FACTORS INFLUENCING CORPORATE GOVERNANCE OF SACCOs IN KENYA: (A CASE OF SELECTED SACCOs WITHIN THE PUBLIC SECTOR IN NAIROBI)

By

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NOVEMBER 2008
DECLARATION

I declare that this is my original work and has not been submitted for examination in any other University.

Name  Kiplagat J Doris  Reg No. D53/OL/1023/02

Signature  Date: 18/11/2002

This project has been submitted for examination with my approval as the university supervisor.

Signature:  Date: 25/11/02

Mr. Shadrack Bett
DEDICATION

Dedicated to my son Kipkemboi
ACKNOWLEDGEMENT

My gratitude goes to Kenyatta University for granting me this opportunity to undertake this research project. Sincere thanks to my supervisors Mr. Bett for his patience, guidance, support and tireless assistance on matters pertaining to this project. Heartfelt thanks to my beloved parents Mr & Mrs Tuigong for their moral support throughout this study.

Much appreciation goes to my friends Agnes, Alfred, Carol and Victor for their encouragement and time when I needed them most.

For all those behind the successful completion of my research, God Bless you.

Thank you all.
The significance of corporate governance is now widely recognised and all institutions require good governance in order to succeed and attain sustainable prosperity. Corporate governance refers to the manner in which organizations are directed, controlled and held accountable.

Since co-operatives play an important role in the development of any country’s economy by uplifting the standards of living of the people, this study sought to investigate the factors influencing corporate governance by taking a case of selected SACCOs within Nairobi.

The study utilized descriptive survey employing both qualitative and quantitative methods of data collection. The target population constituted all three public SACCOs within Nairobi. A sample of 60 respondents was selected from three selected SACCOs in Nairobi. These were drawn from Mwalimu, Harambee and Ukulima. Stratified random sampling technique was used to select 20 respondents from each SACCOs. Of each of the selected SACCOs, eight respondents from management, six employees and six members were selected at random. A self-administered open and closed ended questionnaire was utilized in soliciting primary data from the field.

Data collected from the field was analyzed using both descriptive and inferential data analysis, and information presented in frequency distribution tables and figures.

Knowledge gained from this study will help improve current governance of SACCOs in developing countries. In addition it will provide factors that influence the implementation of corporate governance practices in public institutions in Kenya. The government, shareholders and the management of SACCOs will find this study indispensable because it will provide insight into the challenges of practicing good corporate governance in the management of the SACCOs not only in Nairobi but in Kenya as a whole.
# LIST OF ACRONYMS AND ABBREVIATIONS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tr>
<td>CCGS</td>
<td>Committee on Corporate Governance in Singapore</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<tr>
<td>CFIs</td>
<td>Cooperative Finance Institutions</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>ICA</td>
<td>International Cooperative Alliance</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<td>UK</td>
<td>United Kingdom</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<tr>
<td>PSDCG</td>
<td>Private Sector Development and Corporate Governance</td>
</tr>
<tr>
<td>SACCOs</td>
<td>Savings and Credit Co-operatives</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
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<tr>
<td>TQM</td>
<td>Total Quality Management</td>
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<td>US</td>
<td>United States</td>
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CHAPTER ONE
INTRODUCTION

1.1 Background of the study

Corporate governance has come to the centre of the international development agenda and has attracted public interest because of its apparent importance to the economic health of corporations and the society in general. The problem of increasing corporate failures, stagnations, fraud and corruption among top management, reduced competitiveness has been worrying the society. Governance as described by Caver (2001) involves the direction and control of organization. According to the Committee on Corporate Governance in Singapore (CCGS, 2001) corporate governance is the process and structure by which the business and affairs of the company are directed and managed in order to enhance long term shareholder values through enhancing corporate performance and accountability, whilst taking into account the interest of other stakeholders. The Cadbury report (1992) defines corporate governance as the system by which companies are directed and controlled. From the above definitions the study will adopt the definition of corporate governance as the direction, control and management of an organization in order to enhance transparency, accountability and improved performance.

Spence and Zeckhauser (1971) and Ross (1973) provide the first formal insights of the conflict of interest arising from the fact that directors (agents) may not always act in the best interest of shareholders. Jesen and Meckling (1976) described agency relationship as a contract under which one or more persons (principal) engage another person (agent) to perform some services on their behalf which involves delegating some decision making authority to the agent this result in to the agency costs which include monitoring expenditures by the principal such as auditing, budgeting, control and compensating systems, bonding interest expenditures by the agent and residual loss due to divergence of interest between the principal and the agent. It therefore follows that the share price that the shareholders (principal) pay reflects such agency cost. To increase the firm value, one must therefore reduce the agency costs. Agency cost theory assumes that human behaviour is opportunistic and self-serving and therefore prescribes strong directors and shareholders.
Longeneck and Pringle (1981) documented issues of corporate governance in the 1970s where they highlighted that issues of governance came to the forefront as a result of rising business scandals in the U.S. This led to a number of initiatives like the Treadway Commission of 1985, which reported that almost fifty percent of fraudulent financial reporting resulted in part from breakdown in the internal controls. The Commission recommended the integration of the different internal control philosophies.

Cadbury (1992) and the Greenbury (1995) concentrated on the prevention of abuses by directors and auditors and recommended for reaching measures like the code of all companies and formulation of audit and remuneration committee. However, Greenbury code was different from the Cadbury report in that they concentrated on directors pay and detailed disclosures on annual reports and accounts. This was followed by Hampel report (1998), which was concerned with positive contribution good corporate governance, can make. Hampel went ahead to propose combined best practises, principles and codes of Cadbury, Greenbury and Hampel into one single super code.

Surbanes-oxley Act (2002) was passed in the wake of corporate scandals in America under the Act; companies will not be able to obtain a listing unless they have an audit committee and prohibit non-audit services to client. The Act also requires disclosures requirements expanded. The Higgs report (2003) focused on the role and effectiveness of non-executive directors. The report contained a revised draft of combined code in which importance was placed on the role of non-executive directors.

Africa has also been in the forefront on issues of governance. The Kings Committee report and code of corporate governance (1994) of South Africa continues to stimulate corporate governance debate in Africa. OECD (2003) pointed out that the three East African countries resolved in the June 1998 meeting held in Uganda that each member state be encouraged to develop both a framework and code of best practices to promote national corporate governance. According to the ACBF and CIPE (2002) the principles of good governance are neither descriptive nor mandatory but a guider to assist individual companies to formulate their own codes of best practices.
In Kenya, issues of concern on corporate governance gained prominence in the late 1990s and by the year 2003, an office for the Permanent Secretary for Ethics and Governance was created. The office engineered the introduction of the Public Officers Act and other reforms, which has since transverse to local institutions including co-operatives.

Co-operatives have played an important role in the development of the economies of Kenya, Uganda and Tanzania and have led to the uplifting of the standards of living of the people. Mudibo (2005) estimate that there are more than 6 million cooperative members in the region. In Kenya there are more than 2.5 million members in the Savings and Credit Co-operatives (SACCOs) out of the 5 million Co-operators while there are 3,000 SACCOs in Kenya out of the 10,000 registered Co-operatives. The savings mobilised by the SACCOs in Kenya are Kshs. 110 billion (US$ 1.5 billion) and the loans outstanding Kshs. 95 billion (US$1.3 billion). Co-operatives have been involved in the provision of credit for the purchase of land, farm inputs, housing, education, medication and development of various business ventures.

Co-operatives constitute a major economic force in the Kenya economy. Statistics in 2001 show that 63% of the population who derive livelihood either directly or indirectly from co-operatives. These enterprises mobilize 31% of the National Savings and also contribute about 45% of the Gross Domestic Product (GDP) to the Kenyan economy (Mudibo, 2005). The national impact indicators of this movement in Kenya are: generation of employment, mobilization of resources and acquisition of property.

Muriuki (2004) further asserts that co-operatives are the most practical way of pulling resources together and accessing credit among low-income earners who may not access bank loans. In Kenya the SACCOs have proved this fact as many members depend on them for school and personal development. Accordingly the collapse of Co-operative society therefore causes great pain to the members and the economy as almost 50% of GDP lies with this sector.
1.2 Statement of the problem

Co-operatives are formed with an aim of mobilizing financial and other resources of the members in order to fulfil social and economic needs of the individuals and groups. The cross-cutting issues affecting Co-operatives are; governance, inadequate human resources, weak regulations and supervision, limited product and services, low marketing and innovation and poor image (Mucoví 2002). Top on the list and one which results in co-operative failure, stagnation and collapse is mismanagement due to lack of proper direction, control and accountability by the directors and management committees in various co-operative societies to the principal-shareholders.

