DISCLOSURE REQUIREMENTS AND FINANCIAL PERFORMANCE OF DEPOSIT TAKING SAVINGS AND CREDIT CO-OPERATIVES IN NAIROBI COUNTY KENYA

BY

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D53/CTY/20874/2012

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NOVEMBER, 2018
DECLARATION AND APPROVAL

DECLARATION

This research project is my original work and has not been presented to Kenyatta University or any other institution of higher learning. No part of this work should be reproduced with the prior written consent of the author or that of Kenyatta University.

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APPROVAL

This research project has been submitted for examination with my approval as Kenyatta University Supervisor.

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DEDICATION

The research project is dedicated to my family members for their interminable support, cooperation and understanding throughout the time I was writing the project towards achieving my MBA.
ACKNOWLEDGEMENT

I thank the Almighty for seeing me this far in pursuit of academic prowess and prayers well answered. Further, I thank my family for the relentless support, words of encouragement and prayers during this time of seeking academic excellence. Finally, to my supervisor, Dr. Phelgonah Genga for her guidance, support and selfless dedication towards making the research project successful.
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## DEFINITION OF OPERATIONAL TERMS

<table>
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<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td><strong>Authority</strong></td>
<td>In this study, the term refers to the regulatory body, SASRA.</td>
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<tr>
<td><strong>Co-operative Governance</strong></td>
<td>In this study the term refers to separation of roles between management and directors.</td>
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<tr>
<td><strong>Delegates system of governance</strong></td>
<td>In this study, delegates system of governance refers to where Sacco directors represent a region covering more than 200 kilometers apart.</td>
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<tr>
<td><strong>Deposit taking business</strong></td>
<td>The study uses deposit taking business to refer to banking like services offered by Saccos licensed under SASRA.</td>
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<tr>
<td><strong>Disclosure</strong></td>
<td>The facilities of both the quantitative and qualitative information in any form aid users to often make informed decisions. Disclosures are documents containing information which is provided in financial statements and notes, management analysis and discussion, future outlook and any other supplemental information.</td>
</tr>
<tr>
<td><strong>Large Sacco</strong></td>
<td>In this study large Sacco refers to DT-Sacco whose total assets based on 2014 audited accounts exceeded KShs. Five billion.</td>
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<tr>
<td><strong>Officers</strong></td>
<td>In this study, the term officer refers to DT-Sacco board member or a person in management.</td>
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<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>APRA</td>
<td>Australia Prudential Regulatory Authority</td>
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<td>BOSA</td>
<td>Back Office Service Activity</td>
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<td>CAK</td>
<td>Co-operative Alliance of Kenya</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>CODIC</td>
<td>Co-operative Development and Information Centre</td>
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<td>CSA</td>
<td>Co-operative Societies Act</td>
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<td>DT-Sacco</td>
<td>Deposit Taking Sacco</td>
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<td>FOSA</td>
<td>Front Office Service Activity</td>
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<td>ICA</td>
<td>International Co-operative Alliance</td>
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<td>IFRS</td>
<td>International Financial Reporting Standards</td>
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<td>ISDA</td>
<td>International Swaps and Derivatives Association</td>
</tr>
<tr>
<td>KUSCCO</td>
<td>Kenya Union of Savings and Credit Cooperatives</td>
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<tr>
<td>MOCDM</td>
<td>Ministry of Co-operative Development and Marketing</td>
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<td>MOIED</td>
<td>Ministry of Industrialization and Enterprise Development</td>
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<tr>
<td>SAP</td>
<td>Structural Adjustment Programmes</td>
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<td>SSA</td>
<td>Sacco Societies Act</td>
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<tr>
<td>SASRA</td>
<td>Sacco Societies Regulatory Authority</td>
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<tr>
<td>USD</td>
<td>United States Dollar</td>
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ABSTRACT

The disclosure requirement is gaining significant attention to users of financial information to enable them to make informed decisions. Such users include suppliers, shareholders, employees, Government and potential investors in DT-Saccos among others. Operationalization of the Sacco Societies Act, Cap. 490B was aimed at among other things deepening transparency and strengthening corporate governance in deposit-taking Saccos. Those charged with governance are required to make adequate disclosures on key regulatory standards in the financial statements. The study aimed at analyzing the influence of SASRA disclosure requirements on overall financial performance of deposit-taking SACCOs present in Kenya. Specific objective for the project were to determine how large risk exposures, insider lending, capital concentration and audit matters impact on deposit-taking SACCOs and their financial performance in Kenya. This research targeted all DT-Saccos operating in Nairobi County which were 41 in number. The data was collected through the use of questionnaires. After collection of data it was then analyzed using descriptive statistics and inferential methods. Descriptive methods involved the use of percentages, means, and standard deviation values. The study found out that capital limits had ($\beta=0.206, t=12.034>1.96$ and $p=0.000<0.05$), large risk exposures had ($\beta=0.487, t=6.209>1.96$ and $p=0.000<0.05$), insider loans had had ($\beta=0.170, t=4.422>1.96$ and $p=0.000<0.05$) and audit issues had ($\beta=0.191, t=9.988>1.96$ and $p=0.000<0.05$) an indication that the variables significantly influenced financial performance of deposit taking SACCOs in Kenya. The findings of regression analysis established that coefficient of correlation was 0.825 an indication of strong positive correlation between the study variables. Coefficient of adjusted determination $R^2$ was 0.672 which translates to 67.2% an indication that variations of dependent variables can be traced by the independent variables. The study concludes that External borrowing above 25% of total assets affected SACCO financial performance. Existence of a dividend policy protected Sacco capital. DT-SACCOs were exposed to large risk exposures due to quarterly reporting to SASRA on loans classifications. Risk profiling of members before issuance of loans exposed DT-SACCOs to risk exposure. Terms and conditions of the loans to insiders affected performance of DT-Saccos'. Bi-monthly notification to SASRA upon insider loans issuance affected the net surplus of Saccos.
Adherence of code of conduct to streamline operations influenced net surplus of DT-deposit taking Saccos. Formulation of policies was in line with the Sacco regulations. The study recommends that external borrowing above 25% of total assets ought to affect Sacco’s financial performance. Capital structure ought to affect the financial performance of DT-SACCOs. Financial disclosures ought to raise confidence and trust in DT- SACCOs. Risk profiling of members before issuance of loans ought to expose DT-SACCOs to large risk. Introduction of new loan products in line with regulatory provisions ought not to expose the DT-SACCOs to risk. Bi-monthly notification to SASRA upon insider loans issuance ought to affect the net surplus of Saccos. Compliance on code of conduct regarding insider lending ought to affect performance of deposit taking Saccos. Formulation of policies ought to be in line with the DT- Sacco regulations. Establishment of various board committees for oversight of key functions and direction ought to positively influence net surplus of deposit taking Saccos.
CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Co-operative societies are described as independent associations of people at will to meet common economic, social, cultural needs and as well as cultural goals through interactive owned and managed enterprise (Lund, 2012). The International Co-operative Alliance, ICA traces origin of the Co-operative business model in the 17th Century in Scotland. The formation of the business was meant to solve poor artisan workers social needs relating to food and household goods which they could not afford through their meager earnings (Mori, 2014). The workers pooled their scarce resources together to enable them to access basic goods at affordable prices. Ownership of this type of business is limited to its owners or workers as defined by Co-operative Development Institute of Brazil (2006). Since their formation, co-operatives have played a crucial role in assisting people to improve their socio-economic status (Bwana & Mwakujonga, 2013). According to (Marvin, 2006), Co-operatives are very important as they have a crucial role in tackling inequality as well as abject poverty in the society.

The Savings and Credit Co-operative business is premised on the social model where members join together by deposit mobilization and availing of affordable credit (Olando et al., 2012). Co-operatives are formed by members with a common objective. Their operations are guided by principles and values which have evolved over a period of time, and it is these principles and values that distinctively and uniquely identify a Co-operative from any other business organization to the extent that they have been termed fundamental and immutable doctrines or tenets.

The contribution of SACCOs is evident across the world. SACCOs are seen to create more job opportunities as compared to all multinational corporations collectively. According to ICA (2012), the largest 300 co-operatives create an average of one trillion USD annually. This underscores the significance that these forms of business entity impact on the population. In Nigeria, cooperative societies are seen to provide social protection, improved capital creation and accumulation as well as generate job opportunities among other social benefits (Ezekiel, 2014). According to (Kareem et al, 2012), the role of Co-operative Societies on member’s social wellbeing and in poverty in Nigeria cannot be overlooked in the development process.
South Africa has also experienced a significant growth in the cooperative societies in the recent past. They have played and continue playing a significant role in the country’s economic growth and development, employment creation, and poverty reduction (Twalo, 2012). They provide a replacement model to implement sustainable initiatives which are community-based in South Africa and are also important vehicles which help in meeting the economic goals of development, broad individual empowerment, and sustainable livelihoods for communities (Twalo, 2012). In Uganda, Cooperatives have contributed significantly to fighting poverty encouraging entrepreneurship. According to (Muchilwa, 2013), cooperative societies encourage individuals particularly the youth and women to take loans to engage in entrepreneurship.

1.1.1 Co-operatives in Kenya

Co-operatives in Kenya in their many forms are registered and regulated under Co-operative Societies Act (Wanyama, 2009). However, the Act does not prescribe the form of Co-operatives that may be formed under it. The type and form is a matter of determination by the founder members.

Co-operatives in Kenya are broadly classified into financial and non-financial Co-operatives based on the underlying business. Non-financial Co-operatives basically deal with marketing, transport, housing, dairy among other business activity. They are not involved in any financial intermediation (Quarter, Mook, & Hann, 2012). On the other hand financial Co-operatives are those that deal with savings deposits mobilization for on-lending. Financial Co-operatives are classified into those that deal with non-deposit taking Sacco business and those that offer banking-like services in their front office, commonly known as FOSA.

