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**CORPORATE GOVERNANCE STRUCTURE AND PROFITABILITY OF  
DEPOSIT TAKING SAVINGS AND CREDIT CO-OPERATIVE  
SOCIETIES IN NYERI COUNTY, KENYA**

Peter Njuguna Wanjiru,  
(MBA Student, Kenyatta University Kenya:

Job Omagwa, PhD  
(Department of Accounting & Finance, School of Business, Kenyatta University, Kenya;

**ABSTRACT**

Despite being great potential agents for national development in Kenya, SACCOs perform poorly. This poor performance points in a nutshell to the poor corporate governance practices by board of directors or other bodies that have been entrusted with the responsibility of governing the SACCOs. Corporate governance is tasked with overseeing and supervising management to ensure that organization goal and objectives are met. Studies that have been done on the effects of corporate governance structure on profitability show inconclusive results. Some studies found no relationship between corporate governance structures and profitability while other studies document a positive relationship. Further, there are limited studies on developing economies since most studies focus on developed economies. The study conducted a census of the 8 deposit taking SACCOs in Nyeri County and purposive sampling method was used to select 4 respondents from each SACCO making a sample of 32 respondents. A questionnaire was used to collect primary data while secondary data was obtained from the deposit taking SACCOs regulator SASRA via their website. The study adopted descriptive research design. Multiple regression analysis results indicated that 57.7% change in profitability of the deposit taking SACCOs were explained by corporate governance structure. Gender Diversity had a p-value of ( $p=0.004<0.05$ ) indicating that it had significant effect on the profitability of deposit taking SACCOs hence the null hypothesis was rejected. Similarly, occupational expertise had a p-value of ( $p=0.011<0.05$ ) indicating that it had a significant effect on the profitability of deposit taking SACCOs hence the null hypothesis was rejected. Finally, directors' age had a p-value of ( $p=0.014<0.05$ ) indicating that it had a significant effect on profitability of deposit taking SACCOs hence the null hypothesis was rejected. The study recommended that SACCOs should put in place by-laws that support gender balance, set minimum academic and professional qualifications as well as directors' age to ensure quality governance, professionalism and inclusivity. SASRA, being the deposit taking SACCOs regulator should set regulations and conditions regarding corporate governance structure to ensure quality boards are in place to deliver their mandate to shareholders.

**Keywords:** Corporate Governance Structure, Directors Age, Board of Directors, Gender Diversity, Occupational Expertise, Profitability, Return on Equity, Return on Asset

### Introduction and Background

Good corporate governance ensures that business environment is fair and transparent and that organisations are held accountable for their actions (Nicolaescu, 2012). The success or collapse of a SACCO is associated with the roles played by the management and corporate governance. Corporate governance is tasked with overseeing of overall management and ensuring that organization's goals and objectives are met (Bolton & Roell, 2005; Ghabayen, 2012). Regular evaluation of board composition must be done to gauge the performance of the directors besides having a clear and agreed-upon purpose for conducting such an evaluation as suggested by Henman (2015). In this study, corporate governance structure was represented by directors' age, occupational expertise and gender diversity.

Corporate governance entails accountability, transparency and credibility as well as ability to place effective channels that disclose information in a manner that will foster good corporate performance (Gadi, Ebelechukwu & Yakubu, 2015). It ensures that the investors' main interest which is profit maximization is taken care of. Stable mechanisms of corporate governance are vital since they ensure firm's worth is not tampered with and focuses on the firm's worthiness (Haider, Khan & Iqbal, 2015). Corporate governance offer protection to the shareholders' interests and make sure that they get a reasonable return on their investment (Finegold, Benson & Hecht, 2007). Corporate boards offer protection of the shareholders' interests and make sure that they get a reasonable return on their investment (Finegold, Benson & Hecht, 2007).