Good governance is now accepted as vital to achieving the Millennium Development Goals and as a pre-condition for sustainable economic growth. Ensuring better governance of corporations, financial institutions and markets is increasingly recognized for developing countries despite the limited number of firms there with widely traded shares (Oman and Blume 2005). For developing countries, significant benefits can be linked to higher corporate governance standards in the private sector. These include better access to external finance, lower costs of capital and better firm performance (Claessens 2003). Apart from facilitating strategic thinking and strategy setting, good corporate governance enhances balance of power and control within the society. It also ensures efficiency and effective use of resources in the society through encouraging transparency and probity (Muriuki 2004).

Various studies in Kenya have been undertaken on corporate governance. For instance, Wambua (1999) looked at corporate governance practices in the banking sector and concluded that banking industry just like any other business needs to be managed effectively and that corporate governance practices have been seen as providing a means to achieve this effectiveness. Mwangi (2001) on the other hand studied corporate governance issues in insurance industry, his findings more or less concurred with those of Wambua in that insurance industry being a service industry as well needs to be effective and efficient in service delivery. His conclusion is that corporate governance if well implemented will provide a solution to accountability and transparency issues in the industry. Finally (Mucuvi 2002) in his study on corporate governance in the motor vehicle industry established that corporate
governance can mean generally better relationships with all stakeholders. This helps improve social and labour relationships and aspects such as environmental protection. Having reviewed the studies on corporate governance in various industries, there was no study that has been specifically done on factors affecting corporate governance in public sector SACCOs in Nairobi hence warranting this study.

The study’s main aim was to investigate and document the factors affecting corporate governances in the public sector SACCOs within Nairobi by sampling Mwalimu, Ukulima and Harambee SACCOs as a representation.

1.3 Objectives of the Study

1.3.1 General Objective

The broad objective of the study was to investigate factors affecting Corporate Governance of SACCOs in the public sector within Nairobi.

1.3.2 Specific Objectives

i) To find out how training of staff and officials influence corporate governance public sectors SACCOs in Nairobi.

ii) To establish how organisation structure, systems and procedures influences corporate governance of public sector SACCOs in Nairobi.

iii) To determine if legislation influences Corporate governance in public sector SACCOs in Nairobi.

iv) To examine how politics and power plays affect corporate governance of public sector SACCOs in Nairobi.

v) To investigate if ethical considerations affects corporate governance of the said SACCOs in Nairobi

1.4 Research Questions

The study sought to answers the following questions

i) How does training of staff and officials influence corporate governance of public SACCOs in Nairobi?
ii) Does structure, systems and procedures influence corporate governance of the said public SACCOs?

iii) How does legislation influence corporate governance of the public sector SACCOs in Nairobi?

iv) Do politics and power plays influence corporate governance of SACCOs in the public sector in Nairobi?

v) To what extent do ethical issues of management and officials influence corporate governance of the said SACCOs.

1.5 The significance of the Study
The existence of Co-operative societies is imperative to any country’s economy since these societies generate huge proportion of the economy’s GDP, employment and improves the living standards of its citizens through reduction of poverty.

This study specifically focused on governance of SACCOs in the public sector within Nairobi, therefore officials and management of co-operatives will find the results of this study relevant in uncovering the factors that influence good governance of SACCOs.

The stakeholders (government, employees, members’ and suppliers’ e.t.c.) in the SACCOs will also find useful information concerning the direction and control of the SACCOs so that they can make informed decisions when handling issues of governance.

Investors will use the information to make decisions regarding investments in the country. If the Kenyan institutions become attractive in terms of efficiency it may be a guarantee of returns to investment hence attracting investors.

To the academicians, this study will pioneer the match towards shading light into the grey areas in the governance of SACCOs in developing countries.

Finally analysts will use the findings to assess the likely impact of corporate governance strategies in the Kenyan public institutions.
1.6 Scope of the Study

Nairobi city was the selected area of focus for the study. This is because it has the highest concentration of SACCOs headquarters from different sectors of the economy. Founded in 1899, the city was handed the capital status from Mombasa in 1905. The city lies on the Nairobi River in the south of the nation and has an elevation of 5,450 feet above sea level. Nairobi is the most populous city in East Africa with an estimated population of between 3 million and 4 million in the administrative area of 684 square kilometres (Census 1999).

Home to many companies and organizations, Nairobi is established as a regional hub for business and culture, this city is also the capital base for the country with nearly every company including co-operatives having their headquarters in Nairobi. It is with this reason that the study limited itself to investigating the corporate governance of selected SACCOs within the public sector in Nairobi. These selected SACCOs Mwalimu, Harambee and Ukulima are considered to be among the largest in the country with members spread across the country. In addition, no study has been conducted with regard to the factors influencing the implementation of corporate governance in SACCOs yet it is playing an important role in the development of the economy.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter highlights the major issues relating to governance in co-operatives societies. It further present literature informing the theoretical developments of corporate governance and the issues related to the objectives of the study and finally provide a summary of research gaps and conclusion.

2.2 Theoretical Approaches to Corporate Governance

Corporate governance has succeeded in attracting a good deal of public interest because of its apparent importance for the economic health of corporations and society in general. However, the concept of corporate governance is poorly defined because it potentially covers a large number of distinct economic phenomenons. As a result different people have come up with different definitions that basically reflect their special interest in the field. The following are some of them:

Corporate governance is a field in economics that investigates how to secure/motivate efficient management of corporations by the use of incentive mechanisms, such as contracts, organizational designs and legislation. This is often limited to the question of improving financial performance, for example how the corporate owners can secure/motivate that the corporate managers will deliver a competitive rate of return Mathiesen (2002).

Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment Shleifer and Vishny (1997). Corporate governance is the system by which business corporations are directed and controlled. The Corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also proves the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance, OECD April
Corporate governance is about promoting corporate fairness, transparency and accountability, J. Wolfensohn, president of the World Bank, as quoted by an article in Financial Times, June 21, 1999.

Governance according to Caver (2001) is more akin to ownership than operation. CIPE and ACBF (2003) add to this definition by saying that governance involves direction and control of organization and that it addresses the leadership role in the institutional framework. Scholars and practitioners have defined corporate governance differently because it covers a wide scope of economies. However according to ACBF and CIPE (2002) the generally agreed definition is that corporate governance refers to the processes by which organization are directed, controlled and held accountable.

According to Organization for Economic Co-operation and Development OECD (1999), there are six pillars to corporate governance which includes; accountability, efficiency and effectiveness, probity and integrity, responsibility and transparency and open leadership with accurate and timely disclosure of information relating to all economic and other activities of the corporation.

The corporate governance structure specifies the rules and procedures for making decisions on corporate affairs. It provides the structure through which the company objectives are set, as well as the means of attaining and monitoring the performance of those objectives. Corporate governance is used to monitor whether outcomes are in accordance with plans and to motivate the organization to be fully informed in order to maintain or alter organizational activity. Corporate governance is the mechanism by which individuals are motivated to align their actual behaviours with the overall participants.

**2.2.1 Past studies on Corporate Governance**

Several studies have been done on corporate governance issues: Corporate governance can be traced to Longneck and Pringles (1981) who studied corporate governance in the 1970's where they highlighted that governance issues came to the forefront as a result of raising business scandals in the United States of America. Stiles (1992) documents that the evolution of corporate governance having been
propelled by the need to impose and demand accountability by society that gives mandates to the existence of these commercial enterprises since the society has often suffered serious misfortunes because of responsibilities of managers. It is because of these that the society seeks to contain such agency problems through various governance channels.

Mucovi (2002) findings assert that the central concern of governance is to add value to as many organizations, the long-term performance is raised and total shareholder return is enhanced. Several authors have pointed out to the relevance of corporate governance as; attracting a good deal of public interest because of its role in the economic of corporations and society in general (Kigondu 1989; Stiles 1992; ACBF and CIPE 2003). In addition to these, good corporate governance will in the long run enhance prosperity and hence avail employment to the members of the society.

The growing importance of corporate governance in organizations owes much to the impressive study of the changing structure of companies carried out by Tricker that said that developments were mainly influenced by spectacular corporate collapse in the United States and Britain caused by fraud and mismanagement. As a result of the corporate collapse in the United States (US) and after some congressional hearings, the Harvard Business Review set up a working group on corporate governance in 1990 investigation such matters as; investor’s rights and management accountability and the role of executive and non executive directors in both monitoring management’s performance and representing shareholders interests. In the United Kingdom (UK), the debate on corporate governance received a boost as a series of financial scandals were unearthed and reported. Several corporations collapsed in the late 1980s and early 1990s. Notable cases were BCCI, Polly Peck and Pensions Funds of Maxwell communications group. The impact on the economy and the society as a whole was indeed quite severe as shown in the Table 1

<table>
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<th>Organization</th>
<th>Approximate Value</th>
<th>Year of Collapse</th>
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<tbody>
<tr>
<td>Polly Peck Business Empire</td>
<td>£1.3 Billion</td>
<td>1991</td>
</tr>
<tr>
<td>BCCI</td>
<td>£ 1.2</td>
<td>1991</td>
</tr>
<tr>
<td>Maxwell Group Pensions Funds</td>
<td>£480 Million</td>
<td>1991</td>
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This led to a number of initiatives like the Tread Way commission of 1985, which reported that almost 50 percent of fraudulent financial reporting resulted in part from breakdown in internal controls consequently; the commission recommended the integration of the different internal control philosophies.

