taking SACCOs have a unique advantage in that their clients are also shareholders. They should therefore undertake aggressive deposit mobilization, creation of internal incentives to attractive savings and insurance programs to cover member's savings and loans. Good corporate governance in these SACCOs would ensure better performance. This study therefore, aimed at exploring the effects of corporate governance on the financial performance of the SACCOs in the Machakos and Athi-river sub-counties.

### **1.3 Objectives of the study**

The study had a general objective and the specific objectives derived from the general one.

#### **1.3.1 General Objective**

The general objective of this study was to study the effects of corporate governance on the financial performance of the SACCOs in the Machakos and Athi-river sub-counties.

#### **1.3.2 Specific Objectives of the Study**

The specific objectives of this study were;

- i. To examine the effects of board composition on the financial performance of SACCOs.
- ii. To establish the effects of board size on the financial performance of SACCOs.

- iii. To determine the influence of leadership on the financial performance of SACCOs.
- iv. To establish the relationship between transparency and disclosure and the financial performance of SACCOs.

#### **1.4 Research questions**

- i. What is the relationship between board composition and the financial performance of SACCOs?
- ii. What is the effect of board size on the financial performance of SACCOs?
- iii. What is the influence of leadership on the financial performance of SACCOs?
- iv. What is the relationship between transparency and disclosure and the financial performance of SACCOs?

#### **1.5 Significance of the Study**

The study is invaluable to the various stakeholders in co-operative movement in Kenya and beyond. The management can identify how various aspects of corporate governance practices affect the operations of SACCOs in Kenya as well as determine the extent to which the factors under study affect operations of other SACCOs in Kenya. The study identified the impediments faced by SACCOs in applying various corporate governance practices that affect their financial performance. The study provided information to potential and current scholars with regard to the effects of corporate governance on financial performance of SACCOs in Machakos and Athi-river sub-counties.

#### **1.6 Scope of the Study**

The study focused on the the effects of corporate governance on financial performance of SACCOs in Machakos and Athi-river sub-counties. It should

however be noted that in the SACCO Society movement, a distinction is made between growth of shareholders and SACCOs' financial performance. Growth of shareholders focuses on empowerment of members through accumulation of savings and provision of credit at low interest rates while growth of SACCOs focuses on accumulation of non-withdrawable funds in the form of institutional capital and share capital. The study chose SACCOs in Machakos and Athi-river sub-counties, the sub-counties have SACCOs with large, medium and small membership. The study involved collection of data from all types of SACCOS in all categories; rural and urban. The study focused on the corporate governance practices and their effects on the financial performance of the SACCOs for three years:- 2012, 2013 and 2014. The co-operative movement has tremendously grown in Kenya becoming the leading in Africa over the years under study (WOCCU, 2014).

### **1.7 Limitations of the Study**

The researcher encountered limitation in accessing information due to reluctance of the board chairpersons or Chief Executive Officers (C.E.O) to respond to the questionnaires and this made the researcher to go to their offices repeatedly. Introductory letter from the University was used to explain that information was intended purely for academic purposes and would thereby be treated with confidentiality deserved. The SACCOs in the two sub-counties were far apart from each other thus the research involved a lot of traveling which the researcher did without relenting. The researcher was also limited by resources to an extent that the scope only covered the defined area yet SACCOs exist across Kenya and the world over.

## **CHAPTER TWO LITERATURE REVIEW**

### **2.1 Introduction**

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The specific areas covered here are theoretical literature, the empirical review and conceptual framework.

### **2.2 Theoretical Literature**

Theoretical literature deals with the theories that have been reviewed for the purpose of the study. The literature is mainly on corporate governance. The independent variables have been discussed in relation to the dependent variable. The conceptual framework summarizes the dependent and independent variables relationship.

#### **2.2.1 Shareholder Theory**

There are two main theories of shareholder-oriented governance: the principal-agent or finance model and the myopic market model. The principal-agent model starts from an assumption that the social purpose of corporations is to maximize shareholders' wealth (Aggrawal et al., 2003). The principal-agent model regards the central problem of corporate governance as self-interested managerial behaviour in a universal principal-agent relationship. Agency problems arise when the agent does not share the principal's objectives. Furthermore, the separation of ownership and control increases the power of professional managers and leaves them free to pursue their own aims and serve their own interests at the expense of shareholders (Douma and Hein, 2013).



There are two problems occurring in the agency relationship with which agency theory is concerned. The first is that because it is difficult or expensive for the principal to verify what the agent is actually doing, the principal cannot verify that the agent has behaved appropriately. The second problem is that the principal and the agent may prefer different actions because of the different attitudes towards risk (Eisenhardt, 1989). Those two problems bring about a particular type of management cost incurred as principals attempt to ensure that agents act in principals' interests: "agency cost" (Jensen and Mechling, 1976). To solve those problems, agency theory must determine the most efficient contract governing the principal-agent relationship and an optimal incentive scheme to align the behaviour of the managers with the interest of owners. While the principal-agent model agrees upon the failure of corporate internal control, it denies the inherent failure of market mechanisms, insisting that markets are the most effective regulators of managerial discretion, the so-called "efficient market model" (Blair, 1995).

The myopic market model shares a common view with the principal-agent model that the corporation should serve the shareholders' interests only, but criticizes that the Anglo-American model of corporate governance because of "competitive myopia" (Powell and Baker, 2009) and its consequent pre-occupation with short-term gains in return, profit, stock price and other performance measures induced by market pressures. The myopic market model holds that what is wrong with corporate governance is that the system encourages managers to focus on short-term performance by sacrificing long-term value and competitiveness of the corporation. The financial markets often force managers to behave in a way divergent from the maximization of long-term wealth for shareholders (Blair, 1995).

The myopic market view contends that corporate governance reform should provide an environment in which shareholders and managers are encouraged to share long-term performance horizons. Shareholders' loyalty and voice should increase, whereas the ease of shareholders' exit should reduce. Policy proposals for the reform include the encouragement of "relationship investing" to lock financial institutions into long-term positions, restrictions on the takeover process and on voting rights for short-term shareholders, and the empowerment of other groups such as employees and suppliers that have long-term relationships with the firm (Parker, 2007)

### **2.2.2 Stakeholder Theory**

There are two main theories of stakeholder governance: the abuse of executive power model and the stakeholder model. Current Anglo-American corporate governance arrangements vest excessive power in the hands of management who may abuse it to serve their own interest at the expense of shareholders and society as a whole (Abdullah, 2004). Supporters of such a view argue that the current institutional restraints on managerial behaviour, such as non-executive directors, the audit process, the threat of takeover, are simply inadequate to prevent managers from abusing corporate power. Shareholders protected by liquid asset markets are uninterested in all but the most substantial abuses. Incentive mechanisms, such as share options, are means through which managers can legitimize their abnormal overpayment which is viewed by some as a symptom of the breakdown of governance (Parker, 2007).

The abuse of executive power is particularly embedded in the problem of executive overpay since executive remuneration has risen far faster than average earnings and there is at best a very weak link between compensation and management performance (Saunders and Connett, 2009). The only restraint on executive pay seems to be the

modesty of executives themselves, and the creation of so-called independent remuneration committees by large companies is not effective. What is worse is that it legitimizes self-serving managerial behaviours.

The independence is generally a sham, not for restraining excess of pay, but for justifying it (Brown and Caylor, 2004). The supporters of this model do not believe that the main lines of corporate governance reform, such as non-executive directors, shareholder involvement in major decisions and more information about corporate affairs, are suitable monitoring mechanisms (Brown and Caylor, 2004). Instead, they propose statutory changes in corporate governance, under which hostile takeovers are not possible to effect, since ownership of shares no longer brings the right to appoint executive management. The basic objective of corporate governance in this guise is “managerial freedom with accountability”, to allow executive management the power to develop the longer term business, while holding them rigorously responsible to all stakeholders involved in the business.

Perhaps the most fundamental challenge to the orthodoxy is the stakeholder model, with its central proposition that a wider objective function of the firm is more equitable and more socially efficient than one confined to shareholder wealth (Parker, 2007). The well-being of other groups such as employees, suppliers, customers and managers, who have a long-term association with the firm and therefore a “stake” in its long-term success, is recognized.

The goal of corporate governance is to maximise the wealth creation of the corporation as a whole. Specifically, a stakeholder is defined as “any group or individual who can affect or is affected by the achievement of the firm's objectives” (Damodaran, 2002). This is meant to generalise the notion of stockholder as the only

group to whom management need to be responsive (Damodaran, 2007). These definition as formulated form the basis that modern corporation is affected by a large set of interest groups, including at a minimum shareholders, lenders, customers, employees, suppliers and management, who are often referred to as the primary stakeholders and who are vital to the survival and success of the corporation. To these the corporation adds secondary stakeholders, such as the local community, the media, the courts, the government, special interest groups and the general public, that is society in general.

From this perspective, corporate governance debates often proceed with a fixation on the relationship between corporate managers and shareholders, which presupposes that there is only one right answer. In fact, shareholders find it difficult and are reluctant to exercise all the responsibilities of ownership in publicly held corporations, whereas other stakeholders, especially employees, may often too easily exercise their rights and responsibilities associated as owners. This is a compelling case for granting employees some form of ownership.

### **2.2.3 Agency Theory**

Historically, definitions of corporate governance took into consideration the relationship between the shareholder and the company, as per “agency theory”, i.e. director-agents acting on behalf of shareholder-principles in overseeing self-serving behaviors of management. However, broader definitions of corporate governance are now attracting greater attention (Solomon and Solomon, 2004).

Indeed, effective corporate governance is currently understood as involving a wide number of participants. The primary participants are management, shareholders and the boards of directors, but other key players whose interests are affected by the

corporation are employees, suppliers, customers, partners and the general community. Therefore, corporate governance, understood in these broadening social contexts, ensures that the board of directors is accountable not only to shareholders but also to non-shareholder stakeholders, including those who have a vested interest in seeing that the corporation is well governed.