Sanda et al., (2005) argues that strong corporate governance structure can lead to a high performance. With a strong corporate governance structure, the promotion of an organization's performance and the protection of shareholders interests are enhanced. Board inclusivity, where both women and minorities are included has resulted to positive and higher ROE thereby resulting to bigger shareholders returns (Farrell & Hersch, 2005), high profit levels (Shergill, & Townsend, 2006) and greater ROA (Carter, 2003). Having a range in educational levels, knowledge, skills and experiences provide potential that is significant in formation of variety of innovative ideas and contributions in making strategic decision making (Hambrick 2001). Young board members promote change and growth in their firms since they expend more energy in their management roles (Child 1972).

Profitability is one of the most important objectives of financial management since one goal of financial management is to maximize the owners' wealth, and thus very important determinant of performance, (Hifza Malik, 2011). A SACCO must earn enough profits to keep its operations running and also generate extra funds for expansion and growth (Pandey, 1999). Where shareholders wealth is maximized, the reward's utilities are maximized too (Corbetta & Salvato, 2004). Some of the challenges faced by SACCOs as identified by Mvula, 2013 are insufficient capital, asset of poor quality, poor management and governance, poor profitability, poor liquidity and non-compliance. Profitability was measured by return on investment (ROI) and return on assets (ROA).

Deposit taking SACCOs is those SACCOs whose business involves mobilization of deposits that are not withdrawal for purposes of lending to its members. These deposits may be used as collaterals for borrowing loans only and are refundable only when member withdrawals or exits from the SACCO (Sacco supervision annual report-2014). Deposit taking SACCOs also provides basic banking services besides providing the basic savings and credit products through taking deposits and giving payments services also known as front office services activity (FOSA). Deposit taking SACCOs is not supposed to invest a certain percentage or amount of their investment assets in illiquid assets and certain proportion of the assets must be held in liquid portfolios. These SACCOs are normally governed by nine directors and supervised by three supervisory committee members.

### **Research Problem**

Kenya vision 2030 recognizes co-operatives as an important player in the realization of the national development strategy. SACCOs are therefore expected to be key in mobilization of savings, investment of resources, wealth and employment creation (Nyaga, 2010). The realization of the objectives of co-operative movement is greatly contributed by good corporate governance structures in SACCOs. This leads to the attainment of the aim of co-operative movement which is to create wealth for sustained economic growth and development (Awino et al, 2014). Though SACCOs are great potential agents for national development in the Kenya, they still perform poorly. This poor performance points in a nutshell to the poor corporate governance practices by board of directors or other bodies that have been entrusted with the responsibility of governing the SACCOs. SACCOs must therefore embrace good governance if they have to remain commercially viable and sustainable enterprises for social-economic development (Wanyama 2009). Despite the seemingly tight regulatory framework being put in place by SASRA, corporate governance is still weak in Kenya (Mang'unyi, 2011).

Majority of SACCOs lack sound and prudent management practices and poor implementation of effective policy frameworks. SACCOs need to improve on their governance front to ensure they realize their potential (SACCO Supervision Annual Report, 2012). Chavez, (2016) found that financial performance of the SACCO sector is very weak and spread weakness to other areas like governance, fiscal discipline, financial operations, internal controls and risk management. Muriithi (2009) asserts that many SACCOs have been involved in scandals where some board members have been found to have acted unlawfully or showed dishonesty towards the shareholders. Bad governance and poor economic management are mostly the sources of problems bedeviling SACCOs. Ness, Miesing and Khang (2010), examined the influence of corporate boards on financial performance. The findings were that boards with greater number of outside directors and age or gender of board members had no relationship with financial performance. However, Kamau (2014), studied on the effect of corporate governance on financial performance of SACCOs regulated by SASRA and found that the inclusion of females in boards diversifies board membership which in turn contributes positively to profitability of SACCOs. Becht, (2002) found that corporate governance practices positively affects

profitability of the organization. However, MacAvoy and Millstein (2003) found that board composition did not have a significant effect on financial performance.