Co-operative societies have been major contributors of national development due to their availability in all sectors of the Kenyan economy thus their recognition by the government. The 2008 ministry of co-operative development and Marketing gave an estimate of 80% of the Kenyan population is highly dependent on their income generated either directly or indirectly by the activities of co-operative societies (Wanyama, 2009). Like any other organization Co-operatives, have practice philosophy, fundamental principles as well as values that govern them.
These societies have expanded significantly in the recent past. According to WOCCU Statistical Report of 2015, Kenya’s Co-operatives are the largest in Africa based on asset size, membership and loans issuance (Wanyama, 2016). This sector has been outlined by the government as one that has a key role in achievement of the Vision 2030 such as developing these sub-sectors into competitive and effective enterprise as it contributes to over forty five percent of the country’s GDP. Currently, SACCOs have been considered to be among the leading sources of rural finance within the border and especially in the rural areas.

There exists within the projects towards vision 2030 a “medium term plan to promote innovative, commercially oriented, and modern agricultural and financial services sectors through cooperatives” (Sifa, 2012). They help agriculturists increase their yields as well as earnings through pooling funds and assets to bolster overall administration procurements as well as well as monetary enforcement. Considering they're crucial to transmit and add to small scale rancher generation, farming cooperative societies are seen as basic means of attaining the administration’s development and focus in the Growth and also the ‘change plan, thus focusing on diverse cooperative societies and require an option structure for examination.

1.1.2 SASRA Regulations

The savings and credit cooperative societies (SACCOs) are among the very few business organizations which survived the financial meltdown of 2008 in developed and developing countries. This was in spite of the fact that the sector is not keenly regulated. This was so because of the people-centered business model that the SACCOs embrace. The importance of the Sacco sub-sector in the country led the Government to initiate the Sacco Act 2008 as well as the Sacco Societies Regulations 2010. The Act created the SASRA whose main role is to license, regulate and finally to supervise Sacco that were involved in deposit-taking business. The key aim of this is to maintain personal interests of the members of SACCOs as well as to improve level of public confidence in SACCOs (Kilonzi, 2012).

The national government of Kenya established SASRA which is managed by the Ministry of Cooperative Development and Marketing in an effort to reform SACCOs and ensures that the public has confidence in the SACCOs sector thus spurring Kenya’s economic development through mobilizing domestic savings. The company accentuates that in line with vision 2030,
prudential regulation of deposit-taking SACCOs was established with a key aim of enhancing accountability and transparency in this subsector. The process is in accordance to the current reforms of the financial sector with the basic purpose of expanding accessibility of finance as well as financial stability of financial service providers in Kenya and inspiring efficiency (Kilonzi, 2012).

The Sacco Societies Act and its attendant regulations require SACCOs which operated Front Office Services Activity (FOSA) before dates of publication of these regulations, June 2010, should get licensed with SASRA so as to get permission to operate as normal, while providing for registration and licensing of new ones (Muriithi, 2014). According to the KGS (2009), in order to enforce the regulations effectively, SASRA is given certain powers by the law to deal directly with SACCOs societies that do not comply. These powers are imperative because compliance can’t be left to the deposit-taking SACCOs.

In line with financial capacity, licensing shows that SACCOs have the capacity at institutional level such as technological, human, and finally business processes so as to comply with terms and conditions of the license (Wanyoike, 2013). The deposit-taking SACCOs are required to file monthly returns of their core capital and liquidity ratio which has defined limits specified in the SASRA regulations. In addition, they are not supposed to invest a certain amount of their investment assets in illiquid assets and a certain proportion of the assets must be held in liquid portfolios.

According to SASRA, regulations are certain to bring challenges and impact on the SACCOs in different ways and extent as it is the responsibility of the SACCOs board of directors and the management to analyze their business reality against the operational regulations and prudential standards; and develop strategies through their business plans for consideration by the Authority as part of the licensing process, (Kahuthu, 2016)

1.1.3 Disclosure Requirement

Adopting higher disclosure compliance is beneficial in terms of promoting financial stability, both globally and nationally, reduces the risk of failure by SACCOs, promotes economic growth and development and facilitates good governance and accountability (Osoro, 2015). The subject of
Disclosure requirement has gained significant attention across the world ever since the Heath International Holdings, (HIH) case in Australia and Enron Case in the US in 2001 and 2002 respectively. According to (Osoro and Muturi, 2015), the endorsement of Sarbanes Oxley (SOX) Act in the US was meant to strengthen external auditor’s independence and board audit committees”. The SOX Act, 2002 requires rotation of auditors every five years for listed companies in the US. Disclosure requirement in the SOX Act includes listed companies with members of independent audit committee, with one member having financial or accounting background. In Australia, the Royal Commission Investigation found both the accountants and owners contributed to its failure in the HIH case. The company was found to have failed to comply with APRA requirements on disclosure.

In Kenya, State Corporations are required to have a policy assertion on good governance in both their annual and quarterly reports. Central Bank of Kenya Prudential Guidelines requires banks directors to make transparent disclosures to its depositors, shareholders and other stakeholders. Such disclosures include corporate governance, risk tolerance, and banks objectives among others.

According to (Muriuki and Ragui, 2010), Government intervention in the affairs of Saccos date to post-independence days. Support services related to the provision of bookkeeping and auditing, training, and governance by sitting in their board meetings. The meetings were irregularly held say monthly which could not address the unique DT-Sacco business. There was thus minimum disclosure requirement for the Saccos registered under CSA, as the Ministry used to double up as both regulator and auditor (Ademba, 2014). Muriuki and Ragui, (2010) advocate for full operationalization of SSA regulations to reduce exposures related to poor corporate governance practices, lack of transparency and accountability among others.

Emphasis has not been placed on the principle that requires Cooperatives to inform their members and the general public regarding their business and their associated benefits. Such information relates to adequate disclosures in the financial statements to attract and retain current membership.

Issues such as capital limit encompassing size of Sacco, capital structure and products and services need to be well known to the membership because they also have a net effect on the performance of the Sacco.
Large risk exposure which entails lending policies, risk appetite also needs disclosure as they affect performance of DT-Saccos.

Insider loans also tackled in this study is an independent variable which has elements such as loan repayments, lending policies, cooperatives norms etc. Disclosure in this area helps members understand from the onset what they are engaging themselves with no hidden information.

Audit issues also an independent variable has its role in the performance of DT-Saccos. In this area, the role of the boards and board committees and audit reports are tackled. Audits handle and clear financial queries of these Sacco and assist members to understand their organization better. A transparent organization has the ability to recruit and retain more members.

1.2 Statement of the Problem

Audited Financial statements are the basis upon which users of financial information rely to make informed decisions. Such users include current and prospective members in a DTS. Preparers, therefore, must ensure that the information contained therein is reliable, sufficient and discloses all material transactions fairly. The responsibility of preparing and presenting those financial statements lies with the directors in a DTS. SSA requires DTS financial statements to comply with requirements of IFRS on disclosures. The fair presentation is achieved by providing more disclosures making it possible for their users to comprehend some particular transactions as well as events displayed on financial statements. SSA expounds the disclosures to be included in financial statements to include among others insider lending, large risk exposures, and capital limits.

The underlying DT-Sacco business concept of savings mobilization on lending to solve societal problems was defeated due to mismanagement either through fraud or lack of professionalism which lacked in form of legislation (Ademba, 2011). Incomplete disclosures or failure thereof may lead to unsuspecting DTS members’ place their savings in unfeasible business ventures exposing them to future losses. Despite Government’s policy intervention through legislation to ensure adequate disclosures to deepen transparency and strengthen corporate governance, there’s no evidence of improvement in disclosures by DTS. There have been instances where DTS fail to make full disclosures in the annual reports only for the DTS to fail in its core mandate of deposit mobilization for on-lending. According to (SASRA, 2014), Jijenge Sacco in Thika was placed
under statutory management due to those charged with governance failure in making adequate disclosures to the members.

Limited studies have been done in the DT-Sacco area of disclosure level requirements and how it impacts on the performance of these saccos.

1.3 Objectives of the Study

1.3.1 General Objectives

The study was to determine the effect of disclosure requirements on financial performance of deposit taking SACCOS in Nairobi County.

1.3.2 Specific Objectives

This study sought to address the following:

i. To determine the level of disclosure requirement on members holding more than prescribed limits of capital and financial shows of DT-Sacco’s in Nairobi County.

ii. To examine the level of disclosure required on large risk exposures and financial performance of DT-Sacco’s in Nairobi County.

iii. To establish the level of disclosure requirement on insider lending and financial performance of DT-Sacco’s in Nairobi County.

iv. To establish the level of disclosure on audit-related issues and financial performance of DT-Sacco’s in Nairobi County.

1.4 Research Questions

The study aimed at answering questions that are formulated in line with the research objectives;

i. What is the level of disclosure requirement on members holding more than prescribed limits of capital affect the financial performance of DT-Saccos in Nairobi County?

ii. What level of disclosure is required on large risk exposures affect the financial performance of the level of disclosure on loans exceeding prescribed limits in the annual reports?
iii. What is the level of disclosure requirement on insider loans and financial performance of DT-Saccos in the country?

iv. What is the level of disclosure requirement for audit related issues affect the financial performance of DT-Saccos in Kenya?

1.5 Significance of the Study

The study sought to examine the extent of corporate control disclosure requirement on the financial shows of the Deposit Taking Saccos in Kenya. This study was significant in various ways. To start with, the study would contribute to the stakeholder theory in the financial performance of DT-Saccos in the country. Further, this study may contribute to effective Co-operative practices aimed at strengthening DT-Saccos as an alternative formal financial services provider.

The information of the research would be useful in guiding the SACCO members to evaluate the level of transparency and accountability by SACCOs in the country. This study would assist in enhancing the communication between the managing teams of SACCOs, members, regulatory authorities, defined users and stakeholders. These findings would also be useful in informing potential SACCO members when making economic decisions such as making decisions regarding commitment of their money in a certain SACCO.

The study would also be important to the national government. Through this research, the government through SASRA would be a position to assess and tell if the regulatory measures put on co-operatives instill security and confidence within this sector to amass deposits for investment and financial inclusion which is Kenya’s financial strategy. The government would be able to find out whether the regulation of DT-Saccos through SASRA has led to the encouragement of savings culture among Kenyans.