Some corporate governance scholars (Daily et al., 1996) also argue that at the heart of good corporate governance is not board structure (which receives a lot of attention in the current regulations), but instead board process (especially considering how board members work together as a group and the competencies and behaviors of both at the board level and the level of individual directors). As a result, the current scholarly discourse about the nature of corporate governance has come to reflect this body of research.

This separation is however, linked and governed through proper “agency relationship” at various levels, among others “between shareholders and boards of directors, between boards and senior management, between senior and subordinate levels of management” (Zenner, 2004). In such a principal-agent relationship, there is always “inherent potential for conflicts within a firm because the economic incentives faced by the agents are often different from those faced by the principals” (Zenner, 2004). According to Zenner (2004), all companies are exposed to agency problems, and to some extent develop action plans to deal with them. These include establishing measures such as: “controls on the actions of agents, monitoring the actions of agents, financial incentives to encourage agents to act in the interest of the principals, and separation of risk taking functions from control functions” (Zenner, 2004).

## **2.3 Empirical Review**

The empirical review in research involves reflecting on the information and theories available concerning a topic. Literature relating to the independent variables for this study which include board composition, board size, leadership, transparency and disclosure have been discussed.

### **2.3.1 Board Composition**

The composition of the board may be used to ameliorate the principal-agent problem. The participation of outside directors is designed to enhance the ability of the firm to protect itself against threats from the environment and align the firm's resources for greater advantage. However, research on the impact of outside directors has grown significantly, but with mixed results. While the study by Abor and Wen (2002) found a negative relationship between the number of outside directors on the board and performance, Bhagat and Black (2002) found no relationship between outside directors and performance. In another related work, the proportion of outside directors was found to have a significant positive relationship to firm performance (Hermalin and Weisbach, 2003). Firms with higher number of outside directors are expected to pursue activities that would bring about low financial leverage with a high market value of equity (Enobakhare, 2004).

The number of board of directors is assumed to have an influence on financial performance. The board is vested with responsibility for managing the firm and its activities. There is no agreement over whether a large or small board does this better. Madalla (1996) suggests that the smaller the board of directors the better the firm's performance. Madalla (1996) further argued that larger boards are found to be slow in decision making.

The monitoring expenses and poor communication in a larger board have also been seen as a reason for the support of small board size (Norell, 2004). However, there is another school of thought that believes that firms with larger board size have the ability to push the managers to pursue lower costs of debt and increase performance. Studies by Abor and Wen (2002) reported evidence in support of a positive relationship between board size and leverage. They argued that large boards with superior monitoring ability pursue higher leverage to raise the value of the firm.

Bhagat and Black (2002) also found negative correlation between board size and profitability when using sample of small and midsize Finnish firms. Abdullah (2006) re-echo the above findings in firms listed in Singapore and Malaysia when they found that firm valuation is highest when a board has five directors, a number considered relatively small in those markets. In a Nigerian study, Enobakhare (2010) found that firm performance is positively related with small, as opposed to large boards.

### **2.3.2 Leadership Influence**

Appointments to the board of directors should, through a managed and effective process, ensure that a balanced mix of proficient individuals is made and that each of those appointed is able to add value and bring independent judgment to the decision making process. The board of directors should determine the purpose and values of the corporation, determine the strategy that purpose and implement its values in order to ensure that the corporation survives and thrives and that procedures and values that protect the assets of the corporation are put in place (CBK, 2013). It is imperative that the members of the sub-committee should have sound knowledge of financial management.

Generally the investment committee should always be guided by the trend in the economy, return on investments, performance of the property market, requirement regulations and laws which pertains to investments, shareholders and members interest. The committee should always be alert to ensure that the transactions are carried out with accuracy and honestly. It is for this reason that the supervisory committee organises regular audits of affairs of the organization. Apart from the formal auditing, the committee should also be on the look-out for potential problems. For example, they should take note of any money handling officials who are anxious to handle certain accounts. It is also essential that employees dealing with finances should take their annual leave.

The board should monitor and evaluate the implementation of strategies, policies and management performance criteria and the plans of the corporation. In addition, the board should constantly review the viability and financial sustainability of the enterprise and must do so at least once a year (CBK, 2013). The board should identify the corporation's internal and external stakeholders; agree on a policy or policies determining how the corporation should relate to, and with them, increasing wealth, jobs and sustainability of a financially sound corporation while ensuring that the rights of stakeholders established by law or customs are recognized and protected. The Board should ensure that no one person or group of persons has uncontrolled power and that there is an appropriate balance of power over the board so that it can exercise objectives and independent judgment.

### **2.3.3 Board Size**

Pandey (1980) argued that for the board to play its oversight role of effective monitoring, it should be composed of majority of outside directors. He argued that



outside directors will exhibit considerable independence from top management. The size of the board has been shown to have a material impact on the quality of corporate governance. Several studies support the idea that large boards can be dysfunctional. Hermalin and Weisbach (2003) believe that board size proxies for the board's activity, explaining why smaller board sizes are better than larger ones that may be plagued with free rider and monitoring problems. For example, Aluchna (2004) found a negative relation between board size and firm value, indicating that smaller boards are more effective since they experience fewer communication and coordination problems.

Boards should be ready to increase meetings frequency if the situation requires a high supervision and control (Daniel and Terrel, 1975). Other studies suggest that boards should balance the costs and benefits of frequency. For example, if the board increases the frequency of its meetings, the recovery from poor performance is faster. Norell (2004) argues that separating CEO and chairman roles is in the shareholders' interest. Similarly, large firms that separate the two functions trade at higher price-to-book multiples and have higher return on assets and cost efficiency ratios than firms where the same person holds both titles.

Studies of the impact of board(s) effectiveness on corporate profitability and shareholder value have dominated corporate governance research in finance. These researchers focused on the influence of non-executive directors, splitting of the roles of chairman and chief executive officer, or the introduction of board sub-committees which have enhanced board effectiveness and in turn added to shareholder value. For example, Reily and Brown (1997) investigated the relationship between top management turnover (a measure of board effectiveness) and financial performance (a

measure of management effectiveness). Others have studied the appointment of non-executive directors and their role in monitoring company management, on behalf of shareholders (Bhagat and Black, 2002).

Research has considered whether there is a positive relationship between the board size and corporate financial performance, generally showing that there is. Researchers have also investigated the relationship between executive remuneration and financial performance (Norell, 2004). A host of corporate governance research has focused on takeovers and mergers and their relationship with performance, stemming from a seminal study which identified takeover as a disciplining mechanism over company management, again within the finance paradigm of agency theory (Norell, 2004).

### **2.3.4 Transparency and Disclosure**

Full disclosure and transparency of financial information are vital components of corporate governance framework (OECD, 1999) and are regarded as important indicators of corporate governance quality. Indeed, Wood and Sangster (2005) found that firms with higher corporate governance quality make more informative disclosures. Transparency is integral to corporate governance. Higher transparency reduces the information asymmetry between a firm management and financial stakeholders mitigating the agency problem in corporate governance (Wanyama, 2009). Coleman (2006) provides both theoretical and empirical evidence that the public sharing of financial and analyst reports have enhanced factor productivity and economic growth in 30 countries.

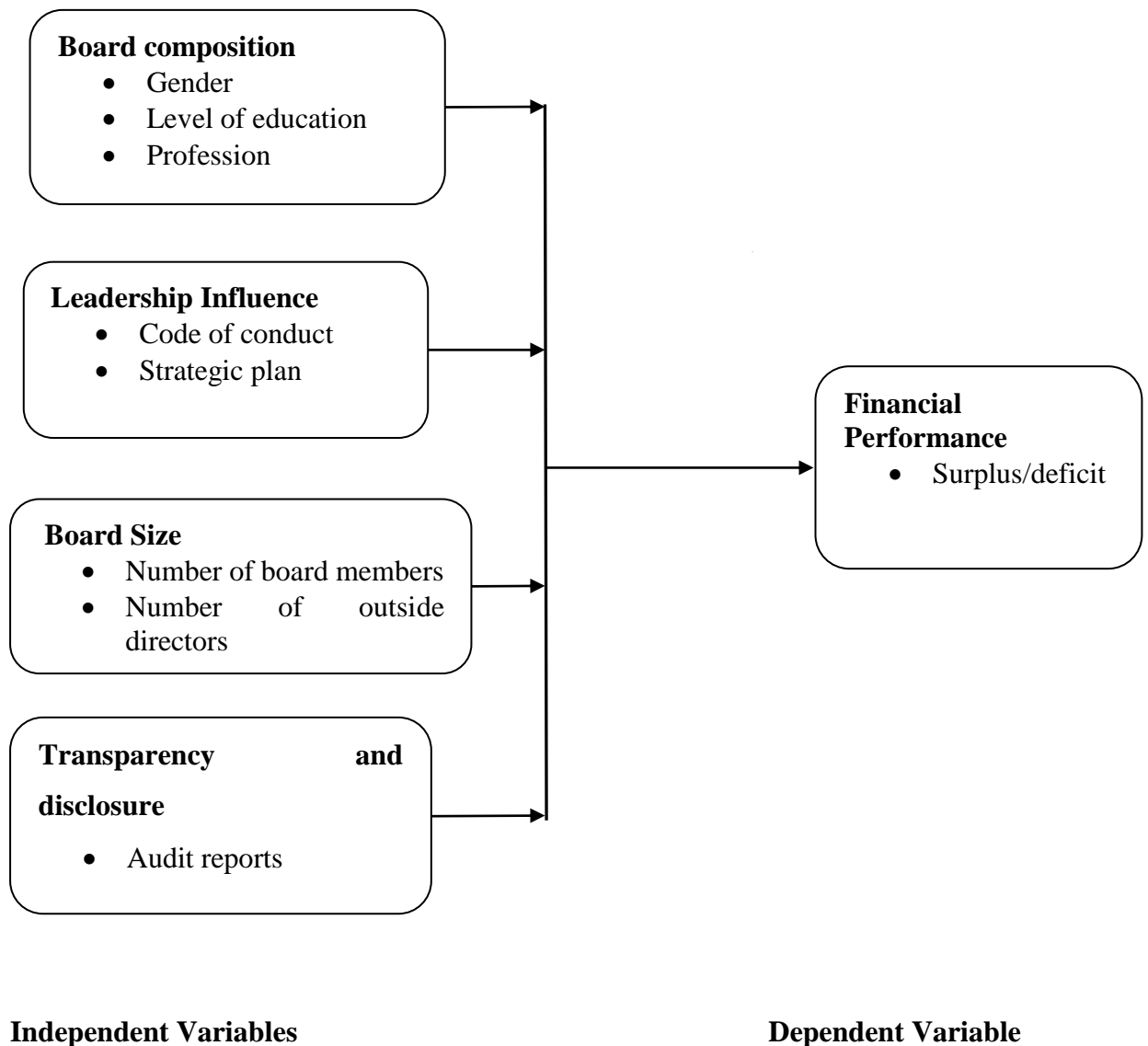
Understandable, relevant, transparent, reliable, timely and full disclosure of the results of economic activities and the structural processes used in organizational units entrusted to operate in the stakeholder's interest, gives the stakeholders a true and fair