The reviewed literature shows that there are multifaceted factors that affect profitability of deposit taking SACCOs and that these factors are purely dependent on the operating environment of each SACCO. Deposit taking SACCOs in Nyeri County operate in a unique social and economic environment compared to other deposit taking SACCOs in other counties or countries and hence the need to understand the forces and factors determining their profitability. Studies have found that the relationship between corporate governance structure and profitability of SACCOs are positive, negative, or a combination of the two. None of the reviewed work has studied the effect of corporate governance structure on profitability of SACCOs specifically focusing on gender diversity, occupational expertise and directors' age. Further, there are limited studies in this area since most studies focus mainly on developed economies. Hence, in view of the highlighted empirical work, the link between corporate governance structure and profitability of SACCOs remains unclear and elusive. This formed the motivation for the current study.

### **Objectives of the Study**

The specific objective of the study were:

- i) To determine the effect of gender diversity on profitability of deposit taking SACCOs in Nyeri County, Kenya.
- ii) To determine the effect of occupational expertise on profitability of deposit taking SACCOs in Nyeri County.
- iii) To determine the effect of directors age on profitability of deposit taking SACCOs in Nyeri County, Kenya.

**\*The study formulated null hypotheses for each specific objective and tested the same at a level of significance of 0.05.**

### **IV. Significance of the Study**

The study will be of significance to various stakeholders who will utilize it. Board of directors of SACCOs will benefit from the study as it will enable them to know the effect of corporate governance structure on profitability of their SACCOs. They will know the best corporate governance structure to apply to realize best level of profitability. Management of SACCOs will be able to strategize on the best corporate governance structure to adopt in order to derive the best profitability level. To the regulator SASRA, the findings of the study will be significant especially in the regulation of corporate governance structures of SACCOs to ensure SACCOs realize their objectives. To the policy makers, the study will facilitate policy development that will lead to the attainment of the goals of co-operative movement which is to create wealth for sustained economic growth and development. Future researchers, finance students and academicians who intend to do further study in this discipline to add on the existing literature on corporate governance structure on profitability of SACCOs will derive help by finding a knowledge base.

### **Scope of the Study**

The study focused on registered deposit taking SACCOs in Nyeri County, Kenya which are regulated by SASRA to carry out deposit taking business. The time frame considered was the last five financial years i.e. from 2013 to 2017. It considered three independent variables namely; gender diversity, occupational expertise and directors' age and their effects on profitability. Census study was adopted where all the eight deposit taking SACCOs in Nyeri County were considered. The SACCOs in Nyeri County were derived from the database SASRA. The respondents targeted in this study were the CEO, the Branch Manager, the Finance manager and the Internal Auditor of all the DT SACCOs.

### **Review of Literature**

#### **a. Theoretical Review**

The study was guided by three theories which include Agency theory, Stewardship theory and Upper Echelons theory. Agency theory was coined by Jensen and Meckling in 1976 and analyzes the agency problem or the causes of conflict between principals and agents due to separation of ownership and control Davis (1997). Managers are induced by the desire for high rewards thereby overestimating or underestimating profit indicators to force them to be more achievable to the disadvantage of the value of the firm. The role of monitoring and supervision of SACCOs is done by its directors through corporate governance (Mallin, 2004). Managers are monitored and controlled by the board through establishment of corporate governance mechanisms that align with the interests of members for effectiveness (Ueng, 2016).

Stewardship Theory was coined by Donald and Davis in 1993. Managers of SACCOs are assumed to be stewards who always act in the best interest of shareholders (Donald & Davis 1991). The two parties coordinate effectively through mechanisms and structure facilitated by governance which is precisely the goal of governance (Clarke, 2004). Stewards make decisions that are in the best interest of the shareholders when faced with conflicting objectives and interest between them and those of the shareholders (Davis, 1997). Managers' stewardship decisions will improve SACCOs performance which will generally satisfy all the stakeholders including the managers. Where shareholders wealth is maximized, the reward's utilities are maximized too (Corbetta & Salvato, 2004).