The Policymakers would also be impacted positively from the results of this study. The findings can be used to inform and guide them when formulating relevant policies that would make sure the SACCOs in the country are adequately regulated. The findings would also be relevant in terms of helping policymakers to design informed mechanisms aimed at improving the quality of disclosure by SACCOs.
Finally, scholars and researchers would also benefit from the study. The findings would shed more light in this field and form a key basis for further research. In addition, the study would create knowledge niches and even give suggestions for undertaking further research.

1.6 Scope of the Study

This study examined the extent of corporate control disclosure requirement on the financial shows of the Deposit Taking Saccos in Kenya. Key focus was on the level of disclosure requirement on members holding more than prescribed limits of capital on financial show, the level of disclosure requirement on large risk exposures and financial performance, the level of disclosure requirement on insider lending and financial performance, and the level of disclosure on audit-related issues and financial performance. The study targeted a census of all the licensed DT-Saccos in Nairobi County. The main focus of the research was the DT-Saccos CEOs. The study sought information from these respondents considering their continued involvement in the Sacco affairs and ability to provide information the researcher was interested in.

1.7 Limitation of the Study

Limitations identified while undertaking this study included, time and resource constraints, the study was tied to 41 licensed DT-Saccos in Nairobi. To make the findings reliable considering the units of study were few, the researcher tried to reach as many SACCOs as possible in order to increase the response.

Secondly, the study experienced a relatively low response rate from the respondents to the questionnaire. This led to omission of vital information. To mitigate this, the researcher made efforts to improve the response rate by visiting the targeted SACCOs in person, to explain the role of the study and to request the participants to fill in the questionnaire. The researcher also did follow-ups through calling and emailing to remind the respondents to fill in the questionnaires.

Thirdly, the focus of the study was on disclosure requirement an aspect of transparency and accountability by SACCOs in the Nairobi County. Based on the fact that the researcher focused on deposit-taking SACCOs in Nairobi County, the study results were to be replicated with care in other economies. This was due to the fact that there were particular institutional, regulatory,
cultural, and country-specific dynamics that cooperative in the country operated in, which varied from those in other countries.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The section presents theoretical and empirical literature regarding disclosure requirement and financial performance of DT-Saccos. Three theories were considered: agency theory, shareholder theory, and stewardship theory. The chapter also presents a summary of the literature and the research niche and a conceptual framework illustrating the relationship present in independent and dependent variables is also presented.

2.2 Theoretical Literature Review

The study was informed by theories, agency, stewardship and democratic theories. The theories have been selected considering their argument on regulation to financial performance:

2.2.1 Agency Theory

Limitations that facing relations between agents and principals and develop a framework for analyzing conflicts and providing a mechanism for resolving those conflicts between various stakeholders (Jensen and Meckling, 1976). According to (Padilla, 2002), management and employees could pursue self-interests to the detriment of owners and therefore, shareholders expect agents to act and make decisions in the best interests of the principal. Bhimani (2008) postulated that agency theory was introduced to separate ownership from control. Agents perform their duties from principal custom-made rules in pursuit of maximizing shareholders value.

Firms with weaker governance mechanisms to direct and manage face greater agency problems (Sanda, Mikailu, & Garba, 2010). Where an agency problem exists, it may lead to the manager pursuing self-interests to the detriment of the firm (Khan, 2011). Improved corporate governance is crucial for the long run survival and growth of an organization. This can be achieved through balancing between ownership and control and also among the interests of stakeholders of the firm.

In Co-operatives, Sacco board members are elected by members during the annual general meeting to develop their business including policy formulation and act as members agents. In turn, the management team is appointed by the board to implement policies and develop their business and
act as the agents. Principals delegate the stewardship of the business to the board which in turn hires and bestows authority upon managers, (Clark, 2004). Interests of managers and board may differ, hence the need to develop a mechanism so that managers work for the owners. Davis et al, (1991) emphasize on control of managerial opportunism by having a board chair independent of the CEO and using incentives to bind the CEO interests to those of shareholders. Therefore, the agent may be required to undertake risky activities such as adhering to liquidity requirements, capital requirements, loan provisioning requirements and investment requirements oblivious of the imminent risk in terms of making losses, (Wanyoike, 2013).

Classical cooperative business model where the member is the owner and decision maker render the agency problem acute. Hence, in cooperatives there are inherent problems in who takes the entrepreneurial lead, is it management, board or members? The theory prompted the general objective of the study and the specific objective of resource allocation for liquidity and investments in the study and their impact on financial performance towards stable DT-Saccos post the transition period.

2.2.2 Shareholder Theory

Mwanja et. al (2014) defines shareholders in Saccos as the members who have supreme authority in their Saccos. Their continued involvement in DT-Saccos is important to ensure the decisions made are owned up. This involvement is legally provided under CSA (2004). “Shareholder theory defines the primary duty of a firm’s managers as the maximization of shareholder wealth, (Cuñat, Gine, & Guadalupe, 2012). According to Friedman (1962), businesses do not have any moral obligations or social responsibilities at all, other than to their own profits. Donaldson et al (1995) stated that involvement of social groups in business is so that they are able to obtain profits.

Scholars that promote shareholder theory argue that shareholder value maximization is the most defensible approach to management (Heath, 2009). Maximization of shareholder value as the goal of the firm is the means to most efficiently achieve the best outcome for the society (Jensen, (2002). This approach asserts that it is the responsibility of managers (and those who oversee managers, such as boards of directors) to maximize returns to shareholders; consequently, unnecessary allocations of money, time or other resources to other stakeholders, such as
employees, suppliers, or local communities, are discouraged (or even considered immoral (Jensen & Meckling, 1976).

Generally, the theory recognizes the only motive for business is profit generation and maximization of shareholders wealth. Advocates of modern shareholder theory draw three fundamental principles from Adam Smith’s Wealth of Nations; namely the “invisible hand of self-regulation;” the importance of enlightened self-interest, and the importance of free markets (Wanyoike, 2013).

Shareholder theorists advocate for minimal Government regulations in the conduct of their business. They argue that if companies are allowed to operate in their self-interest of profit maximization, ultimately the society would benefit. The proponents postulate that market conduct would deter unethical behavior without necessarily being supervised. Hence, the theorists conclude that oversight and regulation is unnecessary. The theory is supported by the academic finance community and is crucial for corporate finance theory. However, this theory attracts critics as it encourages “short-term managerial thinking and condoning the unethical behavior as Critics consider shareholder theory as geared toward short-term profit maximization at the long-run expense (Smith, 2003). Freeman, Wicks, and Parmar (2004) emphasize that, shareholder theory involves using the ostensible rights claims of one group; shareholders, to excuse violating the rights of others.

Many proponents of shareholder theory, in a stylized version of the model, encourage managers to maximize the firm’s current stock price (Lasher, 2008). Safeguarding of shareholders capital could only be guaranteed through regulation. Short term focus of current stock prices could be altered in the short run by dishonest managers. The theory assists the researcher understand the role of members, management and Board of Directors leading the role of making sure that infinite deposit taking Sacco business viability is sustained and that the interests of all the stakeholders are met.

2.2.3 Stewardship Theory

Stewardship theory by (Donaldson and Davis, 1991) was meant to comprehend organizational relationship between ownership and management. This theory states that, there is no intrinsic problem of executive control; hence organizational managers tend to be kind in their actions”
A steward protects and maximizes shareholders wealth through firm performance because by so doing, the steward’s utility functions are maximized (Davis et al., 1997).

Management staff and officers working under them are entrusted with resources to make returns for their owners. The theory assumes that those entrusted with controlling an organization want to conduct the business affairs efficiently and effectively to realize objectives. Therefore, the theory postulates a partner-style model between the management and the board. Stewardship theory emphasizes the role of management being as stewards, integrating their goals as part of the organization, (Davis et al., 1997). The role of the board is policy formulation and strategic decision making to support management in their implementation.

The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained. The theory recognizes the importance of governance structures that empower the steward and offers maximum autonomy built on trust, (Donaldson & Davis, 1991). It stresses on the position of an employee to act more autonomously so that the shareholders’ returns are maximized. Indeed, this can minimize the costs aimed at monitoring and controlling employee behavior, (Davis et al., 1997).

Daily et al. (2003) states that, in order to protect their reputations as decision makers in organizations, managers are inclined to operate the firm to maximize financial performance as well as shareholders’ profits. Thus the firm’s performance is impacted directly by perceptions of the performance of an individual entity. Donaldson and Davis (1991) stated that stewardship theory stresses the beneficial consequences on shareholder returns of facilitative authority structures which unify command by having roles of CEO and chair held by the same person. This theory may guide the researcher on “the role of a management team and the Board of Directors making all the disclosure requirements for the running of DTS.

2.3 The Concept of Disclosure

Disclosures refer to are revelations of how well or bad the management and directors have performed in relation to investments. Disclosures entails information that is issued in financial statements and notes, management analysis and discussion, future outlook and any other
supplemental information such as corporate social responsibility, environmental conservation, employee information, customer information and related social information (Khlif & Souissi, 2010).

Disclosures exists in two types namely compulsory and voluntary disclosures. Compulsory disclosures are those aspects and information which must be published as a consequence of the existence of some legal or statutory stipulations, capital markets, stock-exchanges commissions or accounting authorities’ regulations, (Adina & Ion, 2010). This ensures that the user’s need for the information is satisfied and also ensures that the quality of the production is controlled by the set laws and standards. The compulsory disclosure includes disclosure of assets, liabilities, income, expenditure, contributions by and distributed to the owners, cash flow, and equity among others.

Voluntary disclosure, on the other hand, refers to the information that is disclosed regarding the organization up and beyond the statutory requirements (Asava, 2013). Voluntary disclosure is based on the free will and discretion of the management to disclose information either financial or non-financial over and above the compulsory requirements. This information can be used for different purposes by management. The information contained in the voluntary disclosure may be meant to influence the interpretation of the financial reporting which may affect the activity choice. The strategic change from the traditional reports that only carried the compulsory information in reporting has been necessitated by the many benefits that come with voluntary disclosure. These benefits include a reduction of incidences of misallocation of capital by investors; company benefit from lower cost of capital that comes from increased credibility and confidence relations coming as a result of better investment decisions and lesser danger of litigation alleging inadequate information disclosure.