view of the firm and the quality of the corporate governance standards it follows. In this sense, good transparency and disclosure mechanisms are set in place to essentially protect the rights of the minority shareholders, creditors and other outsiders who do not have firsthand knowledge about the firm and its prospects. This in turn is expected to minimize the informational asymmetry in the firm and the probability of fraud, enhancing its detection thus leading to lower cost of capital and hence higher firm value. A related informational advantage of good transparency and disclosure practices is that it increases investor awareness and trust which will reduce the uncertainty of the returns of the capital suppliers which, again, is expected to reduce the firms cost of external capital and hence increase its value (Hambrick and Jackson, 2000).

A third advantage is that compliance to good transparency and disclosure practices mitigates the political costs of non-compliance and hence reduces the risk of higher taxes, litigation and too much regulation. Transparency, disclosure, and trust which constitute the integral part of corporate governance can provide pressure for improved financial performance. Financial performance, present and prospective is a benchmark for investment. The Mckinsey quarterly surveys suggest that institutional investors will pay as much as 28% more for the shares of well governed companies in emerging markets (Deakin, 1972). According to the corporate governance survey 2002, carried out by the Kuala Lumpur stock exchange and accounting firm Price Water House Coopers, the majority of investors in Malaysia are prepared to pay 20% premium for companies with superior corporate governance practices.

## 2.4 Conceptual Framework

The researcher sought to establish if board composition, board size, leadership, transparency and disclosure affect financial performance of SACCOs as measured by the surplus or deficit they report in their financial statements.



*Figure 2. 1 Conceptual Framework*

Source: Researcher, 2016

## **2.5 Chapter Summary**

This chapter presents review of theoretical and empirical literature. In the theoretical literature, the study has focused the four specific objectives; to examine the effects of board composition on the financial performance, to establish the effects of board size on the financial performance, to determine the influence of leadership on the financial performance and to establish the effect of transparency and disclosure on the financial performance of SACCOs. A conceptual framework is also presented to show the relationship between the independent variables (board composition, board size, leadership influence, transparency and disclosure) and the dependent variable (financial performance).

## **2.6 Research Gap**

Much of the literature reviewed focuses on the impact of capital structure on financial performance of savings and credit co-operative societies in Kenya. There is hardly any literature that has focused on the effects of corporate governance on the financial performance of SACCOs in Machakos and Athi-river sub-counties. Therefore, no study, local or international has focused on the effects of corporate governance on financial performance of the SACCOs in the defined area, which this study seeks to establish. The studies cited in the literature mostly concentrate on the developed countries whose strategic approach system is not similar to that of Kenya. The studies have also been done on other SACCOs other than the ones in the defined area. To the best of the researchers' knowledge, no study has been done on the effects of corporate governance on the financial performance of the SACCOs in the defined area. This study sought to fill this gap by endeavoring to establish the effects of corporate governance on financial performance of SACCOs in the defined area.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

In this chapter the research methodology is presented in the following order, research design, target population, sampling procedure, data collection methods, validity and reliability, data analysis and presentation.

#### **3.2 Research Design**

Gay (1981) notes that a research design is the structure of the research. It is the glue that holds all the elements in a research project together. For the purposes of this study, the researcher applied a descriptive research design. A descriptive study is concerned with determining the frequency with which something occurs or the relationship between variables. According to Cooper and Schindler (2003), a descriptive study is concerned with finding out the what, where and how of a phenomenon. Thus, this approach was appropriate for this study, since the researcher intended to collect detailed information through descriptions which are useful for identifying variables and hypothetical constructs.

#### **3.3 Target Population**

Target population in statistics is the specific population about which information is desired. According to Bryman and Bell (2009) a population is a well-defined or set of people, services, elements, events, group of things or households that are being studied. Thus the population should fit a certain specification, which the researcher studies and the population should be homogenous. Population refers to the group of items in the scope of the research study. It is an aggregate of all the subjects, objects or members that conform to a set of specifications. The target population is the

population to which a researcher wants to generalize the results of the study (Mugenda and Mugenda, 1999). The population of interest in this study was the savings and credit co-operatives in Machakos and Athi-river sub-counties. In the defined area, there are 101 registered and active SACCOs (Machakos county ministry of cooperative, 2014). Out of the 101 SACCOs, 24 have more than 5000 members while the rest have less the 5000 members. The researcher administered questionnaires to a representative sample population of the SACCOs.

**Table 3.1: Target Population of SACCOs**

Category of SACCO	Population	Percentage
More than 5,000 members	24	24
Less than 5,000 members	77	76
Total	101	100

**Source: Machakos County Ministry of co-operative development, 2014**

### **3.4 Sampling techniques**

The process of selecting a portion of the population to represent the entire population is known as sampling. The target population is also referred to as large population from which a sample population is selected. Obtaining data from the entire population of SACCOs as well as analyzing and interpreting vast amounts of data was impossible to accomplish with the limited financial resources available for this research. Some of the benefits the researcher derived from sampling was cost reduction and increased speed.

The researcher used stratified random sampling followed by probability random sampling. The researcher had two strata with the first composed of the SACCOs with more than 5000 members and the second comprising of the SACCOs with less than 5000 members. The SACCOs in the first stratum were arranged in reference to their registration numbers in an ascending order and every third SACCO selected. A similar process was done in the second stratum.

**Table 3.2: Sample size**

Category of SACCO	Population	Sample Ratio	Sample
More than 5000 members	24	0.3	8
Less than 5000 members	77	0.3	25
Total	90	0.3	33

**Source: Researcher, 2016**

### **3.5 Data Collection**

This section presents the research instruments, the reliability and validity assurance of the research instruments and the data collection procedure that was adopted in this study. The main research instrument that was used in this study was the questionnaire. In developing the questionnaire items, the fixed choice and open-ended format of the items were used. This format was used in all categories of the questionnaire. However, in the fixed choice items, it involved “putting words” in the respondents’ mouth, especially when providing acceptable answers, in which case there was temptation to avoid serious thinking on the part of the respondent (Saunders et al., 2009). The respondents may end up choosing the easiest alternative and provide fewer



opportunities for self-expression. It is because of these reasons that it was necessary to combine this format of items with a few open-ended response items. The questionnaires were administered to the C.E.Os or board chairpersons. These two were best positioned to respond to all the questions satisfactorily since the corporate governance practices are largely implemented at the board and management levels.

### **3.6 Validity and Reliability**

Validity is the extent to which an instrument measures what it is supposed to measure (Gray, 2009). The researcher conducted both content and external validity by doing a pilot test and after analysis of the data, the researcher found out that the questions in the questionnaire measured the intended information and also that the results of the sample were representative of the population. The test showed that the questionnaire was to a large percentage valid.

Reliability refers to the level to which the measuring instruments provide consistent results (Cooper and schindler, 2003). In order to test the reliability of the instrument used in this study, the test-retest method was used by administering the questionnaire a chosen group of people twice within an interval of two weeks. The results of the test of the research questions yielded a reliability coefficient of almost one which showed that the instrument was a reliable tool.

### **3.7 Data Analysis and Presentation**

Before processing the responses, the completed questionnaires were edited for completeness and consistency. A content analysis and descriptive analysis was employed. The content analysis was used to analyze the respondents' views. The data was then coded to enable the responses to be grouped into various categories. Descriptive statistics were used to summarize the data including percentages and

frequencies. Tables and other graphical representations as appropriate were also used to present the data collected for ease of understanding and analysis. Statistical Package for Social Sciences (SPSS) version 17 was used to analyze the data. Inferential statistics, Pearson correlation, which ranges from ranges from negative one to positive one inclusive ( $-1 \leq r \leq +1$ ) was used to test the association between the dependent and independent variables. Multiple regression equation was also used to determine the prediction factor of the dependent variable caused by independent variables. Saunders et al., (2006) used a similar model.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

$\beta_1, \beta_2, \beta_3$  and  $\beta_4$  is the regression coefficient of the independent variables

Y = Dependent variable (financial performance)

$\beta_0$  = Constant

$X_1$  = Board composition

$X_2$  = Board size

$X_3$  = Leadership

$X_4$  = Transparency and disclosure

$\varepsilon$  is the error term normally distributed about a mean of zero. For computation purposes it is assumed to be 0.