Upper Echelons theory proposes that organizational outcomes including profitability relate to top level decision makers possessing particular demographic profiles. According to Hambrick 2007, the most powerful actors in a firm are represented by the board of directors since executives undertake issues as per their personalized elucidations of a given critical situations they are confronted with. Upper Echelons theory views firms' leaders as a critical component in influencing organizational outcomes (Ham brick and Mason, 1984). Strategic decisions and choices cannot be separated from inherent corporate governance which is the decision making body of SACCOs. Boards of directors provide advisory roles, and play a major role in reviewing, approving, and facilitating strategic decisions. Corporate boards may influence the company's inclination in terms of profitability. This is particularly important because corporate governance

will require the involvement of the board; in terms of advising, review, and approval of strategic decisions (Golden and Zajac, 2001)

### **b. Empirical Review**

The study reviewed empirical literature with an objective of documenting research gaps. The study sought to establish whether there exists a relationship between the dependent variable (profitability) and independent variables consisting of the elements of corporate governance structure namely directors age, occupational expertise and gender diversity. The study reviewed empirical literature with the aim of documenting research gaps. According to Ruigrok, Peck and Tacheva, (2007), boards with greater proportion of females were found to exhibit lower degree of non-attendance at the board meetings. The inclusion of female members in the boards of has brought a new dimension to boards' decision making process including enhancing diversification of workforce. Board diversity in which both women and minorities are included has been found to result to positive and higher ROE thereby resulting to bigger shareholders returns (Farrell & Hersch, 2005), high profit levels (Shergill, & Townsend, 2006) and greater ROA (Carter, 2003).

Women are related with higher achievement of firm dedication (Siciliano, 1996) and a gender equality in corporate governance supervision (Erhardt, Werbel, & Shrader, 2003) in addition to the financial benefits. Women in boards change the group dynamics of communication, interpersonal interaction, and decision-making in a positive way. This leads to more creative, innovative, and non-traditional decisions and better board performance (McInerney-Lacombe, Bilimoria, and Salipante, 2008). In contrast, Lau and Murnigham (1998) contend that women in the board, with more diverse opinions and critical thinking, might cause decision-making to be slower and less effective. Given the complex social psychology of boards, it is not surprising that the empirical evidence is mixed. Adams and Ferreira (2009) conducted an analysis of the impact of women on boards. They found that the firms in their sample with weaker (stronger) shareholder rights benefit (suffer) from the stronger monitoring of women on the board. In other words, the desirability and impact of women on boards is contingent on the particular circumstances of individual firms.

Directors' qualification and firm performance have been found to have a positive relationship. A study done by Ujunwa (2012) in Nigeria found that financial performance of companies managed by directors with PhD had a positive relationship between education and financial performance. Share price reacted positively in relation to directors' professional qualification, especially in the area of accounting and finance (Yermack, 2006). A positive relationship was observed between accounting education of board members and disclosure of information, Cooke & Haniffa (2002). Baysinger and Butler (1985) assert that directors are commonly viewed in terms of their hands on ability and technical knowhow. Board members education background and experience determine their understanding of complicated business processes and direction of their decisions (Kesner, 1988). Studies conducted on the effect of directors' occupational expertise are mostly concentrated on persons with banking and/or other financial know how. Though there is a strong correlation between banking/financial knowledge of directors and debt

ratios, there is some disagreement found about the direction of the correlation. Ayuso and Argandona (2007) indicated that board of directors offer expertise, skills, information and an effective linkage to the organization. According to Wang (2009), the resource dependent model indicate that board of directors can be utilized to create a link with the external environment as a way of supporting the management support various objectives.

Zajac and Westphal (1996) study found that young board members are associated with superior financial performance with a reason that the average age of board members may influence the type of risky ventures and investment decisions they undertake. They also suggested that director's individual age can be related to their openness to creative and innovative ideas. Young director's individual age can be related to their openness to creative and innovative ideas. Young directors appear unbounded by the status quo and are more flexible to change (Hambrick & Mason, (1984). Younger decision-makers are also risk-takers, a condition for more innovative growth strategies (Grimm & Smith, 1991). According to Mahadeo (2012), there is positive relationship between different age groups of board members and company performance. Age diversity results in significant and positive financial performance when measured by ROA (Dagsson, 2011). Ararat et al. (2010) found age diversity significantly affect ROE.