This was followed by Cadbury report on the financial aspects of corporate governance in 1992 that studied the declining competitiveness of the United Kingdom’s companies compared to those of Japan, Germany and other industrialised nations. It recommended a wide range of measure for companies with strict compliance to a code of best practice. The Greenbury Report on directors’ remuneration in the 1995 and the preliminary final Hampel Report son corporate governance in 1997 and 1998. The French equivalent of the Cadbury Report was published in 1995 and its Dutch equivalent, the Peter’s Report was published in 1996. Belgium set up its corporate governance committee in the 1997.

Salmon (1995) points out those extensive discussions on corporate governance have since taken place to resolve these problems. Africa has also been in the forefront as discussed in the King’s Committee report and codes for corporate governance in South Africa in 1994 which continues to stimulate corporate governance in Africa. OECD (2003) pointed out that the three east African countries resolved that each member state be encouraged to develop both a framework and code of best practice to promote national corporate governance in 1998. The international corporate governance network was established in 1997 to promote and coordinate research and development in corporate governance. It was resolved that codes of good practice establishing standards of behaviour in public and private sector be agreed on to secure greater transparency and reduce corruption.

2.2.2 The practice of Corporate Governance in Co-operatives

Co-operatives, like other private sector enterprises, have not remained untouched by the recent corporate governance scandals nor by the development of codes of good practice. In the UK, the recent development of a corporate governance code linked to
relevant performance indicators was prompted by external governance scandals and a recognition that the co-operative sector needed to adopt “cutting edge practice in corporate governance” (Co-operatives 2005). As in other business sectors, improving governance standards for co-operatives is now becoming a priority and is increasingly debated within the movement.

However the development and implementation of good corporate governance practice for co-operatives remains very much in its early stages. The few co-operative codes adopted so far have been modeled on the codes designed for investor-owned companies, typically adding in further provisos concerning membership but not substantively reworking them. This would appear to endorse the view that corporate governance issues facing co-operatives remain in large measure the same as those for investor owned firms.

Within the field of economics, recent studies on co-operative forms of business have remained relatively limited. A recent survey of economic textbooks, for example, reveals the invisibility of co-operatives within standard economic textbooks and relates this to dominance of neo-classical economic theories (Hill 2006). A substantive critique has developed of the embedded assumptions in these theories as to the fixed nature of institutions and markets together with the view that a firm’s inner structure does not affect its economic performance. Within the literature of the New Institutional Economics, for example, the relationship between the nature of governance patterns and economic performance has been explored in some depth (Cuevas and Fischer 2006). There have been a number of seminal studies on the governance modes of firms, including labour managed firms and co-operative business models. Several studies have addressed the question of why co-operative and other worker owned business models are relatively rare (Hansmann1996, Dow 2003). Typically the failure of the co-operative model is explained by its democratic governance structures which prevent effective control over managers and profit distribution systems that lead to shorter time horizons. The potential of co-operatives to meet multiple needs is also seen as a failing.

Many studies draw primarily on US examples but some do consider evidence from co-operatives based in different sectors (e.g., agricultural, consumers, housing).
Hansmann, for example, contends that the costs of sustaining forms of economic democracy become too high where there is a lack of homogeneity and conflicting interests among the owner members. This is reflected in the relative rarity of member-owned businesses within the private sector. Where member-owned enterprises are smaller and have more homogenous membership, they can and do survive as evidenced by the presence of co-operatives in agricultural marketing, rural utilities and housing (Hansmann 1996).

The development of managerial dominance within co-operatives has been a strong theme within the literature on non-financial co-operatives as well. An influential model has linked co-operatives to a process of democratic degeneration. Meister, for example, identified four stages in the internal transformation of democratic organizations into manager-led enterprises. This relates to the growth in size and complexity of the enterprise, which enables management to take advantage of growing member apathy and distance from the original core co-operative values (Meister 1984).

Spear also identifies this problem as prevalent within larger co-operatives in the UK. He argues that the co-operative systems of governance contribute to the development of powerful and entrenched managers who have more control than in similar private-sector companies. He attributes this to managers' greater degree of insulation from pressure from external stakeholders together weaker signals from external markets. Internally, pressure on managers is also weak because of low levels of member participation as evidenced by the situation in UK consumer co-operatives (Spear 2004). On the other hand, others have argued that the empirical evidence for the hypothesis of a tendency towards increasing management control is mixed (Chaves and Sajardo-Moreno 2004).

Interest in corporate governance issues within the common wealth countries whose membership include: Kenya, Botswana Tanzania, Gambia, Ghana Mauritius South Africa e.t.c had its origin in performance improvement efforts and state enterprises privatisation. The Pan African consultative forum on corporate governance was established in Jonesburg South Africa in 2001 following the recognition that corporate governance has a critical function in promoting growth and the long-term
economic development of Africa. The primary purpose of the forum which brought together private sector, public sector and societies professionals and trade organizations, regulatory authorities, development partners and all parties interested in the promotion of good corporate governance in Africa was to; raise awareness of the significance of corporate governance to economic developments in Africa, forge consensus on concepts and methods of corporate governance that can usefully be deployed on the continent, develop action plans for implementation of good corporate governance, standards and practices across all sectors of enterprise in Africa and contribute to and learn from the global policy dialogue on corporate governance and its role in the international financial architecture.

An important conclusion of the inaugural meeting was that improving governance was important to all types and sizes of enterprises in Africa; not just the few largely public listed companies but also unquoted companies and family firms, state owned enterprises and agencies, small and medium size enterprises, local subsidiaries of multinationals also community based enterprises such as co-operatives, micro enterprise and the informal sector. The fundamental principle of good corporate governance in whatever form relevant to each type of the enterprise described are universal although their practical application may differ.

In Kenya, issues of concern on corporate governance gained prominence in the late 1990s and by the year 2003 an office for the permanent secretary for ethics and Governance was created. The office engineered the introduction of the public officers’ ethics act, reform of the Police force and search for taxpayer’s money stashed abroad. This effort by the government though initially a response to international demands has since transverse to local institutions including co-operative The private sector initiative for corporate governance continues to liaise with Uganda and Tanzania towards the establishment of a regional centre of excellence in corporate governance.

2.2.3 The Relevance of Corporate Governance

Good public management and administration, with emphasis on accountability and responsiveness to customer needs, has been seen as an aspect of good governance by donor agencies supporting reforms in developing countries. To the World Bank, good
governance consists of a public service that is efficient, a judicial system that is reliable, and an administration that is accountable to the public (World Bank, 1989, 1992).

Public sector management emphasizing the need for effective financial and human resource management through improved budgeting, accounting and reporting and rooting out inefficiency particularly in public enterprises. Accountability in public services, including effective accounting, auditing and decentralization, and generally making public officials responsible for their actions and responsive to consumers; A predictable legal framework with rules known in advance; a reliable and independent judiciary and law enforcement mechanisms; and availability of information and transparency in order to enhance policy analysis, promote public debate and reduce the risks of corruption.

According to Mudibo (2005), good corporate governance is important to the co-operative societies in that it facilitates strategic thinking and strategy setting. In addition it enhances balance of power and control within the society and also ensures efficiency and effective use of resources in the society through encouraging transparency and probity. Consequently it would lead to reduced number of staff turnover and resultant high costs attributed to repeated recruitment; training and replacement affect the image of the organization and the income levels. In addition to this, the environment for fraud will be prevented especially misappropriation of funds and loss of track of operations.

Finally he points out that lack of good corporate governance may lead to reduced profitability to the organization thus affecting the reward level (dividends) to the member-owners thus weakening their confidence in the organization and the subsequent degeneration into possible oblivion.
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2.3 Corporate Governance Manifestations and Implementation Dilemmas

The organizational structure of the public sector has been based on Weber's (1978) contention that bureaucracies are capable of attaining the highest degree of efficiency. Lane (1998) argues that Weber's notion of efficiency was supported by the belief that devotion to the specific duty of public office leads to commitment and therefore efficiency. Public choice theory proposes that it has been political self-interest, not public concern for providing a range of community services to citizens, which has caused the growth of government in the post war era (Cole, 1988). Further, it is argued this growth has been accompanied by inefficiencies aggravated by the absence of market competition (Cole, 1988). This rationale has been used as one of the primary arguments for the adoption of managerial practices from the private sector under the umbrella corporate governance.