## **CHAPTER FOUR**

### **RESEARCH FINDINGS AND DISCUSSIONS**

#### **4.1 Introduction**

The chapter presents collected data, analysis and discussion of the results. The analysis has been computed for 33 SACCOs. The main research instrument that was used in this study was the questionnaire. Descriptive statistics have been used to summarize the collected data including frequency and percentage tables as well as other graphical representations. The researcher first sought to establish the general information about SACCOs which included; the current membership and the length of operation. The presentation, analysis and discussion have been done for the four objectives of the research.

#### **4.2 Sample Characteristics**

The sample for this study was made of SACCOs with more than 5000 members which were 8 and those with less than 5000 members which were 25 making a total of 33 respondents. The response rate was 100 percent. For the SACCOs with less than 5000 members, Athi-river sub-county had more respondents as compared to Machakos sub-county. However, Machakos had more respondents of the SACCOs which had large number of members and also which had operated for more than 10 years. Generally Athi-river had a high percentage of SACCOs with less than 5000 members and which had operated for less than 6 years.

##### **4.2.1 Current membership of SACCOs**

The respondents were required to indicate their current membership. Majority (54.5%) of the SACCOs had a membership of between 1,001 – 5000.

This was followed by those which had up to 1,000 members with 21.3%. The least were those with greater than 10,000 members with 9.1%. The results were presented in Table 4.1

**Table 4.1: Membership in Saccos**

Membership	Frequency	Percent
Upto 1,000	7	21.3
1, 001 – 5000	18	54.5
5,001 - 10,000	5	15.1
> 10,000	3	9.1
Total	33	100.00

#### **4.2.2 SACCO's length of operation**

The researcher sought to establish the SACCOs length of service. Majority (36.4%) of SACCOs had operated for 6 – 10 years followed by those which had operated for 3 – 5 years (30.3%). The category with the least number of SACCOs was those with a length of operation greater than 10 years (12.1%). The responses were as presented in Table 4.2

**Table 4.2: SACCO's length of operation**

Years of operation	Frequency	Percent
< 3	7	21.2
3 – 5	10	30.3
6 – 10	12	36.4
> 10	4	12.1
Total	33	100.00

The SACCOs in the Machakos and Athi-river sub-counties had operated for a length which was able to give information on the effects of corporate governance on their financial performance.

### 4.3 Board composition

The first objective was to examine the effects of board composition on the financial performance of SACCOs. To achieve this objective, respondents were required to indicate the composition of their boards in terms of occupation (profession), academic qualification and gender mix. The researcher found out that there was one Legal officer in every SACCO (100%). This was followed by finance specialists (81.8%) followed by economists and accountants each with 78.9%. It was also noted that only a few (15.1%) SACCOs had educationists, the informal sector comprised (21.1%). The responses were as presented in Table 4.3.

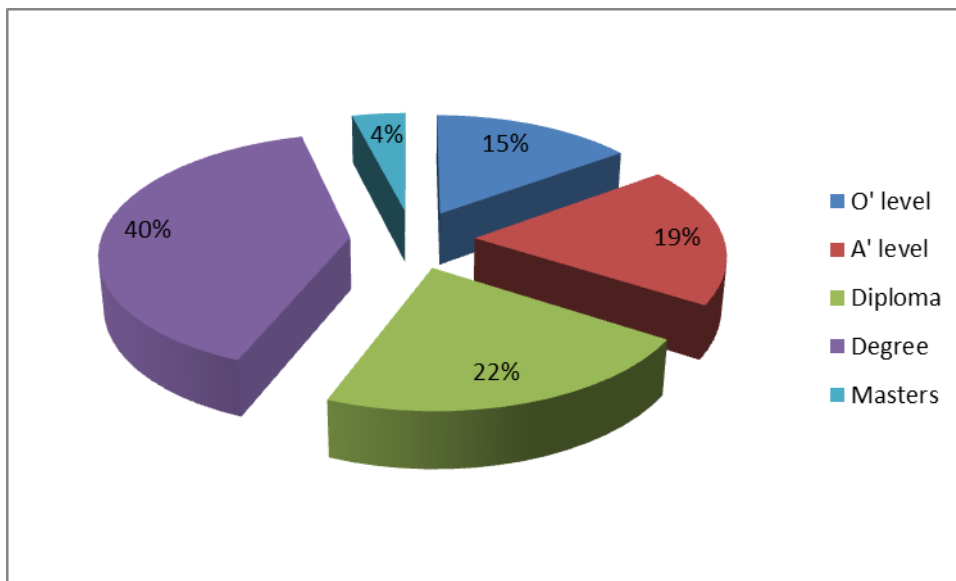
**Table 4.3 Board members profession**

Occupation	1	Percent	2	Percent	3	Percent	4	Percent
Legal officers	33	100.0	0	0.00	0	0.00	0	0.00
Finance specialists	27	81.8	6	18.2	0	0.00	0	0.00
Economists	26	78.9	7	21.1	0	0.00	0	0.00
Educationists	5	15.1	8	24.5	10	30.2	10	30.2
Accounting	26	78.9	7	21.1	0	0.00	0	0.00
Informal sector	7	21.1	21	63.8	5	15.1	0	0.00
Other specialization	10	30.2	10	30.2	7	21.3	6	18.2

The professions of the board members included legal officers, finance specialists, economists, educationists, accountants, informal sector and others specializations. For each category, it was established that the number of professionals ranged between 1 and 4.

The researcher further sought to establish the composition of board members by their academic qualifications. The analysis revealed that, majority (40%) of board members had first degree as their highest academic qualification followed by 22 % with diploma and 19% with A-level qualification. The least (4%) were those with master's degree.

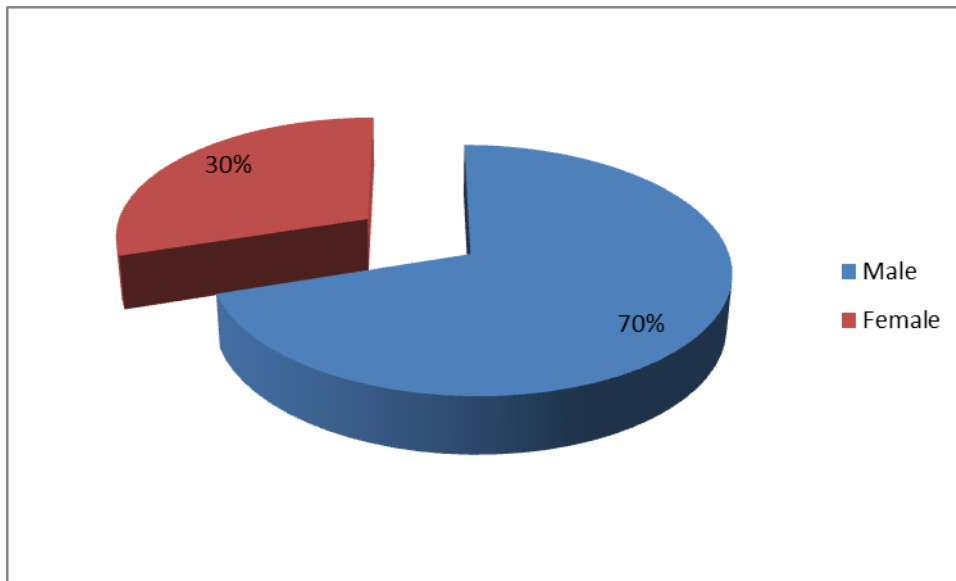
The results were as presented in Figure 4.1



**Figure 4.1 Board members academic qualification**

The researcher again sought to determine the gender of the board members. It was established that majority (70%) of board members were male while 30% were female

which shows that generally boards had almost fulfilled the two-thirds majority rule of either gender. The results were as presented in figure 4.2



**Figure 4.2 Gender composition of board members**

After establishing the composition of board members, the researcher sought to establish if there was an association between board compositions and the financial performance of SACCOs. The linear correlation between the variables (profession, academic qualification and gender) was established using the Pearson product-moment correlation coefficient so as to determine if there was any association between board composition and the financial performance of SACCOs. The Pearson correlation, which ranges from negative one to positive one inclusive ( $-1 \leq r \leq +1$ ) was used to test the association between the dependent and independent variables. Using the correlation, -1 shows perfect negative correlation implying that as one variable increases the other perfectly decreases and +1 shows perfect positive correlation meaning that as one variable increases the other perfectly increases.

The results in Table 4.4 shows that there is a strong positive correlation (association) between academic qualification and the financial performance of SACCOs.

Academic qualification and professional specialisation were found to have the closest association with SACCOs financial performance with  $r = 0.851$ , and  $r = 0.845$  respectively. This shows that an increase in academic qualification would lead to an increase in SACCO's financial performance by a factor of 0.851 while a decrease in academic qualification would lead to a decrease in SACCO's financial performance by a factor of  $r = 0.851$ . Besides, an increase in professional specialisation would lead to an increase in SACCO's financial performance by a factor of 0.845 while a decrease in academic qualification would lead to a decrease in SACCO's financial performance by a factor of 0.845.

The mix of the board members in terms of gender had a weak positive association between gender and SACCO's financial performance ( $r = 0.432$ ). This means that an increase in gender balance would lead to an increase in SACCO's financial performance by a factor of 0.432 while a decrease in the same would lead to a decrease in the SACCO's financial performance by a factor of 0.432.