A study by Zajac and Westphal (1996) was of the view that young board members are associated with superior financial performance with a reason that the average age of board members may influence the type of risky ventures and investment decisions they undertake. Young directors appear unbounded by the status quo and are more flexible to change (Hambrick & Mason, (1984). Younger decision-makers are also risk-takers, a condition for more innovative growth strategies (Grimm & Smith, 1991). Members of the in different age groups are of great benefit to an organization. This is because there is a tendency of young managers willing to accept new ideas and not to maintain status quo (Cheng, Chan & Leung 2010). According to Mahadeo (2012), there is positive relationship between different age groups of board members and company performance. Age diversity results in significant and positive financial performance when measured by ROA (Dagsson, 2011). From Turkish firms, Ararat et al. (2010) found age diversity significantly affect ROE. Younger boards generally out-performed older boards as found by Rose (2005). He found that boards with younger members have more innovative ideas and perhaps more willing to take part in the monitoring process of organization's activities.

### **Methodology**

This section highlights the key methodology adopted for the study. The sampling frame consists of the eight (8) deposit taking SACCOs in Nyeri County. Since the sampling frame was small, a census was conducted on all the eight SACCOs. Purposive sampling was adopted in the selection of the four (4) respondents from each of the SACCOs. The sample size was therefore 32 respondents. Primary data was collected by use of self-administered questionnaires which were delivered to the CEO of each SACCO and requested him to pass each copy of the questionnaire to the other three senior staff members. Secondary data was derived from SASRA database.

These were the annual financial reports of the SACCOs for the last five previous years i.e. 2013 – 2017.

The study employed a descriptive research design. Survey method will be utilised where questions will be administered through a questionnaire. Mugenda and Mugenda (2003) defined descriptive research design as a systematic empirical enquiry into which the researcher does not have a direct control of the independent variable as their manifestation has already occurred. The descriptive research design is more appropriate because the study seeks to build a profile about the effects of corporate governance structure on profitability of deposit taking SACCOs in Nyeri County Kenya. The target population was selected from the eight deposit taking SACCOs while the data collection instrument was a questionnaire. The target population for the study focused on the 8 deposit taking SACCOs in Nyeri County and operational within the period of 5 years 2013-2017. The target respondents were the Chief Executive Office (CEO), Branch manager, Internal Auditor and Finance manager of each SACCO. The study utilized both primary and secondary data. Primary data was collected using a questionnaire whereas secondary data was obtained from financial statements of the SACCOs. This enabled the study obtain more upto date information from respondents.

The researcher collected both primary and secondary data. Primary data was collected using a questionnaire comprising of open-ended, closed ended, and Likert scale type questions. These sets of questionnaires were distributed by the researcher and/or his assistants to the respondents through the SACCOs CEOs. The questionnaire consisted of three main sections that included: the general information section, corporate governance structure section and the profitability section to be filled by each pre-selected SACCO senior staff. Secondary data was collected from the annual financial reports from the deposit taking SACCOs in Nyeri County. Data collected was analyzed using descriptive analysis (means and standard deviation) and multiple regression analysis. The study adopted a descriptive research design. Data was analyzed using Statistical Package for Social Sciences (SPSS) for production of output in form of graphs, tables and figures. Preliminary diagnostic tests (normality, multicollinearity, heteroscedaticity) were performed before running the regression and were all affirmative. The study utilised the multiple regression models to test the relationship, significance and correlation of the independent variables on the dependent variable. The multiple regression model adopted is represented below:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Where:

**Y** = Profitability

**$\beta_0$**  = the Y intercept

**$\beta_1 - \beta_3$**  = Constants

**$X_1$**  = Gender diversity

**$X_2$**  = Occupational expertise

**$X_3$**  = Directors Age

**e** = the error term

**Results and Findings**

The general objective of the study was to determine the effect of corporate governance structure on profitability of deposit taking SACCOs.

**a. Descriptive Analysis**

The analysis of response rate, characteristics of the respondents who participated in the study and a summary of responses on the basis of sample mean and sample standard deviation for the research variables were as represented and discussed in three (3) tables below.