Outcomes of the shift to corporate governance have been argued to be increased accountability, greater transparency and improved efficiency (Doyle M, Claydon T and Buchand D 2000). It is contended that no longer is organizational change in the private sector aimed at greater efficiency, but rather change is being directed to making organizations more similar (DiMaggio and Powell, 1983). Increasingly private sector organizations are attempting organizational change by cloning the techniques of other organizations in an effort to be more alike rather than relying on any objective evidence that such change produces greater productivity, cost reduction or efficiency (Burke, 1997).

While corporate governance may hold the promise of improved performance, there have already been several examples of less than optimal political and organizational outcomes when its principles manifest themselves in private sector managerial strategies. Electoral failure (Hughes and O'Neill, 2000) and cultural clashes when implementing TQM programs or performance based pay (“Donnell, 1996, 1998) have been some of the outcomes of Corporate governance program when insufficient consideration has been given to the context in which public management operates, in particular issues of politicization and public sector culture.

It is important from the above conception of “good governance” that there is some emphasis on improving public sector management systems. Thus, in the good
governance prescriptions, one finds public management reforms as a key component pointing towards market and private sector approaches to public sector management, under the guise of change initiative using the best practices such as corporate governance.

The following influences successful implementation of corporate governance:

2.3.1 Training
Management, Staff and Members competence is one of the factors that influence the outcome in the daily operations in any entity. The process of training could be aided by the development of appropriate training courses and educational institutions together with a code of conduct. Capacity building in the form of education and training for members and directors is generally acknowledged as a high priority to ensure understanding of good governance principles and their application in SACCOS.

These processes are critical to the survival of the democratic enterprise (Chaves and Sajardo – Moreno 2004). Particular issues for co-operatives boards derive from their selected status, which provides no certainty that the director will hold the right skills mix, and knowledge to effectively scrutinize management decisions. The need for effective education and training for cop-operative and mutual board is now generally accepted in UK. Moreover, in the UK, a focus on increasing member participation and voice in their co-operatives is occurring in the context of a growing emphasis on user participation and voice within public services (Johnson and Simmons 2004).

In neighbouring Tanzania, governance standards in many co-operatives have also found to be lacking. A recent survey of village-level coffee co-operatives also reported that low levels of education hindered the effective management of the co-operative and was linked to lack of democratic control. In many cases the secretary lacked sufficient education, while the ability to act independently and the lack of control by members meant high levels of fraud and theft committed by the secretary. Financial controls and record keeping were often very weak. Members called for education and training not only on production but also in co-operative affairs. Committee members and secretaries also needed training in financial management
2.3.2 Organizational structure, Systems and Procedures
These are seen as playing a crucial role in defining how people relate to each other and in influencing the momentum for corporate governance as a change initiative. Therefore an appropriate organization structure, systems and procedures can be important levers for achieving change, but their effectiveness is regarded as dependent upon the recognition of their informal as well as its formal aspects.

However the gulf between the limited and wider versions of co-operative principles diminishes when they are translated into actual governance structures and institutional practices. Typically the framework adopted has remained relatively simple – there is a General Assembly of Members held annually which elects the Board of Directors from amongst the membership. Many but not all co-operatives reward economic participation by payment to members based on the amount of trading with the society. This, of course, is dependent on the achievement of a profit or surplus on trading. A further distinctive feature is the ‘one member, one vote’ rule regardless of the size of shareholding. The principles linked to wider engagement with other co-operatives and their communities have not normally been reflected within governance structures of individual co-operatives.

Good governance stems from clearly defined roles and responsibilities of the board of directors, committees and senior managers. It also stems from codes of conduct which directors and staff at every level of the institute sign on to and respect in the completion of their tasks. Sound bylaws and policies seek to avoid conflicts of interest and provide mechanisms for dispute resolution where they do arise. While many factors contribute to the governance of an institution, good governance begins and ends with the board.

2.3.3 Legislation
Public institutions such as cooperative societies will only operate smoothly when there is a working legislation in place that provides a framework of operation. Legislating the processes and activities of these organizations will curtail and suppress loopholes for corrupt practices. Legislation will further demand accountability and consistency in work place hence supporting the doctrines of
Deriving from their dual identity, co-operatives have always faced complex governance challenges and there is a well-established institutional framework to deal with this. However the starting point has been not a common legal basis but rather shared principles, which have provided guidelines as to how co-operatives should be owned and governed. The current statement on identity, values and principles was adopted in 1995 at the World Congress of the International Cooperative Alliance (ICA). The Congress endorsed a revision of core co-operative principles and agreed on a basic statement of co-operative identity for the first time. In addition two sets of related values (basic and ethical) to underpin the principles were also agreed upon. This has been aided by the publication by the ILO of a revised version of its Guidelines for Co-operative Legislation. Using the Principles as their base, the guidelines set out core legal and governance standards such as the composition and powers of the board of directors, audit provision and membership rights (Henry 2005). A stated aim is to promote harmonization of co-operative laws so as to facilitate competitiveness of co-operatives in the context of regional and international economic integration. Shared rather than heterogeneous co-operative legal forms will also help to promote more transparent standards for good governance.

2.3.4 Politics and Power play
The government, through its various policies and regulations, determined to a great extent business performance in a country. Power play by the powerful individuals in government is also considered to be impacting the running of upcoming industries in developing countries. A board of directors for instance often plays a key role in corporate governance. It is their responsibility to endorse the organisation’s strategy, develop directional policy, appoint, supervise and remunerate senior executives and to ensure accountability of the organisation to its owners and authorities. All parties to corporate governance have an interest, whether direct or indirect, in the effective performance of the organization.

In many developing countries, systems of corporate governance are frequently ‘relationship-based’ which can foster insider trading and corruption (Oman and Blume 2005). The challenge is to develop a more ‘rules-based’ system.
Traditionally co-operative ministries have the power to, and frequently do, intervene in board matters by appointing directors and managers, controlling all business operations and making membership of a co-operative compulsory. Indeed even within the co-operative movement, there is support for a directive and even coercive role for governments vis-a-vis co-operatives in developing countries (ICA 1966). A new balance between the power and role of the State with the co-operative has yet to be reached in many countries. To aid this process, a major revision was undertaken by the ILO of its earlier Recommendation on the Promotion of Co-operatives. The aim was to provide an appropriate framework, which was universal in its application, recognized co-operatives as private sector institutions controlled by their members and operated within competitive markets whilst sustaining their identity (ILO 2000).

2.3.5 Integrity and Ethical Issues
Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision-making. It is important to understand, though, that systemic reliance on integrity and ethics is bound to eventual failure. Because of this, many organizations establish Compliance and Ethics Programs to minimize the risk that the firm steps outside of ethical boundaries.

Many studies draw primarily on US examples but some do consider evidence from co-operatives based in different sectors (e.g., agricultural, consumers, housing). Hansmann (1996), for example, contends that the costs of sustaining forms of economic democracy become too high where there is a lack of homogeneity and conflicting interests among the owner members. This is reflected in the relative rarity of member-owned businesses within the private sector. Where member-owned enterprises are smaller and have more homogenous membership, they can and do survive as evidenced by the presence of co-operatives in agricultural marketing, rural utilities and housing.

Cuevas and Fischer identify the principal source of failure for CFIs as deriving from member/owner conflict with management. The growth of a co-operative inevitably expands (or dilutes) ownership and managers become subject to weaker controls. This results in rent-seeking behaviour and wasteful expenses. This tendency is reinforced by the fact that co-operatives have frequently faced weak external competition through subsidized financing from government that has also enabled inefficient
managers to survive (Cuevas and Fischer 2006).

2.4 Challenges of Corporate Governance Practices

2.4.1 Enforcement Environment

In many developing and transition countries the general enforcement environment is very weak (Berglof and Claessens, 2003). These authors further add that the specific enforcement mechanisms do not function properly and few of the traditional corporate governance mechanisms prove effective. Gatamah (2004) supports these claims by confirming that in Africa regulatory and supervisory systems are generally weak. He claims that history and politics have combined to create a privileged few that resist efforts to promote good corporate governance. He particularly points out that corporate governance in financial sector in developing countries is much more influenced by political decisions than other corporate governance issues.

Private Sector Development and Corporate Governance (PSDCG), acknowledge the existence of policies, rules, regulations and institutions that deal with issues of corporate governance. However, it points out that there are weaknesses in the judicial systems, obstacles in the political, social, cultural and institutional capacity.

PSDCG recommends that African countries become fully conversant with various subtle elements needed to promote good corporate governance through establishment of necessary institutions, rules, policies and procedures.

Mudibo (2005) indicates that one of the challenges facing the Kenyan SACCOs in good corporate governance practices is when the board members succumb to political pressure from external forces. He asserts that they are asked to implement activities that counter the management ethics and standards. Besides, another challenge is the over reliance on guidelines or circulars from the commissioner’s office that are obsolete or may not apply across the board for all types of cooperatives.