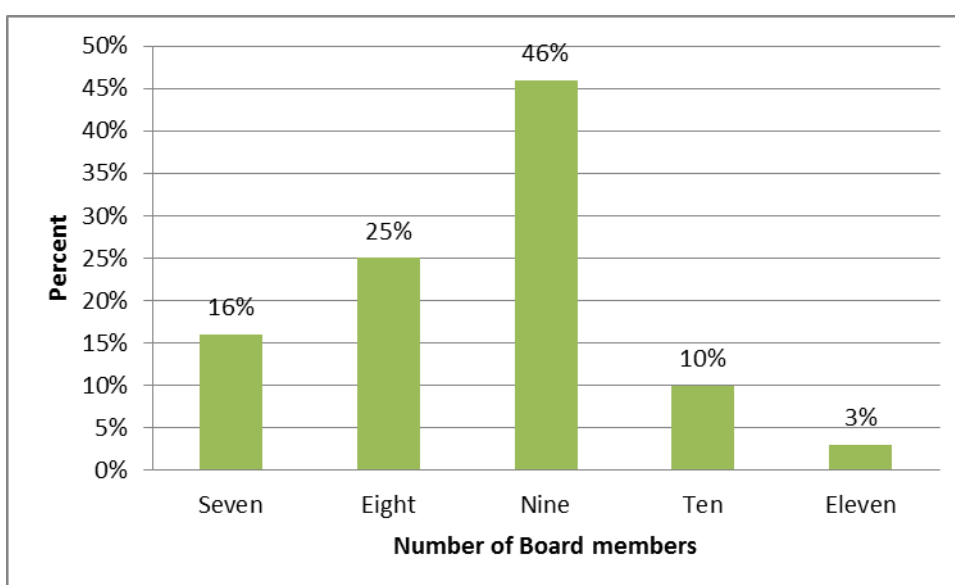
**Table 4.4: Board composition and financial performance**

		Board members' Occupation	Academic level	Gender	Financial formance
	Pearson Correlation	1	.845**	.432**	.845**
Occupation	Sig. (2-tailed)		.000	.000	.000
	N				33
Academic level	Pearson Correlation	.851**	1	0.00**	.851**
	Sig. (2-tailed)	.000		.000	.000
	N				33
Gender	Pearson Correlation	.432**	.000**	1	0.432**
	Sig. (2-tailed)	.000		.000	.000

These results agree with the agency theory by Jensen and Meckling (1976) which suggests that board composition is important for effectively monitoring top management and that boards have to be diverse in terms of skills, experience, and gender balance. This is because the owners of an organization and those that manage the organization have different interests. Hence owners will face the problem that managers are likely to act according to their own interests rather than the owners' interests. In this regard, boards are required to monitor managers on behalf of the owners. In performing this role, members are expected to be independent and monitor the actions of managers as agents of the owners to ensure they are acting in accordance with the owners' interests (Jensen and Meckling 1976).

#### 4.4 Board size

The second objective for this study was to establish the effects of board size on the financial performance of SACCOs. To achieve this objective the respondents were required to indicate the number of members in their management board. Most (46%) of SACCOs were composed of nine board members followed by those with eight board members (25%). The least were those with eleven members (3%). The responses were as presented in figure 4.3



**Figure 4.3 Number of board members**

After establishing the board size of SACCCOs, the researcher sought to establish if there was an association between size of boards and the SACCO's financial performance. The study revealed that there was a strong negative correlation ( $r = -0.784$ ) between size of boards and SACCO's financial performance. This means that an increase in board size will lead to a decrease in financial performance by a factor of  $-0.784$ . Also a decrease in board size will lead to an increase in performance of a SACCO by a factor of  $-0.784$ .

**Table 4.5: Board size and financial performance**

		Board size	Financial performance
	Pearson Correlation	1	-.784**
Board size	Sig. (2-tailed)		.000
	N		33
Financial performance	Pearson Correlation	-.784**	1
	Sig. (2-tailed)	.000	.001
	N		33

These results agree with Norell (2004) who argued that the monitoring expenses and poor communication in larger boards have been seen as a reason for the support of small board sizes. Bhagat and Black (2002) also found negative correlation between board size and profitability when using sample of small and midsize Finnish firms. Abdullah (2006) re-echo the above findings in firms listed in Singapore and Malaysia when they found that firm valuation is highest when a board has five directors, a number considered relatively small in those markets. In a Nigerian study, Enobakhare (2010) found that firm performance is positively related with small, as opposed to large boards.

However, there is another school of thought that believes that firms with larger board size have the ability to push the managers to pursue lower costs of debt and increase financial performance. Studies by Abor and Wen (2002) reported evidence in support of a positive association between board size and leverage. They argued that large boards with superior monitoring ability pursue higher leverage to raise the value of the firm.

## **4.5 Leadership**

The third objective of this study was to determine the influence of leadership on the financial performance of SACCOs. To achieve this objective, the respondents were required to indicate whether the SACCOs had standardized code of conduct for management staff and/or the board of directors. Further, the researcher sought to establish the extent to which the respondents agreed with the statements given on a scale of 1-5 where 1= strongly disagree; 2= disagree; 3= neutral; 4= agree and 5= strongly agree. The results in Table 4.6 revealed that an average majority (49%) of the respondents strongly agreed that; There was conducive separation of powers between board of directors and the SACCO CEO, good communication in the SACCO contributed to the harmonious working in the organizational structure, the board of directors constantly underwent capacity building trainings on necessary managerial skills and that the SACCOs had a functional and effective succession plan of the board of directors and the CEO. Further 49% of the respondents agreed that Code of ethics and/or code of best practices effectively governed the conduct of staff and management team. No respondents disagreed in either way.

**Table 4.6: Leadership rating**

	1	2	3	4	5
There is conducive separation of powers between board of directors and the SACCO CEO.	0(0%)	0(0%)	11(33%)	19(57%)	3(10%)
Good communication in the SACCO contributes to the harmonious working in the organizational structure.	0(0%)	0(0%)	0(0%)	22(67%)	11(33%)
The board of directors constantly undergoes capacity building trainings on necessary managerial skills.	0(0%)	0(0%)	9(28%)	11(33%)	13(39%)
The SACCO has a functional and effective succession plan of the board of directors and the CEO.	0(0%)	0(0%)	7(25%)	10(30%)	15(45%)
Code of ethics and/or code of best practices effectively govern the conduct of staff and management team.	0(0%)	0(0%)	4(12%)	5(15%)	24(73%)
Mean total	0(0%)	0(0%)	6(18%)	11(33%)	16(49%)

The research further sought to establish the association between leadership as rated with respect to the statements in the above table and financial performance of the SACCOs. The results presented in Table 4.7 shows a strong positive association between board leadership and SACCO's financial performance ( $r = 0.812$ ,  $p < 0.05$ ).

This means that an enhancement in leadership skills would lead to an increase in financial performance of SACCOs by a factor of 0.812.

**Table 4.7: Board leadership and financial performance**

	Leadership		Financial performance
	Pearson Correlation	1	.812**
Leadership	Sig. (2-tailed)	.000	.000
	N		33
	Pearson Correlation	.812**	1
Financial performance	Sig. (2-tailed)	.000	.000
	N		33

These results agrees with CBK report (2013) which indicated that a good board leadership should monitor and evaluate the implementation of strategies, policies and management performance criteria and the plans of the corporation. In addition, the board should constantly review the viability and financial sustainability of the enterprise and must do so at least once in a year. This will improve the financial performance of organizations. The board should identify the corporation’s internal and external stakeholders; agree on a policy or policies determining how the corporation should relate to, and with them, increasing wealth, jobs and sustainability of a financially sound corporation while ensuring that the rights of stakeholders established by law or customs are recognized and protected. The Board should ensure that no one person or group of persons has uncontrolled power and that there is an

appropriate balance of power on the board so that it can exercise objectives and independent judgment (Bhasa, 2004).

#### 4.6 Transparency and Disclosure

The last objective for this study was to establish the relationship between transparency and disclosure and financial performance of SACCOs. To achieve this objective the respondents were requested to indicate the surplus or deficit that their SACCOs had reported in their financial statements for the three years (2012, 2013 and 2014). In the category of SACCOs with up to 5,000 members the least surplus reported was Ksh 150,000 while the highest was Ksh 1,850,000. In the category of SACCOs with more than 5,000 members, the least surplus reported was Ksh 650,000 while the highest was Ksh 16,500,000. None of the respondents had reported a deficit in any of the 3 years under study. The results were presented in table 4.8

**Table 4.8: Surplus reported by the SACCOs**

Stratum of SACCO	Least Surplus Reported (KSh)	Highest Surplus reported (Ksh)
Up to 5,000 Members	150,000	1,850,000
More than 5,000	650,000	16,500,000

To achieve this objective the respondents were further requested to indicate the extent to which they agreed with the statements given on a scale of 1-5 where 1= strongly disagree; 2= disagree; 3= neutral; 4= agree and 5= strongly agree.

Table 4.9 revealed that, an average majority of (53%) strongly agreed that: the external auditors of the SACCO had been independent and objective in accordance to the professional and regulatory requirements, the financial reports accurately reflected the operations of the SACCO and the subsequent results, the management appreciated

audit findings and adhered to the audit recommendations and generally, corporate governance practices had contributed to the financial performance of the SACCO.

An average of 33% of the respondents agreed that the external auditors of the SACCO had been independent and objective in accordance to the professional and regulatory requirements, the financial reports accurately reflected the operations of the SACCO and the subsequent results, the management appreciated audit findings and adhered to the audit recommendations and generally, corporate governance practices had contributed to the financial performance of the SACCO. Averagely 14% of the respondents were indifferent. No respondents disagreed in either way.