*Table 1: Gender Diversity*

	Mean	Std. Dev
Gender diversity affects profitability	3.59	0.937
Gender diversity brings stronger satisfaction and organizational commitments	3.84	0.795
Gender diversity brings new perspective in deliberation process	3.72	0.957
Gender diversity brings about social balance	3.83	1.05
Inspiration of workforce diversity	3.51	0.783
Diverse financial innovations	3.35	1.02
<b>Aggregate score for Gender Diversity</b>	<b>3.64</b>	<b>0.92</b>

Source: (Research Data, 2018)

The first objective of the study was to determine the effect of gender diversity on profitability of deposit taking SACCOs in Nyeri County, Kenya. From table 1 above, the aggregate mean score for gender diversity on profitability was 3.64. The overall mean score revealed that there was agreement amongst respondents that gender diversity affects profitability of SACCOs. The findings concur with Farrell and Hersch (2005) who established that gender diversity in which women were included was found to result to positive and higher ROE thereby resulting to bigger shareholders returns.

**Table 2: Occupational Expertise**

Constructs	Mean	Std Devi
Making financially sound decisions	4.02	0.879
Undertaking complicated business transactions	3.87	0.958
Brings experience and skills in decision making process	3.38	1.082
Correct interpretation of financial statements	3.79	0.893
Research and Development on relevant and modern practices	3.97	0.813
<b>Aggregate score for Occupational Expertise</b>	<b>3.81</b>	<b>0.925</b>

Source: (Research Data, 2018)

The second objective sought to determine the effect of occupational expertise on profitability of deposit taking SACCOs in Nyeri County, Kenya. The results were as tabulated in Table 2 above.

From table, the aggregate mean score for occupational expertise on profitability was 3.81. The

overall mean score showed that there was agreement amongst respondents that occupational expertise affected profitability of SACCOs. The findings concurred with Ujunwa (2012) who found that profitability of companies managed by directors with PhD had a positive relationship between education and profitability.

**Table 3: Directors’ Age**

Constructs	Mean	Std Dev
Level of financial innovation	3.61	1.037
Risk and decision taking levels	3.85	0.925
Relevant decisions due to recent education achieved	3.73	0.837
Boundless to status quo	3.30	1.083
Openness and amenable to change	3.57	0.916
<b>Aggregate score for Directors’ Age</b>	<b>3.61</b>	<b>0.960</b>

Source: (Research Data, 2018)

The third objective sought to determine the effect of directors’ age on profitability of deposit taking SACCOs in Nyeri County, Kenya. The results were as presented in Table 3 above. The aggregate mean score for directors’ age on profitability was 3.61. This indicated that there was a general agreement amongst respondents that directors’ age affected profitability of SACCOs. A study by Dagsson (2011) found that age diversity results in significant and positive profitability when measured by ROA.

**b. Correlation Analysis**

Gender diversity had a Pearson correlation coefficient of 0.643, indicating that gender had a strong positive correlation with profitability. Gender diversity was found to bring stronger satisfaction amongst stakeholders, increase organizational commitments of board members, brought about social balance in the board and brings new perspective in the board deliberation process. Occupational expertise had a Pearson correlation coefficient of 0.739, an indication that it had a strong positive correlation with profitability. Occupational expertise enhances making of financially sound decisions, brings experience and skills in decision making process, enhances correct interpretation of financial statements and encourages research and development. Directors’ age has a Pearson correlation coefficient of 0.610, an indication that directors’ age has a strong positive correlation with profitability. Young board members undertake risk investment which if executed well, could be quite profitable. Recent education acquired by the young directors enhances profitability by making relevance decisions.

The general objective of the study was to determine the effect of corporate governance structure on profitability of deposit taking SACCOs. The findings concur with Farrell and Hersch (2005) who established that gender diversity in which both women were included had been found to result to positive and higher ROE thereby resulting to bigger shareholders returns. Ujunwa (2012) found that profitability of companies managed by directors with PhD had a positive relationship between education and profitability. According to Mahadeo (2012), there was

positive relationship between different age groups of board members and company performance. Dagsson (2011) indicated that age diversity results in significant and positive profitability when measured by ROA.