2.4.2 Ownership by Insiders

The United States Corporations Act 2001 makes it unlawful to deal in the shares of a company while in possession of material information about a company that has not become public (Young et al. 2001). Employees in possession of information
concerning a company that is not generally available to the public, and which would have a material effect on the share price are prohibited from buying, selling or otherwise dealing in such shares. It is also unlawful in those circumstances to encourage someone else to deal in that company's shares or to pass the information to someone who may use the information to buy or sell the company's shares. According to the authors, the penalties for insider trading are severe and can include imprisonment. He therefore recommends that employees and the management should never engage in short term trading of company securities and that they should not deal in the company's securities while in possession of price sensitive information. His study however does not touch on the impact of insider trading on SACCOs.

In another study carried out in the US by Lorsch (1995) the corporate governance committee recommended that the company’s insider trading policy shall impose mandatory ‘black out’ period during which directors and senior management of the company are prohibited from trading in securities of the company.

Bris (2003) conducted an analysis of 4541 acquisitions in 52 countries and found that when laws governing insider trading are newly enforced the profits from insider trading will increase. Results from his study suggest that there must be additional institutional support beyond just new laws to eliminate incentives for insiders.

In the Kenyan scenario, Mudibo (2005) asserts that some board members and supervisory committees collude to protect one another’s interest. For example insider loan or high managers salary. In addition, he points out that there would be illegal and unauthorized investments.

2.4.3 Executive Power

Excessive executive power is a major challenge in corporate governance. An example in hand is the case of the World-Com Chief Executive and Chairman who opened a telephone board meeting involving directors in three US cities, lasting 35 minutes, and called at 2 hours notice, with no written materials and only a brief presentation, to win unanimous approval for a takeover bid for Inter-media Communications, a web hosting company, worth 6 billion dollars including its debts. The consequence of this
was WorldCom that filed for the world's biggest ever bankruptcy. (Financial Times, 2003)

Enron's collapse was caused partly by off balance sheet special financial vehicles, or 'special purpose entities'. These were a myriad in number. Its management committees had authorized the chief financial officer to run all and any necessary off balance sheet partnerships rather than bothering them with reports and decisions. (Financial Times, 2003)

2.4.4 Other Challenges

The other challenges faced by Kenyan SACCOs according to Mudibo (2005) are that in most cases the management committees is not completely trusted by employees. He further sights that key decisions on urgent matters such as change in interest rates, introduction of new products and services have to await approval by the Annual General Meeting. According to him, elected Board members are frequently non-professional volunteers yet they assume highly technical responsibilities such as loan analysis and disbursement, budgeting and financial expenditure control.

Additionally, there is lack of clear guidelines on the roles of the various stakeholders in SACCOs. For example where the Credit Committees authority ends, where the Executive Committee authority begins, and where the staff members authority begins hence delayed decision making. This results in Conflict of interest among Co-operative Officials. Another serious challenge is corruption, gross mismanagement and misappropriation of funds by some elected official who abuse the trust of the members and deny them the hard earned funds.

Among other problems encountered in the practise of corporate governance as highlighted by Mudibo (2005) are: Unrealistic office tenure that ends up being costly in mainstreaming governance interventions in respect of training and instilling professionalism, failure to convene general meetings and hold elections when due in some Co-operative Societies and the refusal of some officials to vacate office after being duly voted out by the members in their general meetings. Mudibo also pointed out the fact that some members are outspoken and has at times led to the incompetent members being elected into leadership positions at the detriment of leaders who are
visionary, hardworking, honest and competent, inadequacy of resources, lack of education and training that forces members to exert pressure on the Board to implement issues in a manner that abuses the spirit of good governance.

Where a Co-operative is very large, members may fail to look closely at the prudential actions of their Board member and in cases, where a Co-operative is under the delegates system as opposed to general membership, the delegates end up expressing their own views as opposed to those of their members (Muriuki 2004).

2.5 Theoretical orientation of Corporate Governance

2.5.1 Stakeholder Theory

Stakeholder theory begins with the assumption that values are necessarily and explicitly a part of doing business. It asks managers to articulate the shared sense of the value they create, and what brings its core stakeholders together. It also pushes managers to be clear about how they want to do business, specifically what kinds of relationships they want and need to create with their stakeholders to deliver on their purpose.

This theory is managerial in that it reflects and directs how managers operate rather than primarily addressing management theorists and economists. The focus of stakeholder theory is articulated in two core questions (Freeman 1994). First, it asks, what is the purpose of the firm? This encourages managers to articulate the shared sense of the value they create, and what brings its core stakeholders together. This propels the firm forward and allows it to generate outstanding performance, determined both in terms of its purpose and marketplace financial metrics. Second, stakeholder theory asks, what responsibility does management have to stakeholders? This pushes managers to articulate how they want to do business—specifically, what kinds of relationships they want and need to create with their stakeholders to deliver on their purpose. Today’s economic realities underscore the fundamental reality suggested as at the core of stakeholder theory: Economic value is created by people who voluntarily come together and cooperate to improve everyone’s circumstance. Managers must develop relationships, inspire their stakeholders, and create communities where everyone strives to give their best to deliver the value the firm promises. Certainly stakeholders are an important constituent and profits are a critical
feature of this activity, but concern for profits is the result rather than the driver in the
process of value creation. Many firms have developed and run their businesses in
terms highly consistent with stakeholder theory.

2.5.2 Agency or Stewardship Theory
Agency theory argues that shareholder interests require protection by separation of
incumbency of roles of board chair and CEO. Agency theory argues that in the
modern corporation, in which share ownership is widely held, managerial actions
depart from those required to maximize shareholder returns (Berle and Means 1932;
Pratt and Zeckhauser 1985). In agency theory terms, the owners are principals and the
managers are agents and there is an agency loss which is the extent to which returns to
the residual claimants, the owners, fall below what they would be if the principals, the
owners, exercised direct control of the corporation (Jensen and Meckling 1976).

Agency theory specifies mechanisms, which reduce agency loss (Eisenhardt 1989).
These include incentive schemes for managers which reward them financially for
maximizing shareholder interests. Such schemes typically include plans whereby
senior executives obtain shares, perhaps at a reduced price, thus aligning financial
interests of executives with those of stakeholders (Jensen and Meckling 1976).

Other similar schemes tie executive compensation and levels of benefits to
stakeholders’ returns and have part of executive compensation deferred to the future
to reward long-run value maximization of the corporation and deter short-run
executive action which harms corporate value. In like terms, the kindred theory of
organizational economics is concerned to forestall managerial “opportunistic
behavior” which includes shirking and indulging in excessive perquisites at the
expense of shareholder interests (Williamson 1985). A major structural mechanism to
curtail such managerial “opportunism” is the board of directors. This body provides a
monitoring of managerial actions on behalf of stakeholders. Such impartial review
will occur more fully where the chairperson of the board is independent of executive
management. Where the chief executive officer is chair of the board of directors, the
impartiality of the board is compromised. Agency and organizational economics
theories predict that when the CEO also holds the dual role of chair, then the interests
of the owners will be sacrificed to a degree in favor of management, that is, there will be managerial opportunism and agency loss.

2.5.3 Theory of the Firm
Theory of the firm is an analysis of the behavior of companies that examine inputs, production methods, output and prices. The first elementary examination of companies was made by French economist Antoine Augustin Cournot (1801-1877) and later modified by (among others) English political economist Alfred Marshall (1842-1924).

This traditional theory assumes that profit maximization is the goal of the firm. More recent analyses suggest that sales maximization or market share, combined with satisfactory profits, may be the main purpose of large industrial corporations. It also examines the forces, both external and internal, that lead corporations to behave efficiently and to create wealth. Corporations vest control rights in stakeholders, because they are the constituency that bear business risk and therefore have the appropriate incentives to maximize corporate value. Assigning control to any other group would be tantamount to allowing that group to play poker with someone else's money, and would create inefficiencies. The implicit denial of this proposition is the fallacy of the so-called stakeholder theory of the corporation, which argues that corporations should be run in the interests of all stakeholders. This theory offers no account of how conflicts between different stakeholders are to be resolved, and gives managers no principle on which to base decisions, except to follow their own preferences.

In practice, stakeholders delegate their control rights to a board of directors, who hire, fire, and set the compensation of the chief officers of the firm. However, because agents have different incentives than the principals they represent, they can destroy corporate value unless closely monitored. This happened in the 1960s and led to hostile takeovers in the market for corporate control in the 1970s and 1980s.