**Table 4.9: Transparency and disclosure rating**

	1	2	3	4	5
The external auditors of the SACCO have been independent and objective in accordance to the professional and regulatory requirements.	0(0%)	0(0%)	5(15%)	9(27%)	19(58%)
The financial reports accurately reflect the operations of the SACCO and the subsequent results.	0(0%)	0(0%)	4(13%)	17(51%)	12(36%)
The management appreciates audit findings and adheres to the audit recommendations.	0(0%)	0(0%)	6(19%)	10(30%)	17(51%)
Generally, corporate governance practices have contributed to the financial performance of the SACCO.	0(0%)	0(0%)	3(9%)	9(27%)	21(64%)
Mean total	0(0%)	0(0%)	4(14)	11(33%)	18(53%)

Further the researcher sought to establish the association between transparency and disclosure and the financial performance of the SACCOs. Table 4.10 shows a strong positive correlation ( $r = 0.884$ ) between transparency and disclosure and SACCOs financial performance. This means that an enhancement of transparency and disclosure would increase financial performance of a SACCO by a factor of 0.884 and



a decrease in transparency and disclosure would decrease financial the performance of a SACCO by a factor of 0.884.

**Table 4.10: Transparency and disclosure and financial performance**

		Transparency and disclosure	Financial performance
Transparency and disclosure	Pearson Correlation	1	.884**
	Sig. (2-tailed)		.000
	N		33
Financial performance	Pearson Correlation	.884**	1
	Sig. (2-tailed)	.000	.001
	N		33

#### 4.6: Multiple regression analysis

The researcher further sought to establish the contribution of each of the independent variables; (board composition, board size, leadership, transparency and disclosure) to the SACCO's financial performance. The model was obtained as;

$Y = 0.764 + 0.122X_1 - 0.105X_2 + 0.208X_3 + 2.208X_4$ . It can be noted that the independent variables were significant where:

Y = Dependent variable (financial performance)

X<sub>1</sub> = Board composition

X<sub>2</sub> = Board size

X<sub>3</sub> = Leadership

$X_4$  = Transparency and disclosure

This means that a unit positive change in transparency and disclosure would cause a change in financial performance of a SACCO by a factor of 2.208 at 5% significant level which is the greatest contribution in the model. The second contributing variable was leadership with a factor of 0.208 implying that a unit positive change in leadership would cause a positive change in financial performance of a SACCO by a factor of 0.208 at 5% significant level. This was followed by board composition with a factor of 0.122 at 5% significant level. This means that a unit positive change in board composition would cause a positive change in financial performance of a SACCO by a factor of 0.122 at 5% significant level. It was however noted that a unit positive change in board composition had a negative contribution to the model of -0.105. This means that a unit positive change in board size would reduce the financial performance of a SACCO by a factor of -0.105 at 5% significant level.

These results agree with the earlier results which showed that there was a strong positive association between board composition ( $r = 0.851$ ) and financial performance of SACCOs, positive association between board leadership and SACCO's financial performance ( $r = 0.812$ ), strong positive association between transparency and disclosure and SACCO's financial performance, ( $r=0.884$ ) and a negative association between size of boards and SACCO's financial performance ( $r = - 0.784$ ).

**Table 4.11: Coefficients of the effect of variables**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.764	.033		23.150	.000
Board composition(X <sub>1</sub> )	.122	.039	-.663	-3.130	.002
Board size (X <sub>2</sub> )	-.105	.063	.449	1.667	.001
Board leadership(X <sub>3</sub> )	.208	.050	.938	4.16	.000
Transparency/disclosure (X <sub>4</sub> )	2.008	.048	-.030	41.83	.003

Dependent Variable: financial performance

It was also established that the coefficient of determination R square was 0.542 implying that 54.2% of variation in the dependent variable is determined by the independent variables (predictors) thus fulfilling the goodness of fit test.

**Table 4.12: Model summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.736 <sup>a</sup>	.542	.526	.15066

a. Predictors: (Constant), board composition, board size, leadership, transparency and disclosure.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter is discussing the summary of the findings, conclusions from the findings, recommendations from the study and suggestions for further research. The researcher met the general objective of the research which was study the effects of corporate governance on the financial performance of the SACCOs in the Machakos and Athi-river sub-counties. The research questions emanating from the specific objectives were also answered from the research.

#### **5.2 Summary**

The regression analysis for this study showed that a change of one unit in the composition of board members, leadership, transparency and disclosure would positively influence the financial performance of SACCOs. It was also established that an increase in board size would negatively influence the financial performance of SACCOs. These results were also supported by the correlation results which revealed that there was a strong positive correlation (association) between board composition, leadership, transparency and disclosure and a negative correlation (association) between board size and financial performance of SACCOs.

The researcher found out that there was one legal officer in every SACCO. This was followed by finance specialist, economists and accounting which had a high percentage in composition. It was also noted that only a few of the SACCOs had educationists and members from the informal sector.

The academic qualification composition was that, majority of the board members had first degree as their highest academic qualification followed by those with diploma and A-level qualifications respectively. The least were those with master's degree.

On gender composition, it was established that majority of board members were male though the mix of boards members in terms of gender balance had almost fulfilled the two-third majority rule of either gender. Gender balance had a weak association with the SACCOs' financial performance.

### **5.3 Conclusions**

The topic of the study was "The effects of corporate governance on the financial performance of SACCOs in Machakos and Athi-river sub-counties." The objective of this study was to establish the effects of corporate governance on the financial performance of SACCOs in Machakos and Athi-river sub-counties. The research questions for the study sought to answer whether; board composition, board size, leadership, transparency and disclosure as variables affect financial performance. The findings established that the variables affect financial performance and that transparency and disclosure highly influenced financial performance compared to the other three variables.

The composition of the SACCO board members in Machakos and Athi-river sub-counties in terms of profession, academic qualification and gender influenced the financial performance of SACCOs. Academic qualification and profession were found to have the highest influence on SACCOs' financial performance compared to gender balance which had weak positive association.

Most of the SACCOs had board membership of between five and nine members. The SACCOs with high number of members had the highest representation in the board of

directors. Analysis showed that there was a negative association between the financial performance of SACCOs and the board size. This meant that larger board size influences financial performance of SACCOs negatively with the boards whose members were few performing better than those with more members.

The leadership of SACCOs influences their financial performance. The leadership of SACCOs was evaluated as indicated by; conducive separation of powers between board of directors and the SACCO CEO, good communication in the SACCO contributing to the harmonious working in the organizational structure, the board of directors constantly undergoing capacity building trainings on necessary managerial skills and the SACCOs having a functional and effective succession plan of the board of directors and the CEO.

Transparency and disclosure significantly predicted the financial performance of the SACCOs. Transparency and disclosure were evaluated as indicated by; external auditors of the SACCOs being independent and objective in accordance to the professional and regulatory requirements, financial reports accurately reflecting the operations of the SACCOs and the subsequent results, management appreciating audit findings and adhering to the audit recommendations and generally, corporate governance practices contributing to the financial performance of the SACCOs.

#### **5.4 Recommendations to policy**

Based on the findings of this study, the researcher made these recommendations. The SACCOs delegates who are the shareholders should ensure that the members to compose the board have a good mix in terms of directors' profession, academic qualification and gender so as to have an effective composition since it influences financial performance.

The board of directors should constantly organise for capacity building trainings for all the committee members on necessary managerial skills since leadership influences SACCO's financial performance positively. The board of directors in conjunction with the management team of the SACCOs should also ensure that the SACCO staff in all levels undergo leadership enhancement trainings. Besides, the directors should evaluate the management staff at the point of recruitment to ensure that they bring on board people who have considerable track record of leadership so as to improve SACCOs' financial performance.

SASRA, should invoke their regulations and where need be sanction SACCOs that do not adhere to transparency and disclosure requirements. The access to financial information (transparency and disclosure) by the shareholders and the general public is a key driver of the financial performance of SACCOs since it is the variable that was highly associated with good financial performance.

The SACCO delegates during annual general meeting should constitute boards of utmost 9 members. Small board size is associated with better financial performance. In addition they should ensure that they maintain gender balance in the boards of directors since it positively influences financial performance though with a weak association.

## **5.5 Suggestions for Further Research**

This study investigated the effects of corporate governance on the financial performance of the SACCOs in the Machakos and Athi-river sub-counties. The multiple regression equation showed that all the four variables; board size, board composition, leadership, transparency and disclosure influenced financial performance with the later having the highest influence.

However the constant in the regression equation was quite significant and this meant that other than the four variables, there are other factors that determine financial performance of a SACCO. Therefore further research can be done on determine such other variables that influence financial performance of SACCOs.

From the findings of the study the researcher established that transparency and disclosure had a very high influence on the financial performance of SACCOs. Transparency and disclosure level in the SACCOs was average. Therefore, further research can be done on the factors that inhibit transparency and disclosure and their effect on the financial performance of SACCOs.

This research focused on studying the effect corporate governance on the financial performance of SACCOs in Machakos and Athi-river sub-counties from which the finding were analyzed and conclusions drawn. Consequently further research can be done considering all the SACCOs in Kenya so as to compare the results.