Mandatory or voluntary disclosures provide a channel for market discipline in the financial sector. Information disclosure is very important and it is an aspect of good governance in an organization. In every firm or organization, disclosures are crucial in both the company as well as the investors. Public outcry over high profile corporate scandals has led to a call for increased disclosure for the firms to try and minimize these incidences (Mugo, 2014). With commitments in comprehensiveness and quality, disclosures, scandals can be eliminated. An all-inclusive firm’s
disclosure would entail disclosing information about the financial policy, investment policy, sales growth, financial liquidity and research and development (Harmouni et al., 2015).

2.3.1 Empirical review

This section presents a review of the literature related to the problem and purpose. According to (Pyrczak and Bruce, 2011) empirical review enables in creating insights on the available literature on the study area. Hence, it is important in providing better understanding on the focus area without duplication of available material.

2.3.2 Disclosure on Capital Limits

According to Musyoka (2017), members play an important role in capital provision to their business being both owners and customers. Members are required to subscribe to the DT-Sacco capital whenever they join. However, this conventional requirement of attracting new member is slowly changing to the extent that certain activities of the DT-Saccos are open to the public patronage not necessarily members. Unlike other business undertaking where the register of members or owners is closed, DT-Saccos infinitely recruit members; hence their capital is forever growing. However, to undertake deposit-taking business, minimum core capital of KShs. 10 million is required (Ademba, 2011).

Capital adequacy refers to a relative measure that establishes the maximum level of leverage that a financial institution is allowed to reach on its operations, (Aspal, & Nazneen, 2014). Accompanying core capital ratios are relative to assets to which they should maintain to not less than 10 percent; core capital to deposits to which they are required to be at least 8 percent and institutional capital relative to total assets to be not less than 8 percent (Ademba, 2011).

According to (Vianney, 2013), the higher minimum capital requirement could help to mitigate moral hazard behavior among shareholders. Further, (Magambo, 2014) established that a high minimum capital requirement is often considered as a tool for limiting the number of institutions that the supervisory body should be responsible for monitoring, where supervisory resources are scarce.
2.3.3 Disclosure on Large Risk Exposures

Loans constitute the single largest asset in a DT-Sacco yet the riskiest, SASRA, (2015). McKillop and Wilson (2011) defined credit risk as the inability to repay loans in accordance with the contractual agreement due to unsafe lending practices. According to SASRA Supervision Report (2015), gross loans amounted to KShs. 258.2 billion and constituted 75 percent of total assets. This presented an increase of KShs 29.7 billion compared to the previous year, representing a growth of 13 percent.

Financing of member loans should be supported by member deposits (Magambo, 2014). This reinforces the fundamental principle of the DT-Sacco business of mobilizing savings for on-lending to its members. Conventional practice in DT-Saccos is to issue loans using a multiplier based on deposits held. Further, the higher deposits held in the DT-Sacco constitute liabilities against which interest is paid at the closure of financial year.

Members seeking huge capital undertakings place their deposits in the DT-Sacco with the sole aim of borrowing. Such ventures could include construction, acquisition of properties and machinery among others. DT-Saccos play a significant role in financing their members to affordable housing compared to commercial bank mortgages, (Mwaka, 2015).

While the Kenya Legal provisions restrict membership of DT-Saccos to natural persons, members have been known to finance their businesses through credit from DT-Saccos. This is recognition of the critical role played by MSME’s and creation of job opportunities through entrepreneurship.

In recognition of the above, there could be chances that Sacco’s lending practices and credit administration could lead to some members having credit facilities in excess of core capital. SSA requires that disclosures are made in the financial statements to guarantee infinite business operations.

2.3.4 Disclosure on Insider Lending

Dingwerth and Eichinger (2010) noted that financial disclosures play a key role to various stakeholders in reinforcing transparency and accountability. They further strengthened the transparency by showing the relevance of related party transactions and insider lending. SSA
requires DT-Saccos to disclose information relating to insider lending. The strength of any financial institution is determined by the integrity and capacity of board members (Yukl, 2013). To sustain integrity, the proportion of insider lending is disclosed by the board members on a monthly basis which should not be on more favorable terms than the rest of the membership. As a gauge, it should not be in excess of 10% of core capital.

2.3.5 Audit

Regulatory provisions require that, board prepare and present financial statements complying with IFRS. Certain qualitative characteristics are expected of such financial reports including understandability, objectivity, comparability, reliability, and relevance among others. The disclosure requirement expected of such financial statements is that all transactions are faithfully presented. This reliability could be achieved by having an independent auditor review the work of board through the management team. Hence, the formal and transparent arrangement should be established for appointing independent auditor to conduct an audit in annual general meetings. Auditors must disclose the fact that their report is independent of the users of financial reports. This disclosure requirement is provided in the guideline developed by the ICPAK and other industry players for all DT-Saccos.

The modern practice of establishment and recognition of internal audit as a function of the board sought to offer quality assurance reviews on the performance of management, (Stewart, & Subramaniam, 2010). This aimed at strengthening the review function. The reporting line is envisaged at the board on functional areas and administratively to the CEO.

As a governance tool DT-Saccos are required to constitute audit committee to review the financial conditions of the DT-Sacco and its internal controls adequacy among other areas. The audit committee is required to disclose results of operations are accurately reflected. The composition of the committee should have three members with at least one having accounting or finance background, (Ademba, 2012).
2.4 Empirical Review

Best practices as issued by IFRS require that users of financial information are adequately informed to enable them to make guided decisions. Governance being a key ingredient to the success of any business venture must focus to assure investors of the risk undertaken and guarantee returns. The underlying motive of DT-Sacco regulations was aimed at making DT-Saccos governance mechanisms transparent, accountable and building members’ confidence through offering efficient services (Ademba, 2011). DT-Sacco board members have a fiduciary responsibility to their current and prospective members and fiduciary duty as enshrined in the SSA requires that directors’ act in honesty and high standard of care in making annual financial statements disclosures. They must ensure that information reported in the annual financial statements reflect true and fair position to adequately guide their members being the owners and principal users of audited financial statements.

Researchers explore the effect of financial disclosure on the company’s performance. Ohl (2010) argued that it is necessary to disclose information as this helps to protect a portfolio from impromptu alterations of adequate long-term policy. This improves consistency, prudence and helps investors to make sound investment decisions as investors’ expectations, guidelines and objectives can be counterchecked.

Taimisto (2010) undertook a cross-sectional study on the impact of voluntary disclosure on investment and financial policy on the value of cash for the firm in the U.K. Using data gathered from 1193 listed companies for a duration of 12 years, the study established that both financial policy and investment policy lacked statistical significance effect on the value of firm’s cash holdings position even though firms characterized by constrained by finances in times of good investment opportunities were found to value cash holding highly.

Hamrouni, et al., (2015) conducted a study on the signaling firm performance through voluntary disclosure by 179 firms quoted on Euro next Paris Stock Exchange in the duration of 5 years ending 2009. ROE and Tobin’s Q were indicators for organizational performance while disclosure was indicated by the firm values that are widely used in corporate finance like the financial policy, R&D, operating profitability and sales growth. Using panel data and applying logit model, the
study established a direct and statistically noticeable relations between disclosure indexes and firm’s performance.

Ojeka et al., (2015) sought to determine whether a financial reporting disclosure improves firm’s performance of the Nigerian manufacturing sector between 2005 and 2009. Using secondary data and Panel Least Square Regression for the data analysis, the study established a significant relationship between financial reporting disclosures and financial performance whereby by a recommendation was made to the Nigerian Federal Government to ensure more disclosures is made in the financial report as this is an important means of addressing liquidity problem in the manufacturing sector for financial performance, (Ojeka, 2015).

Locally, (Wangari, 2014) analyzed the effect of disclosure on the financial performance of commercial banks in Kenya. The study employed a descriptive research design with a study sample of 42 commercial banks where data was collected by developing a disclosure index consisting of 47 disclosure items and secondary data was collected from annual reports of the commercial banks for the duration of 6 years ending 2013 and analyzed using multiple linear regression models. From the analysis, the study established a statistically significant relationship between disclosure and financial performance of the banks.

Recently, related study by, (Musyoka, 2017) sought to determine the effect of voluntary disclosure on the financial performance of firms listed in at the Nairobi Securities Exchange. Purposive sampling technique was used to sample 41 firms which have been actively trading between 2006-2015. From the analysis, it was established that disclosures on financial policy, investment policy, sales growth, financial liquidity, research, and development a positive had a statistical effect on the firm performance.

An earlier study, (Mutinda, 2016) analyzed the impact of the prudential regulatory framework on the financial performance of deposit-taking SACCOs in Kenya. This study adopted a descriptive survey design in addressing the research problem. It was based in Kenya aiming at deposit-taking SACCOs in the country with 181 of such SACCOs. The study used secondary data that was analyzed using quantitative data analysis techniques in form of the regression model. From the analysis, “the study established that the application of prudential regulatory requirement had a statistically significant effect on the financial performance of SACCOs in Kenya.
In another study, (Kilonzi, 2012) strived to establish the impact of SASRA regulations on the financial performance of SACCOs in Kenya. The study targeted the 98 SACCOs registered by SASRA. The study used purposive sampling method to select 30 SACCOs based in Nairobi. The study used secondary data that was collected from the financial statements of the SACCOs. Using a linear regression model, the study established that higher capital requirements and increase in management efficiency impacted positively to SACCO’s profitability in the post-capital regulation period.