2.5.4 Systems Theory
Systems Theory is the trans-disciplinary study of the abstract organization of phenomena, independent of their substance, type, or spatial or temporal scale of existence. It investigates both the principles common to all complex entities, and the models which can be used to describe them.
This theory was proposed in the 1940's by the biologist Ludwig von Bertalanify, and furthered by Ross Ashby (Introduction to Cybernetics, 1956). von Bertalanffy's was both reacting against reductionism and attempting to revive the unity of science. He emphasized that real systems are open to, and interact with, their environments, and that they can acquire qualitatively new properties through emergence, resulting in continual evolution. Rather than reducing an entity to the properties of its parts or elements, systems theory focuses on the arrangement of and relations between the parts, which connect them into a whole.

This particular organization determines a system, which is independent of the concrete substance of the elements. Thus, the same concepts and principles of organization underlie the different disciplines (physics, biology, technology, sociology, etc.), providing a basis for their unification. Systems concepts include: system-environment boundary, input, output, process, state, hierarchy, goal-directedness, and information.

Applications include engineering, computing, ecology, management, and family psychotherapy. Systems analysis, developed independently of systems theory, applies systems principles to aid a decision-maker with problems of identifying, reconstructing, optimizing, and controlling a system (usually a socio-technical organization), while taking into account multiple objectives, constraints and resources. It aims to specify possible courses of action, together with their risks, costs and benefits.
Figure 2.1: Theoretical Framework

Source: Author 2008
2.6 Conceptual Framework

From the available literature the factors that influence the implementation of corporate governance practices are said to be determined by the type and effectiveness of the management committees, the role and effectiveness of the various committees, presence or absence of insider trading, executive powers, training of members and employees and the legal environment. This is explained in Figure 2 below.

Figure 2.2: Conceptual framework

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Dependent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training</td>
<td>Good Corporate Governance</td>
</tr>
<tr>
<td>Organizational Structure, Systems and Procedures</td>
<td></td>
</tr>
<tr>
<td>Legislation</td>
<td></td>
</tr>
<tr>
<td>Politics and Power Play</td>
<td></td>
</tr>
<tr>
<td>Integrity and Ethics</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author 2008
CHAPTER THREE
3.0 RESEARCH METHODOLOGY

3.1 Research Design

A descriptive survey study is a way of representing some important aspects of a set of population by the selected sample (Mugenda and Mugenda, 1999 and Saunder at all, 2001). This study used descriptive survey in soliciting information on the factors influencing the implementations of corporate governance practices in the Kenyan cooperative sector. It was ideal for this study as it provided further insights into the research problem by describing the variables of interest.

3.2 Target Population

The target population constituted three public sector SACCOs in Nairobi. In this population management, employees and committee members of the three selected SACCOs were interviewed. Their characteristics are as follows:

<table>
<thead>
<tr>
<th>Table 3.1 Population Frequencies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Management</td>
</tr>
<tr>
<td>Management</td>
</tr>
<tr>
<td>Employees</td>
</tr>
<tr>
<td>Members</td>
</tr>
</tbody>
</table>

Source: Central Bureau of statistics (2007)

3.3 Sample and Sampling Procedure

A sample of 60 respondents was selected from three public sector SACCOs based in Nairobi City. Stratified random sampling method was used to select the 20 respondents from each SACCO i.e. 8 from management, 6 employees and 6 members. The research adopted the sample frame shown in Table 3 below.
Table 3.2 Sample Frame

<table>
<thead>
<tr>
<th>SACCO</th>
<th>Mwalimu</th>
<th>Ukulima</th>
<th>Harambee</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondents</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>24</td>
</tr>
<tr>
<td>Staff</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>18</td>
</tr>
<tr>
<td>Members</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>60</td>
</tr>
</tbody>
</table>

Source: Research data

3.4 Data Types and Data Collection Instruments

In this study, field survey was used to access data on practice and challenges of implementing corporate governance policies by public sector SACCOs in Nairobi. Both primary and secondary data were utilised in the study. Primary data was collected using questionnaires. The field survey therefore used structured self-administered questionnaires with open and closed ended questions. A pilot study was conducted first to test the validity and reliability of the questionnaire. Secondary data concerning the practice and challenges of corporate governance was sourced from journals, company reports, books and magazines. In-depth interviews were conducted for confirmation and clarifications.

An introductory letter was obtained from Kenyatta University. The researcher then administered questionnaires to the respondents during work hours. After the stipulated period, the filled up questionnaire were collected ready for analysis.

The study experienced challenges in getting the directors and the managers to fill the questionnaire because of their busy time schedule. The researcher addressed this by dropping the questionnaires and picking later and booking an appointment with the selected directors and managers. It was also anticipated that the respondents may not co-operate, the researcher initiated good rapport with the select subjects before commencing the survey. The researcher assured the respondents of confidentiality to increase the response rate.
3.6 Data Analysis and Presentation

The data was analysed by employing descriptive and relational statistics. This involved use of frequency distribution tables and graphs, and measures of central tendencies. Calculation of percentages, drawing of frequency tables and bar graphs was utilised in the presentation of findings. Statistical Package for Social Sciences (SPSS) was used to analyse data.
CHAPTER FOUR
4.0 DATA ANALYSIS AND DISCUSSIONS

4.1 Introduction

This section covers data analysis, presentation, and discussion on data gathered from the field. The major findings of the study as they relate to each of the research objectives are presented. The following are the research objectives that guided the study:

The first objective was to find out how training of staff and officials influence corporate governance in public sectors SACCOs in Nairobi. This was followed by the objective to establish how organisation structure, systems and procedures influence corporate governance of public sector SACCOs in Nairobi. The third objective in the research was to determine if legislation influences corporate governance in public sector SACCOs in Nairobi. Finally, to examine how politics and power plays affect corporate governance of public sector SACCOs in Nairobi. The last but not least objective was to investigate if ethical considerations affect corporate governance of the said SACCOs in Nairobi.

A sample of 60 respondents was chosen for this study from three public sector SACCOs in Nairobi. This was done to ensure that the opinions from all the levels were captured to avoid biasness. A semi structured questionnaire having both open and closed ended questions were used to collect data. Data was cleaned, coded and analysed using SPSS software.

4.2 Demographics

The study interviewed staff, management and members from three public sector SACCOs namely Mwalimu, Ukulima and Harambee as shown in Figure 4.1. Majority of the respondents 58.5% have been working in SACCOs for over six years while the rest 41.5% have been there for one year to three years. Of these respondents 46.4% are university graduates while 22% are middle college trained with the remaining 31.6% are high school graduates.
4.3 Corporate Governance

Corporate governance is referred to the manner in which the power of an organization is exercised in the stewardship of the Corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholders value with the satisfaction of other stakeholders in the context of its corporate mission. It is both about ensuring accountability of management in order to minimize downside risks to shareholders and about enabling management to exercise enterprise in order to enable shareholders to benefit from upside potential of firms.

When respondents were asked whether corporate governance is developed in Kenya 42% said it is developed while 58% do not think corporate governance has developed in Kenya. For this reason the respondents gave a number of challenges that they think are derailing the development of corporate governance in Kenya; interference and politics, rigidity in embracing new changes and poor management of policies. Respondents however listed a number of measures that they believe will eliminate these major challenges; staff taking responsibility of what they do, having laid down procedures followed to the later, setting up a working code for the organization, Starting awareness campaigns & Capacity building, benchmarking based on
developed SACCOs and embracing modern management and good organizational structures.

**Figure 4.2 Corporate Governance**

![Corporate Governance Chart]

*Source: Research Data (2008)*

### 4.4 Training

**Table 4.1 Training**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>28</td>
<td>68.3</td>
</tr>
<tr>
<td>No</td>
<td>6</td>
<td>14.6</td>
</tr>
<tr>
<td>Undecided</td>
<td>7</td>
<td>17.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>41</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

*Source: Research Data (2008)*

Training being one of the major factors determining the success of corporate governance is being given a priority in all the three SACCOs with 68% percent respondents saying they have training programmes conducted to ensure that there is a clear understanding on the principles of corporate governance. Only 14.6% believes otherwise while 17.1% were either undecided or did not understand the question.

Training is done according to the schedules of the SACCO in a year and in most cases seminars & workshops. However these programmes run according to the schedules of individual SACCO. Challenges such as lack of funds, time constraint, criteria of selecting trainees and organizational culture are evident in all the SACCOs, these
challenges are being addressed by; setting aside training funds, justifying the need for good governance and involving all the stakeholders in an effort to see that everyone supports the initiative.

And when the respondents were asked whether training is essential in promoting good corporate governance, 83% agrees that it is promoting good governance and they supported their arguments by saying that training ensures that laid down rules and regulations will be adhered to and work will be done professionally and competently. Only 17% of the respondents did not think that training will improve corporate governance in public sector SACCOs in Nairobi.