### **c. Regression Analysis and Discussion**

Corporate governance structure was found to have a strong positive relationship with profitability of deposit taking SACCO as shown by the coefficient of correlation (R) of 0.760 derived from the model summary. Corporate governance structure should thus be of essence in board set up to facilitate profitability of SACCOs. This is in agreement with a study by Becht, (2002) which shows that corporate governance practices positively influence the profitability of an organization. Regression analysis indicated that the coefficient of determination R square was 0.577. This meant that 57.7% change in profitability of the deposit taking SACCOs was explained by corporate governance structure. Thus, there are other factors explaining 42.3% change in profitability of deposit taking SACCOs that require further studies in future. In essence, the current study was limited to gender diversity, occupational expertise and directors' age as independent variables and how they influenced profitability. Thus, future studies should be done using other components of corporate governance structure. Consequently further research can be done considering all the SACCOs in Kenya so as to compare the results.

Gender diversity has a positive effect on profitability of deposit taking SACCOs. Gender diversity was found to bring stronger satisfaction amongst stakeholders, increased organizational commitments amongst board members, brought about social balance in the board and also brought new perspective in the board deliberation process. This conclusion was in agreement with Ruigrok, Peck, & Tacheva, (2007) who found out boards with greater proportion of females exhibit lower degree of non-attendance at the board meetings. Similarly, board inclusivity, where both women and minorities are included has resulted to positive and higher ROE thereby resulting to bigger shareholders returns and greater ROA (Carter, 2003). Women are related with higher achievement of firm commitments (Siciliano, 1996) and a social equality in top management supervision (Erhardt, Werbel, & Shrader, 2003) in addition to the financial benefits.

From the second specific objective, the study found that occupational expertise enhances making of financially sound decisions, enables undertaking of complicated profitable business transactions, brings experience and skills in decision making process, enhances correct interpretation of financial statements and encourages research and development. This is in agreement with a study by Hambrick (2001) who found that having a board whose members have a range of right educational level, knowledge, skills and experiences provide potential that is significant in formation of variety of innovative ideas and contributions in making strategic decision making. Similarly, Johnson et al., 1993 found that higher education levels in board members result in more apparent, complete perspective with better cognitive models. Additionally, the way boards of directors view issues in different perspectives is highly contributed by their educational diversity. However, Daellenbach (1999) found no significant relationship between educational levels and commitment to innovation in board of directors.

The third specific objective the study concluded that profitability is positively influenced by the age of directors. The relevance in decisions making by young directors due to more recent education acquired positively contribute to higher profits. Age of directors' determine their mindset and their boundedness to status quo, openness and amenability to change. Young directors are more innovative and risk takers. If they undertake financially innovative and risky investments and execute them strategically, these undertakings could be quite profitable in terms of returns. This is in agreement with Tihanyi, (2000) who found that age diversity enhances a wide variety of diversified views on strategic issues thereby contributing to strategic change. Similarly, Hermann & Datta (2005) found that young board decision-makers are associated with higher levels of diversification However, they are likely to be more conservative, maintain status quo and are quite resistant to change (Hambrick, 1998).

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This section captures results in three (3) tables, they are: model summary, ANOVA and coefficient. P-value method was used to test hypothesis at significance level of 0.05.

**Table 4: Model Summary**

<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
.760 <sup>a</sup>	.577	.509	1.91505

Source: (Research Data, 2018)

Table 4 above represents an overview of simple correlation analysis and coefficient of determination. The coefficient of correlation (R) is 0.760. This is an indication that corporate governance structure has a strong positive relationship with profitability. The model indicates that 76% of the variance in the profitability can be explained by corporate governance structure as shown by R factor. The finding of this study therefore shows that there is a strong positive correlation between corporate governance structures on profitability of deposit taking SACCOs in Nyeri County, Kenya. The coefficient of determination is 0.577. This is an indication that 57.7% change in profitability is explained by corporate governance structure. The value of adjusted R square is 0.509, which indicates that 50.9% changes in profitability are explained by the corporate governance structure.