2.5 Summary of Literature Review and Research Gap

Table 2.1: Summary of Literature Review and Research Gap

<table>
<thead>
<tr>
<th>Author</th>
<th>Study focus</th>
<th>Findings</th>
<th>Research Gaps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kilonzi (2012)</td>
<td>Impact of SASRA regulations on the financial performance of SACCOs in Kenya</td>
<td>Higher capital requirements and increase in management efficiency impacted positively to SACCO’s profitability in the post-capital regulation period.</td>
<td>The study only focused on capital requirements and did not focus on the disclosures</td>
</tr>
</tbody>
</table>
| Mutinda (2016)| The impact of the prudential regulatory framework on the financial performance of deposit-taking SACCOs in Kenya. | The application of prudential regulatory requirement had a statistically significant effect on the financial performance of SACCOs in Kenya. | The study did not focus on the disclosures”.  
“The geographical location of the study was not Nairobi”. |
<p>| Musyoka (2017)| The effect of voluntary disclosure on the financial accounting policies.     | It was established that disclosures on financial policy, investment policy, sales | The study did not focus on members holding more than...                                                  |</p>
<table>
<thead>
<tr>
<th>Study</th>
<th>Research Focus</th>
<th>Findings</th>
<th>Limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taimisto (2010)</td>
<td>The impact of voluntary disclosure on investment and financial policy on the value of cash for the firm in the U.K.</td>
<td>The study established that both financial policy and investment policy did not have a statistically significant effect on the value of firm’s capital holdings.</td>
<td>The study only focused on the capital holding of the firm. The study was not done in Kenya. The study did not focus on SACCOs.</td>
</tr>
<tr>
<td>Hamrouni, et al., (2015)</td>
<td>Voluntary disclosure and firm performance.</td>
<td>The study established a direct and statistically significant relationship between disclosure indexes and firms performance.</td>
<td>The study was not done in Kenya. The study did not focus on SACCOs. The study did not focus on the relationship between disclosure and firm performance.</td>
</tr>
<tr>
<td>Source</td>
<td>Study Title</td>
<td>Study Findings</td>
<td>Notes</td>
</tr>
<tr>
<td>--------</td>
<td>-------------</td>
<td>----------------</td>
<td>-------</td>
</tr>
<tr>
<td>Ojeka et al., (2015)</td>
<td>Financial reporting disclosure and firm’s performance in the Nigerian manufacturing sector.</td>
<td>The study established a significant relationship between financial reporting disclosures and financial performance”.</td>
<td>The study was not done in Kenya. The study did not focus on SACCOs.</td>
</tr>
<tr>
<td>Wangari (2014)</td>
<td>The effect of disclosure on the financial performance of commercial banks in Kenya.</td>
<td>The study established a statistically significant relationship between disclosure and financial performance of the banks.</td>
<td>The study did not focus on SACCOs.</td>
</tr>
</tbody>
</table>

*Source: Researcher and Literature Reviewed*

The gaps indicate that previous studies done were either not in Kenya or did not focus on the SACCOs sub-sector and did not entirely focus on disclosure as a measure of corporate governance and ethics. Little focus has been given to those exceeding limits and exposing disclosure on large risks.

### 2.6 Conceptual Framework

According to Ravitch and Riggan (2012), a conceptual framework is a tool used in analyzing variations and contexts by making logical distinctions and organizing ideas in a way that is easy to understand. It illustrates how independent and dependent variables relate in a model. It also shows how transparency in financial reporting, board quality decisions, governance practices and automation levels to the financial performance of deposit-taking SACCOs in Kenya relate. It is measured in terms of quality of earning assets, liquidity levels, capital adequacy and earning capacity.
Figure 2.1: Conceptual Framework

Source: Researcher, 2018
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter contains information concerning the manner in which this study was undertaken. It focused on target population, research design, sample size and sampling design. Also, the chapter entailed data collection strategies, data analysis of the acquired information, and its presentation.

3.2 Research Design

Yin (2013) explains that a “research design was a conceptual structure within which research was conducted”. This research used a descriptive survey study design. The researcher’s choice for descriptive survey rested on the researcher’s profound decision to base the study on the already existing state of affairs in the area of study. Therefore, the study contained no manipulated variable.

. Research design ensures the study is applicable to the problem and its procedures are cost-effective for obtaining information. Descriptive research design is concerned with finding out about the how, who, when and where of a phenomenon so as to build a profile (Mugenda and Mugenda, 2003).

3.3 Target Population

The target population is the entire group of items or people having shared observable traits, (Mugenda and Mugenda, 2003). According to Ngechu (2004) “population is a well-defined set of people, services, elements, and events, group of things or households that are being investigated”. The targeted population consists the DT-Saccos licensed by SASRA. According to SASRA, (2015), Nairobi County has 41 licensed DT-Sacco’s headquartered within it. A census study was used given the population of the 41 DT-Saccos (appendix 3) was considered small and selecting a sample from the small population was meaningless.
Table 3.1: Target Population

<table>
<thead>
<tr>
<th>Categories</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board chairmen</td>
<td>41</td>
<td>50%</td>
</tr>
<tr>
<td>Chief Executive Officers</td>
<td>41</td>
<td>50%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>41</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

SASRA, 2015

3.4 Sampling Design

This study targeted all the 41 licensed DTS in Nairobi. Kothari (2005) states that; where members of a target population were considered, it becomes more representative of the population of interest. It also accomplishes the requirements of reliability, efficiency and factors such as the overall nature of units in question, overall size of the population, size of the questionnaire and the time resource at hand for the completion of the research. Two respondents were to be drawn from the Board chairman and Chief Executive Officers of each DT-Sacco’s. Therefore, the study used 82 respondents.

Table 3.2: Sample Size

<table>
<thead>
<tr>
<th>Categories</th>
<th>Population</th>
<th>Ratio</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board chairmen</td>
<td>41</td>
<td>1</td>
<td>41</td>
</tr>
<tr>
<td>C.E.Os</td>
<td>41</td>
<td>1</td>
<td>41</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>82</strong></td>
<td>1</td>
<td><strong>82</strong></td>
</tr>
</tbody>
</table>

3.5 Instruments of Data Collection

The research encompassed the use primary and secondary information to complete the study. Primary data was collected through questionnaires with the assistance of a research assistant”. The research assistant was guided on the proper ways of administering questionnaires to participants. A drop and pick later method was relied on for data collection processes. Secondary information was obtained from audited financial statements of the licensed DT-Saccos.
3.6 Data Analysis and Presentation

All information collected through questionnaires was coded and then edited with the aim of detecting any erroneous omissions thus accuracy of the data. Analysis of the data was accomplished through descriptive and inferential statistics so that the researcher was able to not only describe the relationship between variables but also examine them accordingly. The relationship model was represented by the linear equation given below:

\[ Y = a + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + e \]

Where;

- \( Y \) = Profits of DT-Sacco
- \( a \) = Constant term
- \( B_1 \) = Beta Coefficient
- \( X_1 \) = Capital Limits
- \( X_2 \) = Large Risk Exposures
- \( X_3 \) = Insider Loans
- \( X_4 \) = Audit Issues
- \( e \) = Error Term
3.7 Ethical considerations

The researcher will ensure that the information collected is handled and treated with utmost confidentiality. The research questionnaire has the option of indicating or not indicating the identity of the respondent. The researcher will explain the intention of carrying out the research before beginning the process of data collection and thus the participation in the study will be through voluntary and informed consent. All the respondents will be treated with great respect and courtesy. The researcher will inform the respondents that no compensation would be accrued from participating in the study and further that the results of the study would be shared upon completion of the study.
CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter presents the findings of the analyzed data and interpretation. The study relied on primary data that was collected by use of structured questionnaires. The collected data was coded into SPSS Version 23.0 for analysis, the analyzed data was presented inform of figures and tables.

4.1.1 Response Rate

The researcher distributed 86 questionnaires to 41 licensed DT-Sacco’s headquarters, 64 questionnaires were dully filled and returned to the researcher, this gave a response rate of 74% which is deemed sufficient for the study. The findings are supported by Barbie (2010) who states that a response rate of above 50% is deemed sufficient. The findings are as shown in Table 4.1.

Table 4.1: Response Rate

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Response</td>
<td>64</td>
<td>74</td>
</tr>
<tr>
<td>Non-Response</td>
<td>22</td>
<td>26</td>
</tr>
<tr>
<td>Total</td>
<td>86</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey Data, 2018

4.1.2 Reliability Test

The study carried out a pilot test to establish the reliability of the research instruments, a Cronbach alpha was computed to measure the reliability and he findings are as shown in Table 4.2.

Table 4.2: Reliability Test

<table>
<thead>
<tr>
<th>Variable</th>
<th>Number of Items</th>
<th>Cronbach Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Limit</td>
<td>5</td>
<td>0.853</td>
</tr>
<tr>
<td>Large Risk Exposure</td>
<td>4</td>
<td>0.802</td>
</tr>
<tr>
<td>Insider Loan</td>
<td>5</td>
<td>0.799</td>
</tr>
<tr>
<td>Audit Issues</td>
<td>5</td>
<td>0.895</td>
</tr>
</tbody>
</table>
The study found out that audit issues was the most reliable with an alpha value of 0.895, followed by capital limit with an alpha of 0.853, then large risk exposure while insider loan was the least with a Cronbach alpha of 0.7925. This shows that all the variables had a Cronbach alpha coefficient of above 0.7 an indication that the research instruments were sufficient for the study. The findings are in support of (Kombo and Tromp, 2010) who illustrates that all the four variables were reliable as their reliability values exceeded the prescribed threshold of 0.7.

4.2 Demographic Information

The researcher sought to establish the respondents’ demographic information regarding; Title in the SACCO society, primary membership, primary membership forming the Cooperative and number of years the Sacco has operated Front Office Service Activity at DT-Saccos licensed by SASRA in order to establish the extent of corporate governance disclosure requirement on the financial performance of the Deposit Taking Saccos in Kenya. The findings are indicated in subsequent sections.

4.2.1 Title in the SACCO Society

Respondents were asked to indicate their title at DT-Saccos, the findings are as shown in Figure 4.1.