**Figure 4.3 Training**

| 17% | Yes |
| 83% | No |

*Source: Research Data (2008)*

### 4.5 Organizational structure, Systems and Procedures

**Table 4.2 Organizational Structure, Systems and Procedures**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
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<td>Yes</td>
<td>23</td>
<td>56.1</td>
</tr>
<tr>
<td>No</td>
<td>11</td>
<td>26.8</td>
</tr>
<tr>
<td>Undecided</td>
<td>7</td>
<td>17.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>41</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

*Source: Research Data (2008)*

When respondents were asked whether there is an organizational chart, systems or procedures in their SACCOs, 56.1% said yes there is while 26.8% believed their
SACCOs do not have the organizational structure, systems or procedures while 17.1 % did not respond to the question. The 56.1% respondents gave their suggestions on what the SACCOs should do in order to make these tools effective; that is the SACCOs should re-define the structures to cope with the changing environment and that these tools should not be there just for formality but should actually be made operational on a daily basis. For instance the organizational structure should be adhered to and the hierarchy followed when carrying out reporting activities so that each and every one is made accountable to their activities.

All the respondents 100% concurred with the question that in their opinion organizational structure, systems and procedure has a big role in determining the practice of good corporate governance. For this reason they want to see that working structure, a modern system and clear procedures are put in place to ensure that the practice of good governance is entrenched in their SACCOs.

Figure 4.4 Organizational Structure, Systems and Procedures

Source: Research Data (2008)

A likert scale was used to determine the respondents rating in the influence of structure, systems and procedures and 19 (46.3%) and 9 (22%) responded with very great extent and moderate while 12 (29.3) of them responded with low extent. This response shows that the respondents were unanimous in their response that these three tools have a great influence on the practice of good corporate governance.
4.6 Audit Committees
One of the roles of the audit committee in which the respondents were highly aware of is monitoring and reporting on the use of funds and any mismanagement and fraud of finances in the running of SACCOs. However when they were asked whether they think the committee is independent, 20% said its independent while 63% did not think the audit committee is independent. 17% did not respond on this issue as they were undecided.

Figure 4.5 Audit committees

![Pie chart showing 63% No, 20% Yes, 17% Undecided]

Source: Research Data (2008)
The respondents gave the following reasons as to why they believe the committee is not independent; bribery from those who do not want to be audited and the influence from the top management and in some case government interference in the affairs of the SACCOs.

4.7 Legislation
Rules, policies and procedures are also factors which were given a lot of considerations, respondents when asked whether there are laid down rules, policies and procedures in their SACCOs confirmed that with 85.4% agreeing that these legislations are actually in place and are in operation while 14.6% of the respondents were not able to confirm.
Table 4.3 Legislation

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
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<td>35</td>
<td>85.4</td>
</tr>
<tr>
<td>No</td>
<td>6</td>
<td>14.6</td>
</tr>
<tr>
<td>Total</td>
<td>41</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Source: Research Data (2008)*

To operationalise these legislations successfully the respondents suggested that frequent trainings and exchanged programmes for those in a position to put in place this legislation should be provided for them to gain insight on how they should do it. Further they also want to see the pending bill in parliament hastened and passed to create necessary legal framework for these policies to operate in. Lastly the respondents would like to see the management as well as directors earn their jobs based on their qualifications and integrity and not political correctness.

One interesting thing that came out is that even though majority of respondents agree that there exist some laid down rules, policies and legislation they do not believe in them, so when they were asked whether this legislation is a proper one as to promote good corporate governance only 29% of the respondents believe so while 34% does not believe in them, the remaining 37% had no opinion and opted not to respond.

*Source: Research Data (2008)*
4.8 Politics and power play
Organizational politics and power play have always dominated in all sectors especially in public sector with SACCOs being the most hit. The interesting thing however in this study is that majority of the respondents 43.9% does not think politics and power play have any influence on the operations of their SACCOs. A handful 26.8 % agrees that politics in SACCOs is the order of the day. And to show how respondents were deeply divided on this issue close to 30% of the respondents did not want to give their opinion on this issue of politics giving indications that they may have been either beneficiaries or victims of political machinations.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>11</td>
<td>26.8</td>
</tr>
<tr>
<td>No</td>
<td>18</td>
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<tr>
<td>Total</td>
<td>41</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Research Data (2008)

On whether SACCOs hold annual general meetings, 76% of the respondents concur that their SACCOs hold general meetings periodically. The remaining 24% could not give a conclusive answer, as they were not sure whether such meetings take place or not. On this issue of general meeting the respondents were further asked to name the documents that are presented in these meetings and such documents as account reports, resolutions passed, periodic budgets, supervisory reports and audit report documents are the major documents that form the basis of discussions in these important meetings.
When the respondents were asked to compare the management of their SACCOs currently to the last few years, 58% felt that the management is better than before. When probed further, they said loan processing is currently faster and that it is easier to get loans than before not forgetting the timely payments of dividends. Others were of the opinion that there has been improvement in service delivery to the members and the working environment is much friendlier.

Larger capital base, financial stability, increased monthly deposit and manageable rates of interest on loans are other indicators for improved management. Other respondents felt that there has been an establishment of a sound management which is transparent and accountable. Notable also is reduced corruption and marginal misuse of the SACCOs' resources. They also observed that membership has been increasing and that some SACCOs have opened more branches. Provision for training to members and staff has been going on leading to better management and increased exposure of SACCOs activities to the members.

Another 24% of the respondents were of the opinion that the management of the SACCOs is same as before pointing out that there is no conspicuous change and that the management committee is still the same. They also felt that the duration for loan approval has never changed. Only 8% of the respondents were of the opinion that the management is worse than before sighting the reason that loans takes longer time to process and there are no emergency loans.
4.9 Integrity and Ethical issues

Integrity and ethical issues are said to exist in public sector SACCOs in Nairobi, that is according to 58% respondents, only 26.8% said there is no integrity in these SACCOs with 14.6% being undecided or don’t know.

Table 4.5 Integrity and Ethical issues

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>24</td>
<td>58.5</td>
</tr>
<tr>
<td>No</td>
<td>11</td>
<td>26.8</td>
</tr>
<tr>
<td>Undecided</td>
<td>6</td>
<td>14.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>41</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Research Data (2008)

Respondents were further given a chance to suggest what they think should be done on issues of ethics and integrity to promote good corporate governance, they give the following suggestions; that professionalism should be emphasized in the work place, the chain of command must be followed in all departments in the organization, that transparency should be embraced with all costs and lastly the management must be vetted so that only those with integrity are given the opportunity to manage these public institutions.

On whether ethics and integrity influence good corporate governance in the public sector SACCOs in Nairobi, only 37% believes so while 48% do no think there is any influence while 15% did not respond. This shows that people in public sector SACCOs have does not understand the importance of having integrity and ethics in place.
4.10 Suggested solution to improve governance of SACCOs
Subjects in this study recommended that more research be done and views taken from different SACCO’s in different sectors so as to come up with all-inclusive guidelines that all SACCOs will embrace. A total of 66% of the respondents recommended that staff and members be given training on governance. They advocated for regular training of SACCO officials and members on the issue of good corporate governance through seminars and workshops. Also suggested were visits to well run SACCOs so that lessons can learnt from the well managed institutions.

Government should let SACCOs run independently just as the banks and other financial institutions do. By-laws should be en force for not less than ten (10) years before they are amended. If this is done, the confidence of management shall improve and they can therefore make strategic plans with the confidence of by-law protection. Respondents in this study recommended that selection of management teams and committees should be done in a professional manner while considering factors such as integrity, qualification, gender and age. It was also suggested that modern technology should be embraced to improve service delivery to the stakeholders.
CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 Introduction
This chapter gives a brief summary, conclusion and recommendations on factors affecting corporate governance in public SACCOs in Nairobi. A sample of 60 respondents from management, staff and members of different of three major SACCOs in Nairobi were interviewed to capture the relevant data. As was already mentioned in chapter one, the main objective of this study was to investigate the factors affecting corporate Governance of SACCOs in public sector within Nairobi.

5.2 Summary of Findings
In relation to the first objective, to find out how training of staff and officials influence corporate governance public sector SACCOs in Nairobi, the study found out that training is most essential with up to 82.9% agreeing that training promotes good governance and they supported their arguments by saying that training ensures that laid down rules and regulations will be adhered to and work will be done professionally and competently. Only 17.1% of the respondents did not think that training will improve corporate governance.

The second research objective was: to establish how organisation structure, systems and procedures influences corporate governance of public sector SACCOs in Nairobi. From the findings it was apparent that in the respondents’ opinion organizational structure, systems and procedure has a big role in determining the practice of good corporate governance. For this reason they want to see that working structure, a modern system and clear procedures are put in place to ensure that the practice of good governance is entrenched in their SACCOs.

From the third objective: to determine if legislation influences corporate governance in public sector SACCOs in Nairobi the study established that majority of respondents agree that there exist some laid down rules, policies and legislation but they do not believe in them, so when they were asked whether this legislation is a proper one as to promote good corporate governance only 29.3% of the respondents believe so while
34.1% does not believe in them, the remaining 36.6% had no opinion and opted not to respond.