## REFERENCES

- Abdullah, N. S. (2004). Board Composition, CEO duality and performance among Malaysia Listed Companies. *Journal of Corporate governance*, vol. 4, No. 4, pp. 47-61.
- Abdullah, N.S. (2006). Directors remuneration, firm's performance and corporate governance in Malaysia among distressed companies. *Journal of corporate*, Vol. 6, No. 2, pp.162-174.
- Abor, J., & Wen. H. (2002). Corporate governance and financing decisions of Ghanaian listed firms, Corporate Governance: *International Journal of Business in Society*, Vol. 22, No.1, pp.83-92.
- Adjaoud, F., Zeghal, D., & Andaleeb, S. (2007). The effect of Board's Quality on Performance: *An International Review*, Vol. 15, No. 4, pp. 623-635.
- Aggarwal, R., Erel, I., Stulz, R., & Williamson, R. (2008). Differences in governance practice between U.S. and foreign firms: measurement, causes, and consequences, *Review of Financial Studies*, Volume22, Issue 8, pp. 3131-3169.
- Aluchna, M. (2004). Corporate governance mechanisms used by Polish public listed companies: *doctoral dissertation*, Warsaw School of Economics.
- Aluchna, M. (2005). Shareholders fight for corporate control, *Journal for Social Responsibility*, Vol. 2, No.1, pp.50-61.
- Becht, M. (2002). Corporate governance and control, *working paper*, ECGI, Brussels.
- Berglof, E., & Thadden, E. L. (1999). The changing corporate governance paradigm: implications for transition and developing countries, *paper presented at the Annual World Bank Conference on Development Economics*, Washington DC.
- Buchana, A. F. (2009). Corporate governance, *KASNEB Newslines*, April- June Issue, No. 2.
- Bhagat, S., & Black, B. (2002). The non-correlation between board independence and long term firm performance, *Journal of Corporation Law*, Vol. 27, pp.231-73.
- Bhasa, P. M. (2004). Understanding the corporate governance quadrilateral, *Journal of corporate governance*, Vol. 4, Number 4, pp. 7-15.
- Blair, M. (1995). Firm-specific human capital and theories of the firm, in Blair, M. and Roe, M.J. (Eds), *Employees and Corporate Governance*, Brookings Institution Press, Washington.
- Brown, L. D., & Caylor, M. L. (2004). *Corporate governance and firm performance*, Georgia University, USA.
- Bryman, A., & Bell, E. (2003). *Business Research Methods*, Oxford University Press.

- Central Bank of Kenya, (2013). *Profiling developments in financial access and usage in Kenya, Financial access survey*, 2013, 18.
- Claessens, S., Berglof, E., & Verdo, M. (2002). Enforcement and good corporate governance in developing countries and transition economies, *World Bank Research Observed, Vol. 21*, No.1, pp.123-50.
- Coleman, A. (2004). The impact of Capital structure on the performance of micro-finance institutions, *Journal of Risk Finance Vol. 8*, Number 1, 56-71.
- Coleman, A. (2006). The link between corporate governance and performance of the non- traditional export sector: evidence from Ghana, *Journal of corporate governance*, Volume 6, Number 5, pp. 609-623.
- Cooper, D. R., & Schindler, P. S. (2003). *Business research methods*, 7<sup>th</sup> edition, Mc GrawHill Book Company, Singapore.
- Daily, C., Johnson, J., Ellstrand, A., & Dalton, D. (1996). Determinants of corporate governance, *Academy of Management Journal, Vol. 41*, No. 2, pp. 209-320.
- Damodaran, A. (2002). *Investment valuation*, 2<sup>nd</sup> edition, John Wiley & Sons inc, New York.
- Daniel, W. W., & Terrel, J. C. (1975). *Business studies and statistics*, Houghton company, Boston.
- Deakin, E. D. (1972). A discriminant analysis of predictors of business failure, *a journal of accounting research*, 10-11.
- Douma, E., & Hein, S. (2013). *Economic approaches to organization*, 5<sup>th</sup> edition, Pearson Prentice Hall, London.
- Eisenhardt, K. M. (1989). Agency theory: an assessment and review, *Academy of management review, Vol. 14*, No. 1, pp. 45-74.
- Enobakhare, A. (2010). *Corporate governace and bank performance in Nigeria. Published MBA thesis*, University of Stellenbosch.
- Gay, L. R. (1981). *Educational research: Competencies and analysis application*, Charles E. Mairill Publishing Company, London.
- Goyal, V. (2002). Board leadership structure and firm performance, *Journal of corporate finance, Vol. 8*, No1, pp. 49-66.
- Gray E. D. (2009). *Doing research in real world*, Sage publications, New Delhi.
- Hambrick, D., & Jackson, E. (2000). Outside directors with a stake: the linchpin in improving governance, *California Management Review, Vol. 42*, No. 4, pp108-127.

- Hermalin, B. E., & Weisbach, M. S. (2003). Board of directors as an endogenously determined institution: a survey of the economic literature, *Economic Policy Review*, Vol. 9, pp.7-26.
- Horne, J. C. (1989). *Fundamentals of financial management*, 7<sup>th</sup> edition, Prentice-Hall inc. New Jersey.
- Jebet, N. K. (2001). *A study of corporate governance the case of the quoted companies in Kenya*, Unpublished MBA project, Kenyatta University.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behaviour, agency costs and ownership structure, *Journal of financial economics*, Vol. 3, pp. 305-360.
- John, K., & Senbet, L. (1998). Corporate governance and board effectiveness, *Journal of Banking and Finance*, Vol. 22, No.4, pp. 271-395.
- Kenya union of savings and credit co-operatives, KUSCCO, Nairobi
- Kibiru, H. K. (2005). *A study of the corporate governance and organizational performance: the case of companies quoted in the NSE*, Unpublished MBA Report, Egerton University.
- Kobia, S. K. (2012). *The co-operative movement in Kenya: challenges and opportunities*, Lukiko Consulting Trust publishers, Nairobi.
- MacAvoy, P., & Millsten, I. (2003). Meta-analytic reviews of board composition, Leadership structure, and financial performance, *Strategic Management Journal*, Vol. 19, pp. 269-290.
- Madalla, G. S. (1996). *Dependent and qualitative variables in econometrics*, Cambridge University press, New York.
- McKinsey and Company, (2002). July McKinsey global investor opinion survey on corporate governance, Key findings, Exhibit 1, 3 and 4, available on: <http://www.mckinsey.com>
- Mugenda, O. H., & Mugenda, A. G. (1999). *Research Methods: Quantitative and Qualitative approaches*, Acts Press, Nairobi.
- Muriithi, A. M. (2005). *A study of the corporate governance mechanisms and performance of quoted companies on the NSE*, Unpublished MBA Report, University of Nairobi.
- Mutunga, N. J., (2002). *A study of the relationship between corporate governance and financial performance of companies listed in the Nairobi stock exchange*, Unpublished MBA project report, University of Nairobi.
- Norrel, D. (2004). How to reduce arrears in microfinance institutions, *Journal of microfinance*, Vol. 3, No. 1, pp. 115-130.

- O.E.C.D. (1999), *Organisation for economic co-operation and development, development centre paper*, No. 195.
- Pandey, I. M. (2000). *Financial management*, 8<sup>th</sup> edition, Vikas Publishing House, New Delhi
- Parker, L. D. (2007). *Financial and external reporting research; the broadening corporate governance challenge*, *Accounting and business research*, Vol. 37.
- Powell, G., & Baker, H. K. (2009). *Understanding financial management; A practice guide*, John Wiley & Sons, Victoria.
- PwC, (2006). *Business advisory services, transparency and disclosure*. Retrieved from [http://www.pwc.is/en/assets/document/t\\_dd.pdf](http://www.pwc.is/en/assets/document/t_dd.pdf)
- Reily, F. K., & Brown, K. C. (1997). *Investment analysis and portfolio management*, Dryden, U.S.A.
- Ratemo, F. A. (2008). *A study of the corporate governance practices and performance: the case of the banking industry in Kenya*, Unpublished MBA report, Kenyatta university.
- Rutherford, M. (1994). *Institutions in economics: the old and new institutionalism*, Cambridge University Press, Sanda, A.U.
- SASRA, (2013). *Sacco Supervision Annual Report*, pp. 18-25
- Saunders, A., & Cornett, M. M. (2009). *Financial market and institutions*, 5<sup>th</sup> edition, McGraw-Hill, Edinburgh.
- Saunders, K. T, Lewis, P., & Thornhill, A. (2009). *Research methods for business studies*, Pearson Education Ltd, Italy.
- Scholes, G. (1999). *Exploring corporate strategy*, 5<sup>th</sup> Edition, Prentice Hill, UK.
- Solomon, J., & Solomon, A. (2004). *Corporate governance in Africa: the record and policies for good governance*, *Economic research paper No. 66*.
- Statistical report. (2014). County ministry of cooperatives, Machakos.
- Wang'ombe, D. K. (2005). *Advanced accounting, theory and practice*, Focus Publishers Limited, Nairobi.
- Wanyama, F. O. (2009). *Surviving liberalization; the co-operative movement in Kenya*, ILO, job creation and enterprise development department
- Wood, F., & Sangster, A. (2005). *Business accounting 1*, 10<sup>th</sup> edition, Pearson education Ltd, London.
- Zenner, M. (2004). *Best practices in corporate governance: what two decades of research reveals*, *The American journal of applied corporate governance*, Vol. 16, No. 2, pp. 29-64.

## APPENDIX 1: AUTHORIZATION LETTER



### SOUTH EASTERN KENYA UNIVERSITY OFFICE OF THE DIRECTOR BOARD OF POST GRADUATE STUDIES

P.O. BOX 170-90200  
KITUI, KENYA  
Email: info@seku.ac.ke

TEL: 020-4213859 (KITUI)  
020-2531395 (NAIROBI)

Email:bps@seku.ac.ke

**Our Ref:** D61/MAC/20238/2012

**Date:** 26<sup>th</sup> January, 2016

Mutuku Duncan Maundu  
Reg. No. D61/MAC/20238/2012  
Masters of Business Economics  
C/O Dean, School of Business Economics

Dear Maundu

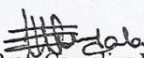
#### **RE: PERMISSION TO PROCEED FOR DATA COLLECTION**

This is to acknowledge receipt of your Masters in Business Administration Proposal document entitled, *“Effects of Corporate Governance on Financial Performance of savings and credit cooperative societies in Machakos and Athi-River Sub-Counties.”*

Following a successful presentation of your Master Proposal, the School of Business and Economics in conjunction with the Directorate, Board of Post graduate Studies (BPS) have approved that you proceed on and carry out your Research Data Collection in accordance with your approved proposal.