<table>
<thead>
<tr>
<th>Title Held</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>48%</td>
</tr>
<tr>
<td>Chairmen</td>
<td>27%</td>
</tr>
<tr>
<td>Board Member</td>
<td>22%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

**Figure 4.1: Title in the SACCO Society**

*Source: Survey Data, 2018*
The findings show that 48% of the respondents were CEOs at DT-Saccos followed by 27% who were chairman, then 22% who were board members and the least were 3% who were others. The findings show that the study collected data from higher managerial positions an indication that the respondents were well versed with the SACCOs financial performance hence reliable data was sought.

4.3.2 Primary Membership

Respondents were asked to indicate the primary membership of the DT-SACCOs, the findings are as shown in Figure 4.2.

<table>
<thead>
<tr>
<th>Primary Membership</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Based</td>
<td>55%</td>
</tr>
<tr>
<td>Farmers Based</td>
<td>19%</td>
</tr>
<tr>
<td>Teachers Based</td>
<td>13%</td>
</tr>
<tr>
<td>Community Based</td>
<td>11%</td>
</tr>
<tr>
<td>Private Institutions</td>
<td>2%</td>
</tr>
</tbody>
</table>

| Total                    | 100%       |

Figure 4.2: Primary Membership

Source: Survey Data, 2018

The findings in Figure 4.2 point out that majority of the respondents 55% primary membership of DT-SACCOs were government based followed by 19% who were farmers based, 13% were teachers based, 11% were community based and 2% were private institutions based. The findings show that majority of DT-SACCOs primary membership were government based.
4.3.3 Categories of Primary Membership Forming the Cooperative

Respondents were asked to indicate the categories of primary membership forming the cooperatives, the findings are as shown in Figure 4.3.

<table>
<thead>
<tr>
<th>Number of Members</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 20</td>
<td>88%</td>
</tr>
<tr>
<td>21-40</td>
<td>56%</td>
</tr>
<tr>
<td>41-50</td>
<td>40%</td>
</tr>
<tr>
<td>51-60</td>
<td>32%</td>
</tr>
<tr>
<td>Above 60</td>
<td>20%</td>
</tr>
</tbody>
</table>

Figure 4.3: Categories of Primary Membership

Source: Survey Data, 2018

The findings in Figure 4.3 show that majority of the categories of primary membership 88% were less than 20, followed by 56% who were 21-40 number of members, 40% indicated 41-50 number of members, 32% indicated 51-60 number of members and 20% indicated above 60 members. The findings show that majority of the DT-SACCOs category of primary membership were less than 20 members.

4.3.4 Length of Service Operating Front Office Service Activity

Respondents were asked to indicate the numbers of years their DT-SACCOs had operated front office service activity, the findings are as shown in Figure 4.4.

<table>
<thead>
<tr>
<th>Length of Service</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 5 years</td>
<td>39%</td>
</tr>
<tr>
<td>5-8 years</td>
<td>50%</td>
</tr>
<tr>
<td>9-11 years</td>
<td>11%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

Figure 4.4: Length of Service Operating FOSA Source: Survey Data, 2018
The study found out that 50% of the respondents had operated front office service activity for 5-8 years, followed by 39% who had operated for less than 5 years and 11% had operated for 9-10 years. This shows that most of the DT-SACCOs had operated front office service activity for less than 10 years.

4.3 Capital Requirements

Respondents were asked to indicate how capital requirement affected the net surplus of deposit taking Saccos by the researcher. A Likert scale of 1-5 was used where: 1-agree strongly, 2-agree, 3-average, 4-disagree and 5-disagree strongly. The findings are indicated in Table 4.3.

Table 4.3: Capital Requirements

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of the members affects the financial shows</td>
<td>3.842</td>
<td>0.887</td>
</tr>
<tr>
<td>of a Sacco</td>
<td></td>
<td></td>
</tr>
<tr>
<td>External borrowing above 25% of total assets affects</td>
<td>4.213</td>
<td>0.908</td>
</tr>
<tr>
<td>Sacco financial performance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Capital structure affects the financial performance</td>
<td>3.725</td>
<td>1.115</td>
</tr>
<tr>
<td>Financial disclosures raises confidence and trust in the</td>
<td>3.358</td>
<td>1.269</td>
</tr>
<tr>
<td>Saccos</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Existence of a Dividend Policy protects Sacco capital</td>
<td>3.899</td>
<td>0.825</td>
</tr>
<tr>
<td>Strict adherence to capital requirements facilitates</td>
<td>3.797</td>
<td>0.525</td>
</tr>
<tr>
<td>expansion</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey Data, 2018

The findings in Table 4.3 show that majority of the respondents agreed that total number of the members affected the financial shows of a Sacco as supported by a mean of 3.842 with standard deviation of 0.887. Majority of the respondents agreed that external borrowing above 25% of total assets affected Sacco financial performance as supported by a mean of 4.213 with standard deviation of 0.908. Majority of the respondents agreed that the Capital structure affected the financial performance of a Sacco as supported by a mean of 3.725 with standard deviation of 1.115. This is supported by (Musyoka, 2017), members play an important role in capital provision to their business being both owners and customers.
The study further established that majority of the respondents moderately agreed that financial disclosures raised confidence and trust in the Saccos as supported by a mean of 3.358 with standard deviation of 1.269. Majority of the respondents agreed that existence of a dividend policy protects Sacco capital as supported by a mean of 3.899 with standard deviation of 0.825. Majority of the respondents agreed that strict adherence to capital requirements facilitated expansion as supported by a mean of 3.797 with standard deviation of 0.525. This agrees with (Vianney, 2013) who states that the higher minimum capital requirement could help to mitigate moral hazard behavior among shareholders. Similarly, (Magambo, 2014) established that a high minimum capital requirement is often considered as a tool for limiting the number of institutions that the supervisory body should be responsible for monitoring, where supervisory resources are scarce.

4.4 Large Risk Exposures

Respondents were asked to indicate the effect of large risk exposure on the net surplus of deposit taking Saccos by the researcher. A Likert scale of 1-5 was used where: 1-agree strongly, 2- agree, 3-average, 4-disagree and 5- disagree strongly. The findings are indicated in Table 4.4.

Table 4.4: Large Risk Exposures

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Having a credit policy that is consistent with the Sacco regulations</td>
<td>3.619</td>
<td>0.956</td>
</tr>
<tr>
<td>Maintaining delinquent loan listing with emphasis on growth, loan losses, recoveries and provisioning</td>
<td>3.912</td>
<td>0.845</td>
</tr>
<tr>
<td>Quarterly reporting to SASRA on loans classifications</td>
<td>3.895</td>
<td>1.233</td>
</tr>
<tr>
<td>Risk profiling of members before issuance of loans</td>
<td>3.789</td>
<td>0.902</td>
</tr>
<tr>
<td>Introduction of new loan products in line with regulatory provisions</td>
<td>3.686</td>
<td>0.911</td>
</tr>
</tbody>
</table>

Source: Survey Data, 2018

The study established that majority of the respondents agreed that they were exposed to large risk exposures by having a credit policy that was consistent with the Sacco regulations as shown by a mean of 3.619 with standard deviation of 0.956. Respondents agreed that they were exposed to large risk by maintaining delinquent loan listing with emphasis on growth, loan losses, recoveries and provisioning as supported by a mean of 3.912 with standard deviation of 0.845. McKillop and
Wilson (2011) defined credit risk as the inability to repay loans in accordance with the contractual agreement due to unsafe lending practices.

The study further established that DT-Saccos were exposed to large risk exposures due to quarterly reporting to SASRA on loans classifications as shown by a mean of 3.895 with standard deviation of 1.233. Risk profiling of members before issuance of loans exposed Saccos to risk exposure as supported by a mean of 3.789 with standard deviation of 0.902. Respondents agreed that introduction of new loan products in line with regulatory provisions exposed the Saccos to risk as supported by a mean of 3.686 with standard deviation of 0.911. Magambo, (2014) states that financing of member loans should be supported by member deposits. DT-Saccos play a significant role in financing their members to affordable housing compared to commercial bank mortgages, (Mwaka, 2015).

4.5 Insider Loans

Respondents were asked to indicate the effect of insider loans on the net surplus of deposit taking Saccos by the researcher. A Likert scale of 1-5 was used where: 1-agree strongly, 2- agree, 3-average, 4-disagree and 5- disagree strongly. The findings are indicated in Table 4.5.

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existence of a policy on insider lending</td>
<td>4.234</td>
<td>0.921</td>
</tr>
<tr>
<td>Bi-monthly notification to SASRA upon insider loans issuance</td>
<td>3.865</td>
<td>1.143</td>
</tr>
<tr>
<td>Terms and conditions of the loans to insiders</td>
<td>3.989</td>
<td>0.865</td>
</tr>
<tr>
<td>Compliance on code of conduct regarding insider lending</td>
<td>3.678</td>
<td>1.389</td>
</tr>
</tbody>
</table>

*Source: Survey Data, 2018*

The study established that majority of the respondents agreed that existence of a policy on insider lending influenced the net surplus of deposit taking Saccos as supported by a mean of 4.234 with standard deviation of 0.921. Dingwerth and Eichinger (2010) noted that financial disclosures play a key role to various stakeholders in reinforcing transparency and accountability. Respondents agreed that Bi-monthly notification to SASRA upon insider loans issuance affected the net surplus
of DT-Saccos as supported by a mean of 3.865 with standard deviation of 1.143. Terms and conditions of the loans to insiders affected performance of DT-Saccos by a mean of 3.989 with standard deviation of 0.865. Majority of the respondents agreed that compliance on code of conduct regarding insider lending affected performance of deposit taking Saccos as supported by a mean of 3.678 with standard deviation of 1.389. The strength of any financial institution is determined by the integrity and capacity of board members (Yukl, 2013).