The fourth objective was to examine how politics and power plays affect corporate governance of public sector SACCOs in Nairobi; it found out that majority of the respondents 43.9% does not think politics and power play have any influence on the operations of their SACCOs. Only a handful of 26.8% agrees that politics in SACCOs is the order of the day. And to show how respondents were deeply divided on this issue close to 30% of the respondents did not want to give their opinion on this issue of politics giving indications that they may have been either beneficiaries or victims of political machinations.

Lastly the research sought to investigate if ethical considerations affect corporate governance of the said SACCOs in Nairobi; only 36.6% believes so while 48.8% do not think there is any influence while 14.6% did not respond. This shows that people in public sector SACCOs does not understand the importance of having integrity and ethical issues in place.

5.3 Conclusions
Good governance is imperative to achieving the Millennium Development Goals and is a precondition for sustainable economic growth for any economy Kenya included. From this study, it can be concluded that the Cooperative sector has made the right move towards ensuring that SACCOs are well managed to the interests of the shareholders. However this progress is in its initial stage which means that more support from stakeholders is necessary to ensure that the sector embraces good corporate governance of not only public sector SACCOs in Nairobi but all the SACCOs at large. This study concludes that there is need for training of members and officials on corporate governance of these institutions. This study would be incomplete if it does not point the importance of an all inclusive guidelines to be followed by all SACCOs in the country.

5.4 Recommendations
The first recommendation from the study is that management, members and staff of public sector SACCOs in Nairobi be educated on the importance of good governance.
Secondly, the government should allow SACCOs to run independently so as to reduce interferences and influence from politics and power play which leads to corruption and leadership influence.

Thirdly, the government should come up with clear policies, procedures and legal framework to create transparency. It should also come up with an all inclusive governance guidelines that all SACCOs will embrace.

Lastly, Cooperative societies should ensure that there exist transparency and integrity in the management of the SACCOs.

5.5 Suggestions for Further Research
This study was concerned with factors influence corporate governance in public sector SACCOs in Nairobi. It is recommended that future researches be conducted to investigate other issues of governance of SACCOs such as the role of committees on the governance of SACCOs in Kenya, the effects of various stakeholders to the governance of SACCOs and transparency and effectiveness of SACCOs in developing countries.
REFERENCES


Demb, A and Neubauer, F (1992) *The Corporate Board*; Confronting the paradoxes, Long range Planning Vol. 25 (3)


Mathiesen (2002) w.w.w.encycogov.com


APPENDIX I: LETTER OF INTRODUCTION

July 2008

Dear Sir/Madam,

I am a postgraduate student in the Business School of Kenyatta University. I am conducting a management research on the challenges encountered by public sector SACCOs within Nairobi in implementing corporate governance.

In order to undertake the research, you have been selected to form part of the study. This letter is therefore to request your assistance in collecting information to enable me carry out the research. The information you give will be treated with strict confidentiality and is needed purely for academic purposes.

A copy of the final report will be available to you upon request. Your assistance and cooperation will be highly appreciated.

Yours Sincerely,

Doris Kiplagat
MBA Student

Mr. Bett
Supervisor
School Business
APPENDIX II: QUESTIONNAIRE

AN ANALYSIS OF THE CHALLENGES ENCOUNTERED BY PUBLIC SECTOR SACCOs WITHIN NAIROBI IN IMPLEMENTING CORPORATE GOVERNANCE

Section 1.0: Demographic Information

PLEASE CIRCLE/FILL IN AS APPROPRIATE

1. In which SACCO are you a member?
   Mwalimu [ ]
   Ukulima [ ]
   Harambee [ ]

2. What position do you hold in the SACCO?

|--------------|----------------|--------------|------------|---------------------|

4. For how long have you been in the position of ...(READ OUT THE MENTIONED POSITION IN 3)?
   Less than a year (specify the months) [ ] 1-3 years [ ] 3-6 years [ ] over 6 years (specify) ...... [ ]

5. Highest level of education attained
   - Primary
   - Secondary
   - College
   - Graduate
   - Others (Specify) .................................................................

Section 2.0 Corporate Governance

5. In your opinion how is corporate governance influencing the day to day activities of the SACCO? ..............................................................................................................................

6. Do you think corporate governance in Kenya is developed?
   Yes............................................No.................................
7. What challenges does corporate governance practice face in your organization?

8. How can these challenges be eliminated?

9. Is the government doing enough to promote the practice of corporate governance?
   If yes in what way.

10. Are there existing guidelines in place regarding the practice of corporate governance practice in SACCOs in Kenya?
    Yes...No...

11. If yes are they followed?

Section 3.0 Training

12. Are there training programs for the employees?
    Yes...No...

If yes how are they normally done?

13. Do employees hold their positions on merit?
    Yes...No...

14. List some of the challenges of providing training to SACCO employees and members.
    1...
    2...
    3...
    4...
    5...

8. How are these challenges being addressed?
4.0: Organizational structure, Systems and Procedures

15. Is there an organization chart in your SACCO?
Yes ............................................. No .........................................................

Yes

If yes is it followed to the latter? Yes ............................................. No .........................

Yes

If No how does the SACCO hierarchy operate?

Yes ............................................. No .........................................................

16. Are the systems and procedures of doing work clearly laid out?
Yes ............................................. No .........................................................

17. Do you think the structure, systems and procedures influence good corporate governance?
Yes ............................................. No .........................................................

If yes, State the extend to which they interfere with 5- Great extent and 1- Very low extent
5) Very great extent  □
4) Great extent  □
3) Moderate  □
2) Low extent  □
1) Very Low extent  □

18. Is the audit committee independent?
Yes ............................................. No .........................................................

If no, why do you say so? ....................................................................................

19. Is there a policy on delegation of duties?
Yes ............................................. No .........................................................

Is the delegate given enough authority to discharge his duties?
Yes ............................................. No .........................................................

20. Is there undue interference of the work delegated from any quarter?
Yes ............................................. No .........................................................

21. Does the manager hold responsibility of the jobs delegated?
Yes ............................................. No .........................................................
22. What do you suggest should be done on structure, systems and procedures to improve corporate governance?

5.0: Legislation

23. Are there laid down rules, policies and procedures in your SACCO?
Yes ........................................ No ........................................
If yes are they followed to the latter?
Yes ........................................ No ........................................

24. Is there a working legislation in place?
Yes ........................................ No ........................................
If no what are reasons hinder its implementation?

25. Is the legislation being followed to the latter?
Yes ........................................ No ........................................
Suggest what you want done in legislation of SACCOs to promote good corporate governance

6.0: Politics and power play

26. Does the SACCO hold an annual General Meeting?
Yes ........................................ No ........................................
If yes what documents does it present?
1. ........................................................................
2. ........................................................................
3. ........................................................................

27. How are managers appointed in your SACCO?

28. Is there any influence from politicians or government?
Yes ........................................ No ........................................
If yes, how does it influence?

..................
29. How would you compare the management of your SACCO currently to the last few years (say 2 years)?

<table>
<thead>
<tr>
<th>Management of the SACCO</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Its now better than before</td>
<td>1</td>
</tr>
<tr>
<td>It’s the same as before</td>
<td>2</td>
</tr>
<tr>
<td>Its worse than before</td>
<td>3</td>
</tr>
<tr>
<td>Don’t know</td>
<td>4</td>
</tr>
</tbody>
</table>

Why do you say so?

30. Is there integrity in the management of various activities in the SACCOs such as procurement, compliance with government regulations etc? Yes................. No ..................

If yes does it comply with the guidelines issued by the Government?
Yes........................................ No........................................

If no how do you comply with the requirements of the Government?
........................................................................................................................................
........................................................................................................................................
........................................................................................................................................

31. Do you think integrity and ethics influence corporate governance in the SACCOs?
Yes........................................ No........................................

32. Suggest what you want done on issues of ethics and integrity to promote good corporate governance
........................................................................................................................................
........................................................................................................................................
........................................................................................................................................
8.0: Other Suggestions

35. Please rate by *tickling* the extent to which the following is necessary to be put in place in order to further improve corporate governance.

<table>
<thead>
<tr>
<th>Suggestion</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clear distinction of the role of all the stakeholders</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Review of by laws</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Putting in place a clear organizational structure, Systems and Procedures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Establishment of Ethical codes of best practice and control</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Declaration of wealth by board members, management and the staff</td>
<td></td>
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</tr>
<tr>
<td>The auditors committee should present the audit accounts regularly</td>
<td></td>
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</tr>
<tr>
<td>The supervision committee should act as an eye and report regularly to members</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Avoiding political influence in SACCO activities</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Corporate governance committee should be formed</td>
<td></td>
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<td></td>
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</tbody>
</table>

Please use the space below if you would like to comment further or make suggestions for improvement (attach additional sheet if required).

Many thanks for completing this questionnaire.

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