During your research work, you will be closely supervised by Dr. Jared Ariemba and Mr. Albanus Munyao. You should ensure that you liaise with your supervisors at all times. In addition, you are required to fill in a Progress Report (*SEKU/ARSA/BPS/F-02*) which can be downloaded from the University Website.

The Board of Postgraduate Studies wishes you well and a successful research data collection as a critical stage in your Master of Business Administration.

  
Prof. Cornelius Wanjala

**Director, Board of Postgraduate Studies**

**Copy to:** Deputy Vice Chancellor, Academic, Research and Students Affairs  
Dean, School of Business and Economics  
Director, Machakos Campus  
Chairman, Department of Business and Entrepreneurship  
Dr. Jared Ariemba  
Mr. Albanus Munyao  
BPS Office - To file

ARID TO GREEN

TRANSFORMING LIVES

ISO 9001: 2008 CERTIFIED

## **APPENDIX 2: LETTER OF INTRODUCTION**

SOUTH EASTERN KENYA UNIVERSITY

SCHOOL OF BUSINESS AND ECONIMICS

To: All Respondents,

Dear Sir/Madam,

RE: EFFECT OF CORPORATE GOVERNANCE ON THE FINANCIAL PERFORMANCE OF SACCOs

I am a postgraduate student at the South Eastern Kenya University, pursuing Master of Business Administration degree in finance. I am carrying out a study as referenced above, among selected SACCOs in Machakos and Athi-river sub-counties in partial fulfilment of the requirements for the award of the degree.

You have been selected to provide information on the performance in relation to the implementation of corporate governance practices in your SACCO. The information provided for this study will be treated with the confidentiality it deserves and will only be used purely and exclusively for academic purposes.

Thank you for your cooperation and participation making this academic work a success.

Mutuku Duncan Maundu,

REG. NO. D61/MAC/20238/12

MBA Student.

## APPENDIX 3: QUESTIONNAIRE

### INTRODUCTION

Dear respondent,

The purpose of this questionnaire is to get the actual information of your SACCO concerning the topic addressed purely for academic purpose. Please read the statements and give the responses that represent your most honest opinion. The information given will be accorded the confidentiality it deserves and will not be used for any other purpose other than for this research. Kindly respond to all the items.

### PART A: GENERAL INFORMATION

1. Name of your SACCO (optional)\_\_\_\_\_

2. What is the current membership in your SACCO? (Tick appropriately)

Up to 1,000 [  ]

1,001 - 5,000 [  ]

5,001 – 10,000 [  ]

>10,000 [  ]

3. For how long has the SACCO been operational

< 3 years [  ]

3-5 years [  ]

6-10 years [  ]

> 10 years [  ]

## **PART B: BOARD SIZE**

4. How many members does the management board have? \_\_\_\_
5. How many members of the management board are;
- a) Shareholders [   ]
  - b) Non-shareholders [   ]
6. Which sub-committees of the board have the SACCO established? (Tick the relevant)
- Executive [   ]
  - Credit [   ]
  - Education [   ]
  - Supervisory [   ]
  - Audit [   ]
  - Finance [   ]

## **PART C: BOARD COMPOSITION**

7. a) What is the composition of the board in terms occupation? (Tick where applicable and specify the number of members for that occupation)
- Legal officers [   ] .....
  - Finance specialists [   ] .....
  - Economists [   ] .....
  - Educationists [   ] .....
  - Accountants [   ] .....
  - Informal sector [   ] .....
  - Other specialisation [   ] .....



b) What is the board composition in terms of academic qualifications? (Specify how many per level)

a) O' level [ ].....

b) A' level [ ].....

c) Diploma [ ].....

d) Bachelor's Degree [ ].....

e) Master's Degree [ ].....

8. How many of the members are: (fill in the box)

Male [ ]

Female [ ]

**PART D: LEADERSHIP**

9. Does the SACCO have a standardized code of conduct for:

a) Management YES [ ] NO [ ]

b) Board members YES [ ] NO [ ]

10. Does the SACCO have a strategic plan.

YES [ ] NO [ ]

11. To what extent do you agree with the following statements that relate to the effect of leadership on the financial performance of the SACCO in the last three years?

Use a scale of 1-5 where 1= strongly disagree; 2= disagree; 3= neutral; 4= agree and 5= strongly agree

	1	2	3	4	5
There is conducive separation of powers between board of directors and the SACCO CEO.					
Good communication in the SACCO contributes to the harmonious working in the organizational structure.					
The board of directors constantly undergoes capacity building trainings on necessary managerial skills.					
The SACCO has a functional and effective succession plan of the board of directors and the CEO.					
Code of ethics and/or code of best practices effectively govern the conduct of staff and management team.					

**PART E: TRANSPARENCY AND DISCLOSURE AND FINANCIAL PERFORMANCE**

12. Kindly provide the following information about the SACCO for the last three years.

Financial Performance	2012	2013	2014
Surplus/Deficit (Ksh)			

13. To what extent do you agree with the following statements that relate to the financial performance of the SACCO in the last three years?

Use a scale of 1-5 where 1= strongly disagree; 2= disagree; 3 neutral; 4= agree and 5= strongly agree.

	1	2	3	4	5
The external auditors of the SACCO have been independent and objective in accordance to the professional and regulatory requirements.					
The financial reports accurately reflect the operations of the SACCO and the subsequent results.					
The management appreciates audit findings and adheres to the audit recommendations.					
Generally, corporate governance practices have contributed to the financial performance of the SACCO.					

14. Briefly, what in your opinion should be done to improve the performance of the SACCO?

.....  
 .....

**Thank you for taking your precious time to respond to this questionnaire**

#### **APPENDIX 4: SACCOs IN MACHAKOS AND ATHI-RIVER SUB-COUNTIES**

<b>S/NO</b>	<b>NAME</b>	<b>SUBCOUNTY</b>
1	Moko sacco	Machakos
2	Masaku teachers sacco	Machakos
3	Nakisa sacco	Machakos
4	Panania sacco	Machakos
5	Kamana sacco	Machakos
6	Peter mulei s/mkts sacco	Machakos
7	Abc empowerment sacco	Machakos
8	Namak sacco	Machakos
9	Kazi bidii sacco	Machakos
10	Matwa sacco	Machakos
11	Makos sacco	Machakos
12	Manatwa sacco	Machakos
13	Umowa sacco	Machakos
14	Universal traders sacco	Machakos
15	Mita sacco	Machakos
16	Bulala investment sacco	Machakos
17	Cotema sacco	Machakos
18	Kawama sacco	Machakos
19	Katethya sacco	Machakos
20	Kitulani sacco	Machakos
21	Kasinga archives sacco	Machakos
22	Machakos county sacco	Machakos
23	Machakos kipsa sacco	Machakos
24	Mamatu sacco	Machakos
25	Makana sacco	Machakos
26	Kesme sacco	Machakos
27	Kamoa sacco	Machakos
28	Kim sacco	Machakos
29	Masaku multipurpose sacco	Machakos
30	Masaku shuttle sacco	Machakos
31	Maseka sacco	Machakos
32	Manubi sacco	Machakos
33	Machakos county women sacco	Machakos
34	Namawo sacco	Machakos
35	Namuma sacco	Machakos
36	Pak woni sacco	Machakos
37	Kimanza sacco	Machakos
38	Kavete housing	Athi river
39	Ngombuko sacco	Athi river
40	Ngwatamo ya musyi	Athi river
41	Signode sacco	Athi river
42	Athi tex sacco	Athi river
43	Tuttoam sacco	Athi river
44	Ten coins housing	Athi river
45	Ten g. Farm	Athi river
46	Club to family	Athi river

47	Ushidi youth sacco	Athi river
48	Timeless sacco	Athi river
49	Duki steel musumari sacco	Athi river
50	Samba kwake 39 housing	Athi river
51	Mirage sacco	Athi river
52	Athi winners	Athi river
53	All parts sacco	Athi river
54	Athi horticultural	Athi river
55	Trakike sacco	Athi river
56	Katema housing	Athi river
57	Amani housing	Athi river
58	Ngwata pioneer housing	Athi river
59	Meko housing	Athi river
60	Mavoko housing	Athi river
61	Mavoko traders	Athi river
62	Macho enterprenuer sacco	Athi river
63	Bataco sacco	Athi river
64	K.m.e sacco	Athi river
65	Lukenya ranching and farm	Athi river
66	Royal highway workers sacco	Athi river
67	Hvps sacco	Athi river
68	Mayoco housing	Athi river
69	Castle housing	Athi river
70	Joptula sacco	Athi river
71	Kinavae housing	Athi river
72	Auru savings	Athi river
73	Know mac hcs	Athi river
74	Mbaitu multipurpose	Athi river
75	Reliatex sacco	Athi river
76	Ack staff sacco	Athi river
77	Game ranch co-op	Athi river
78	Kikwaka housing	Athi river
79	Njata housing	Athi river
80	Athi river horticultural	Athi river
81	Kimongo housing	Athi river
82	Moranchi multipurpose	Athi river
83	Spin weave sacco	Athi river
84	Athi kyeni savings & credit	Athi river
85	Mega sacco	Athi river
86	Mwathi housing	Athi river
87	Simba cement	Athi river
88	Ceramic housing	Athi river
89	Multi-mechanical works	Athi river
90	Zotu sacco	Athi river
91	Macopni sacco	Athi river
92	Economic tank sacco	Athi river
93	Faulu boma	Athi river
94	Kithito dural sacco	Athi river
95	Economic tank sacco	Athi river
96	Ushindi youth housing	Athi river

97	Portland housing	Athi river
98	Super homes sacco	Athi river
99	Imekeni sacco	Athi river
100	Syokimau bright khomes	Athi river
101	Karta housinig	Athi river

---

**Source: Ministry of Co-operative Development, Machakos County, 2016**