4.6 Audit

Respondents were asked to indicate the effect of audit on the net surplus of DT-Saccos by the researcher. A Likert scale of 1-5 was used where: 1-agree strongly, 2-agree, 3-average, 4-disagree and 5-disagree strongly. The findings are indicated in Table 4.6

Table 4.6: Audit

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formulation of policies in line with the Sacco regulations</td>
<td>3.895</td>
<td>0.859</td>
</tr>
<tr>
<td>Governance rules</td>
<td>3.459</td>
<td>0.595</td>
</tr>
<tr>
<td>Establishment of various board committees for oversight of key functions</td>
<td>3.789</td>
<td>0.795</td>
</tr>
<tr>
<td>and direction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adherence of code of conduct to streamline operations</td>
<td>3.899</td>
<td>0.823</td>
</tr>
<tr>
<td>Quarterly reviews of internal audit function and financial condition of the Sacco</td>
<td>4.295</td>
<td>0.742</td>
</tr>
</tbody>
</table>

Source: Survey Data, 2018

The study found out that majority of the respondents agreed that formulation of policies was in line with the Sacco regulations as supported by a mean 3.895 with standard deviation of 0.859. Respondents moderately agreed that governance rules affected the net surplus of deposit taking Saccos as supported by a mean of 3.459 with standard deviation of 0.595. The study show that majority of the respondents agreed that establishment of various board committees for oversight of key functions and direction influenced net surplus of deposit taking Saccos as supported by a mean of 3.789 with standard deviation of 0.795. This is supported by (Ademba, 2012) who states that
composition of the committee should have three members with at least one having accounting or finance background.

The study further established that majority of the respondents agreed that adherence of code of conduct to streamline operations influenced net surplus of DT-Saccos as supported by a mean 3.899 with standard deviation of 0.823. Majority of the respondents agreed that quarterly reviews of internal audit function and financial condition of the Sacco influenced net surplus of DT-Saccos as supported by a mean of 4.295 with standard deviation of 0.742. This agrees with (Stewart and Subramaniam, 2010) who states that the modern practice of establishment and recognition of internal audit as a function of the board sought to offer quality assurance reviews on the performance of management.

4.7 Financial Performance

Respondents were asked to indicate the financial performance of their DT-Saccos on a scale of 1-5 where: 1-agree strongly, 2-agree, 3-average, 4-disagree and 5-disagree strongly. The findings are indicated in Table 4.4.

Table 4.7: Financial Performance

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The earnings capacity of the SACCOs have improved</td>
<td>3.979</td>
<td>1.225</td>
</tr>
<tr>
<td>The percentage of targets set was met</td>
<td>4.211</td>
<td>0.998</td>
</tr>
<tr>
<td>The level of customer satisfaction was high</td>
<td>3.894</td>
<td>0.484</td>
</tr>
<tr>
<td>The Saccos have being experiencing financial surplus in past 5 years</td>
<td>4.012</td>
<td>0.998</td>
</tr>
<tr>
<td>The SACCOs have increased their investments</td>
<td>3.987</td>
<td>1.178</td>
</tr>
</tbody>
</table>

Source: Survey Data, 2018

The study found out that majority of the respondents agreed that the earnings capacity of the DT-Sacco’s had improved as supported by a mean of 3.979 with standard deviation of 1.225. Respondents agreed that the percentage of targets set was met as supported by a mean of 4.211 with standard deviation of 0.998. The study established that majority of the respondents agreed that the level of customer satisfaction was high as supported by the mean of 3.894 with standard
deviation of 0.484. Respondents agreed that the DT-Saccos had been experiencing financial surplus in the past 5 years as supported by a mean of 4.012 with standard deviation of 0.998. Respondents agreed that the DT-Sacco’s had increased their investments as supported by a mean of 3.987 with standard deviation of 1.178. Stewart and Subramaniam (2010) states that the modern practice of establishment and recognition of internal audit as a function of the board sought to offer quality assurance reviews on the performance of management.

4.8 Regression Analysis

The researcher conducted regression analysis to establish the extent of corporate governance disclosure requirement on the financial performance of the DT-Saccos in Kenya. The findings of Model Summary, ANOVA and Regression Coefficient are indicated in subsequent sections.

4.9.1 Model Summary

The findings for coefficient of correlation and coefficient of adjusted determination are indicated in Table 4.8.

Table 4.8: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.825a</td>
<td>.680</td>
<td>.672</td>
<td>1.57292</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Capital Limits, Large Risk Exposures, Insider Loans, Audit Issues

Source: Survey Data, 2018

From the findings, coefficient of correlation was 0.825 an indication of strong positive correlation between the study variables. Coefficient of adjusted determination $R^2$ was 0.672 which translates to 67.2%. This means that 67.2% variations of dependent variables can be traced by the independent variables. The residual of 32.8% can be attributed to other factors beyond the scope of the current study.
4.9.2 ANOVA

The study conducted an ANOVA at 95% confidence level. The finding of $F_{\text{Calculated}}$ and $F_{\text{Critical}}$ are indicated in Table 4.9.

Table 4.9: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>$F$</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>542.369</td>
<td>4</td>
<td>135.592</td>
<td>31.394</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>254.830</td>
<td>59</td>
<td>4.319</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>797.199</td>
<td>63</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial Performance  
b. Predictors: (Constant), Capital Limits, Large Risk Exposures, Insider Loans, Audit Issues

Source: Survey Data, 2018

From the findings, Table 4.9 shows that $F_{\text{Calculated}}$ was 57.995 and $F_{\text{Critical}}$ was 2.5279. This indicates that $F_{\text{Calculated}} > F_{\text{Critical}}$ therefore, the overall regression model significantly influence the study. The p value $p = 0.00 < 0.05$ an indication that at least one variable significantly influenced financial performance of deposit taking SACCOs.

4.9.3 Coefficients of Regressions

The following coefficients were generated while determining the individual factor influencing financial performance of DT-Sacco’s. The findings are as indicated in the Table 4.10.

Table 4.10: Coefficients of Regressions

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>3.439</td>
<td>0.246</td>
<td>13.979</td>
<td>.031</td>
</tr>
<tr>
<td>Capital Limit</td>
<td>.698</td>
<td>.058</td>
<td>.206</td>
<td>12.034</td>
</tr>
<tr>
<td>Large Risk Exposure</td>
<td>.534</td>
<td>.086</td>
<td>.487</td>
<td>6.209</td>
</tr>
<tr>
<td>Insider Loan</td>
<td>.283</td>
<td>.064</td>
<td>.170</td>
<td>4.422</td>
</tr>
<tr>
<td>Audit Issues</td>
<td>.819</td>
<td>.082</td>
<td>.091</td>
<td>9.988</td>
</tr>
</tbody>
</table>
a. Dependent Variable: Financial Performance

Source: Survey Data, 2018

The resultant equation becomes;

\[ Y = 3.439 + 0.698 X_1 + 0.534 X_2 + 0.283 X_3 + 0.819 X_4 \]

Where: Y = Profits of DT-Sacco

\[ X_1 = \text{Capital Limits}, \]
\[ X_2 = \text{Large Risk Exposures}, \]
\[ X_3 = \text{Insider Loans}, \]
\[ X_4 = \text{Audit Issues} \]

From the findings, when all factors (capital limits, large risk exposures, insider loans and audit issues) were held constant, financial performance of DT-Sacco’s in Kenya would be at 3.439. A unit increase in capital limits when holding all the other variables constant would lead to 0.698 increases in financial performance. A unit increase in large risk exposures when holding all the other variables constant would lead to 0.534 increases in financial performance. A unit increase in insider loans when holding all the other variables constant would lead to 0.283 increases in financial performance. A unit increase in audit issues when holding all the other variables constant would lead to 0.819 increases in financial performance.

The study established that capital limits had (\( \beta = 0.206, \ t = 12.034 > 1.96 \) and \( p = 0.000 < 0.05 \)) an indication that the variable significantly influenced financial performance of DT-Sacco’s in Kenya. This is supported by (Vianney, 2013) who states that the higher minimum capital requirement could help to mitigate moral hazard behavior among shareholders. Similarly, (Musyoka, 2017) states that members play an important role in capital provision to their business being both owners and customers.
The study found out that large risk exposures had ($\beta=0.487$, $t=6.209>1.96$ and $p=0.000<0.05$) an indication that the variable significantly influenced financial performance of DT-Sacco’s in Kenya. This agrees with (Magambo, 2014) who states that financing of member loans should be supported by member deposits. DT-Saccos play a significant role in financing their members to affordable housing compared to commercial bank mortgages (Mwaka, 2015).

The study pointed out that insider loans had had ($\beta=0.170$, $t=4.422>1.96$ and $p=0.000<0.05$) an indication that the variable significantly influenced financial performance of DT-Sacco’s in Kenya. This is supported by (Dingwerth and Eichinger, 2010) who noted that financial disclosures play a key role to various stakeholders in reinforcing transparency and accountability. Similarly, (Yukl, 2013) states that the strength of any financial institution is determined by the integrity and capacity of board members.

The study further established that audit issues had ($\beta=0.191$, $t=9.988>1.96$ and $p=0.000<0.05$) an indication that the variable significantly influenced financial performance of DT-Sacco’s in Kenya. This is supported by (Ademba, 2012) who states that composition of the committee should have three members with at least one having accounting or finance background. Similarly, (Stewart and Subramaniam, 2010) states that the modern practice of establishment and recognition of internal audit as a function of the board sought to offer quality assurance reviews on the performance of management.
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 introduction

This chapter presents the summary of the findings as deduced in chapter four. Conclusion and recommendations are drawn as per the objectives. Suggestions for further studies are also given.

5.2 Summary of the Findings

The main purpose of the study was to determine the effect of disclosure requirements on financial performance of deposit taking SACCOS in Nairobi County. The study was guided by the following specific objectives; to determine the level of disclosure requirement on members holding more than prescribed limits of capital and financial shows of DT-Sacco’s in Nairobi County. To examine the level of disclosure required on large risk exposures and financial performance of DT-Sacco’s in Nairobi County. To establish the level of disclosure requirement on insider lending and financial performance of DT-Sacco’s in Nairobi County. To establish the level of disclosure on audit-related issues and financial performance of DT-Sacco’s in Nairobi County.

The study adopted descriptive survey study design to establish the effect of disclosure requirements on financial performance. The study targeted 41 licensed DT-Sacco’s licensed by SASRA. Headquartered within it. The study relied on primary data collected by use of structured questionnaires. Primary data was collected through the assistance of a research assistant. Analysis of the data was accomplished through descriptive and inferential statistics. The findings of regression analysis established that the overall regression model was sufficient for the study.