Table 5: ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	125.115	3	41.705	11.828	.000
Residual	91.685	26	3.526		
<b>Total</b>	<b>216.800</b>	<b>29</b>			

Source: (Research Data, 2018)

Table 5 above captures the analysis of variance (ANOVA) results which indicates the model overall goodness of fit. The F-value was 11.828 while the p-value was 0.00 which is less than 0.05, an indication that overly, corporate governance structure has a significant effect on profitability of deposit taking SACCOs in Nyeri County, Kenya.

Table 6: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.981	1.535		2.594	.003
Gender Diversity	.232	.078	.212	2.964	.004
BOD's Occupational Expertise	.028	.013	.029	2.154	.011
Directors Age	.307	.116	.590	2.658	.014

Source: (Research Data, 2018)

From Table 6 above, the regression model was formulated from the standardized coefficient to become;

$$Y = 3.981 + 0.232X_1 + 0.028X_2 + 0.307X_3$$

The p-value for gender diversity was ( $p=0.004<0.05$ ) which showed that gender diversity had a positive and significant effect on profitability. The corresponding beta coefficient was ( $\beta=0.232$ ) which indicated that a unit change in gender diversity contributes to 0.232 positive change in profitability. The p-value for occupational expertise was ( $p=0.011<0.05$ ) indicating a positive and significant effect on profitability while the beta coefficient ( $\beta=0.028$ ) which indicated that a unit change in occupational expert contributed to 0.028 positive change in profitability. Directors' age had p-value of ( $p=0.014<0.05$ ) indicating that directors age had a positive and significant effect on profitability while a corresponding beta coefficient of ( $\beta=0.307$ ) indicated that a unit change in directors' age contributes to 0.307 positive change in profitability.

### **Contributions to Knowledge**

By revealing that corporate governance structure has positive effects on profitability of SACCOs, the study contributes to the existing empirical literature. The study thus adds to the existing body of empirical literature and contributes to the debate at the heart of management researchers on effects of corporate governance structure on profitability. Three critical factors that were utilised in this study comprise of gender diversity, occupational expertise and directors' age which enhance the conceptualisation of corporate governance structure. There is also the contribution to the theoretical literature from the study that provides a basis upon which the theoretical propositions utilised in the formulation of research hypothesis can be tested.

### **Conclusions and Recommendations**

From the findings, the study made several conclusions and subsequent recommendations to various stakeholders were derived.

#### **Conclusions**

From the first objective, the study concludes that having a board that is gender sensitive enhances confidence amongst stakeholders since it creates social balance. Boards that include women enhance organizational commitments amongst board member since women are committed in their undertakings. The study also concludes that occupational expertise reflects the level of soundness in decision making. Directors with knowledge and skills in the field of finance are able to make sound financial decisions even on complicated and/or risky investments. Such qualities will boost profitability of SACCOs. From the third specific objective the study concludes that young directors make relevant decisions to the problem at hand since they acquired their education more recently. Young directors are also open in their reasoning and are amenable to change unlike old members whose reasoning is at times bounded by status quo. Moreover, young directors are quite innovative and risk takers. If they utilize their innovation skills and undertake risky but profitable investments SACCO profits will improve greatly.

#### **Recommendations**

The study recommends that shareholders should set by-laws that support gender balance, academic and professional qualifications as well as maximum directors' age to preserve quality of directors' leadership and professionalism. Boards that have quality good blend in terms corporate organization structure will have a positive impact on profitability. SASRA, being the

deposit taking SACCOs regulator, should set regulations and conditions regarding corporate governance structure to ensure boards they deliver their mandate to shareholders. SASRA should ensure that there is gender balance, board members are qualified in terms of academic and professional qualifications, and that the average age of directors is not too high.

Future academicians should conduct studies in other counties so as to compare the results found in this study and their results. They should also conduct further studies using other variables besides gender diversity, occupational expertise and directors' age to further determine the effect of corporate governance structure on profitability of SACCOs for research generalization. The management of deposit taking SACCOs should advice and assist their boards to constantly attend and/or organize for capacity building trainings and workshops on necessary and relevant managerial and leadership skills in order to drive their firms' profitability in a positive direction. The management of SACCOs should also ensure their staff in all levels undergo operational and leadership enhancement trainings.

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