5.2.1 Capital Requirements

The study showed that majority of the respondents agreed that external borrowing above 25% of total assets affected DT-Sacco financial performance. Majority of the respondents agreed that existence of a dividend policy protected DT-Sacco capital. Majority of the respondents agreed that total number of the members affected the financial shows of DT Sacco’s. Majority of the respondents agreed that strict adherence to capital requirements facilitated expansion. Majority of the respondents agreed that the Capital structure affected the financial performance of DT-Sacco’s.
Majority of the respondents moderately agreed that financial disclosures raised confidence and trust in DT-Sacco’s.

5.2.2 Large Risk Exposures

The study established that majority of the respondents agreed that they were exposed to large risk by maintaining delinquent loan listing with emphasis on growth, loan losses, recoveries and provisioning. Majority of the respondents agreed that DT-Sacco’s were exposed to large risk exposures due to quarterly reporting to SASRA on loans classifications. Risk profiling of members before issuance of loans exposed DT-Saccos to risk exposure. Respondents agreed that introduction of new loan products in line with regulatory provisions exposed the DT-Saccos to risk. Majority of the respondents agreed that they were exposed to large risk exposures by having a credit policy that was consistent with the Sacco regulations.

5.2.3 Insider Loans

The found out that majority of the respondents agreed that existence of a policy on insider lending influenced the net surplus of DT-Saccos. Terms and conditions of the loans to insiders affected performance of DT-Saccos. Respondents agreed that Bi-monthly notification to SASRA upon insider loans issuance affected the net surplus of DT-Saccos. Majority of the respondents agreed that compliance on code of conduct regarding insider lending affected performance of DT-Saccos.

5.2.4 Audit

The study further found out that majority of the respondents agreed that quarterly reviews of internal audit function and financial condition of the Sacco influenced net surplus of DT-Saccos. Majority of the respondents agreed that adherence of code of conduct to streamline operations influenced net surplus of DT=Saccos. Majority of the respondents agreed that formulation of policies was in line with the Sacco regulations. Majority of the respondents agreed that establishment of various board committees for oversight of key functions and direction influenced net surplus of DT-Saccos. Respondents moderately agreed that governance rules affected the net surplus of DT-Saccos.
5.3 Conclusion

The study concludes that capital requirements positively influenced performance of DT- Sacco’s in Kenya. External borrowing above 25% of total assets affected DT-Sacco financial performance. Existence of a dividend policy protected DT-Sacco capital. The total number of the members on a Sacco affected the financial shows of DT Sacco. Strict adherence to capital requirements facilitated expansion in the DT-Sacco’s. Capital structure affected the financial performance of DT-Sacco’s. Financial disclosures raised confidence and trust in DT- Sacco’s.

The study concludes that large risk exposures significantly influenced financial performance of DT-Sacco’s. DT-Sacco’s was exposed to large risk by maintaining delinquent loan listing with emphasis on growth, loan losses, recoveries and provisioning. DT-Sacco’s were exposed to large risk exposures due to quarterly reporting to SASRA on loans classifications. Risk profiling of members before issuance of loans exposed DT-Sacco’s to risk exposure. Introduction of new loan products in line with regulatory provisions exposed the DT-Sacco’s to risk. DT-Sacco’s were exposed to large risk exposures by having a credit policy that was consistent with the Sacco regulations.

The study concludes that insider loans positively influenced financial performance of DT-Sacco’s. Existence of a policy on insider lending influenced the net surplus of DT-Saccos. Terms and conditions of the loans to insiders affected performance of DT-Saccos. Bi-monthly notification to SASRA upon insider loans issuance affected the net surplus of DT-Saccos. Compliance on code of conduct regarding insider lending affected financial performance of DT-Saccos.

The study further concludes that audit significantly influenced financial performance of DT-Sacco’s. Quarterly reviews of internal audit function and financial condition of the Sacco influenced net surplus of deposit taking Saccos. Adherence of code of conduct to streamline operations influenced net surplus of deposit taking Saccos. Formulation of policies was in line with the Sacco regulations. Establishment of various board committees for oversight of key functions and direction influenced net surplus of DT-Saccos. Governance rules affected the net surplus of DT-Saccos.
5.4 Recommendations

The study recommends that external borrowing above 25% of total assets ought to affect DT-Sacco’s financial performance. Existence of a dividend policy ought to protect Sacco capital. The total number of the members on a DT-Sacco ought to affect the financial shows of DT Sacco’s. Strict adherence to capital requirements ought to facilitate expansion in the DT-Sacco’s. Capital structure ought to affect the financial performance of DT-Sacco’s. Financial disclosures ought to raise confidence and trust in DT- Sacco’s.

The study recommends that DT-Sacco’s ought to maintain delinquent loan listing with emphasis on growth, loan losses, recoveries and provisioning to avoid being exposed to large risk. DT-Sacco’s ought to reduce the exposure to large risk due to quarterly reporting to SASRA on loans classifications. Risk profiling of members before issuance of loans ought to expose DT-Saccos to large risk. Introduction of new loan products in line with regulatory provisions ought not to expose the DT-Sacco’s to risk. DT-Sacco’s ought not to be exposed to large risk by having a credit policy that is consistent with the Sacco regulations.

The study recommends that existence of a policy on insider lending ought to positively influence the net surplus of DT-Saccos. Terms and conditions of the loans to insiders ought not to affect performance of DT-Sacco’s. Bi-monthly notification to SASRA upon insider loans issuance ought to affect the net surplus of DT-Saccos. Compliance on code of conduct regarding insider lending ought to affect performance of DT-Saccos.

The study further recommends that quarterly reviews of internal audit function and financial condition of the DT-Sacco ought to influence net surplus of DT-Saccos. Adherence of code of conduct to streamline operations ought to influence net surplus of DT-Saccos. Formulation of policies ought to be in line with the DT- Sacco regulations. Establishment of DT-Sacco various board committees for oversight of key functions and direction ought to positively influence net surplus of DT-Saccos. Governance rules ought to positively affect the net surplus of DT-Saccos.
5.5 Recommendations for Further Studies

The current study focused on the extent of corporate governance disclosure requirement on the financial performance of the DT-Saccos in Kenya, future scholars ought to focus on similar studies on individual DT-Saccos. The current study relied on primary data that was collected by structured questionnaires which limited the study, future scholars ought to carry out similar studies by use of primary and secondary data for precise results. The current study had a coefficient of adjusted determination $R^2$ of 0.672 which translates to 67.2%, this gives a residual of 32.8% which can be attributed to other factors beyond the scope of the current study.
REFERENCES


Sifa, C.B. (2012). Role of cooperatives in agricultural development and food security in Africa. (Publication of the ATA agricultural Cooperatives Sector Development Strategy 2012-


APPENDICES

APPENDIX 1: INTRODUCTION LETTER

KENYATTA UNIVERSITY

TO WHOM IT MAY CONCERN

Dear Sir/Madam

SUBJECT: INTRODUCTION LETTER

Francis Mugoto Mwangi of registration number D53/CTY/PT/2012 is a Master’s student in our School of Business Strategic Management option at Kenyatta University. In partial fulfillment of the course, he is conducting a study entitled Sasra Disclosure requirements and financial performance of deposit taking Saccos in Kenya.

Your Sacco has been chosen in the study. Data collected will be used for academic purposes only and will be treated with utmost confidentiality. Assistance offered to him will be of utmost importance. We look forward to cordial working relationship and positive response from your office.
APPENDIX 2: QUESTIONNAIRE

I am Francis Mugoto Mwangi, a Masters student at Kenyatta University researching about SASRA regulations and financial performance. The proposal is partial fulfillment towards completion of this course. This information that will be provided here is of great importance and is to be treated utmost confidentiality.

INSTRUCTIONS

1. Do not provide your name.

2. All questions are to be filled honestly and accurately.

3. Kindly respond on the provided appropriate gaps.

SECTION A: General Information

1. Provide the title in the Sacco Society

   Board member (   )

   Chairman (   )

   CEO (   )

   Other (   )

2. Primary membership

   Teachers based (   )

   Government based (   )

   Private Institutions (   )

   Community based (   )
1. Name of the Sacco Society ___________________________________________________________________

2. Categories Primary membership forming the Cooperative

3. Number of years the Sacco has operated Front Office Service Activity

   Below 5 years (   )

   5 years to 8 years (   )

   9 years to 11 years (   )

   More than 11 years (   )

SECTION B: Capital Requirements

6. By use of a tick (✓) indicate how the following disclosure requirements affect the net surplus of deposit taking Saccos.

(1- Agree strongly; 2- Agree; 3-Average; 4-Disagree; 5- Disagree strongly)

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of the Members affects the financial shows of a Sacco</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External borrowings above 25% of total assets affects Sacco financial performance</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>The Capital structure affects the financial performance of a Sacco</td>
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<td></td>
</tr>
<tr>
<td>Financial disclosures raises confidence and trust in the Saccos</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Existence of a Dividend Policy protects Sacco capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strict adherence to capital requirements facilitates expansion</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
SECTION C: Large Risk Exposures

7. By use of a tick (√) indicate how the following disclosure requirements affect the net surplus of deposit taking Saccos.

(1-Agree strongly; 2- Agree; 3-Average; 4-Disagree; 5- Disagree strongly)

<table>
<thead>
<tr>
<th>Requirement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Having a credit policy that is consistent with the Sacco regulations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintaining delinquent loan listing with emphasis on growth, loan losses, recoveries and provisioning</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quarterly reporting to SASRA on loans classifications</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk profiling of members before issuance of loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Introduction of new loan products in line with regulatory provisions</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

SECTION D: Insider Loans

8. By use of a tick (√) indicate how the following disclosure requirements improve financial performance of deposit taking Saccos.

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existence of a policy on insider lending</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bi-monthly notification to SASRA upon insider loans issuance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Terms and conditions of the loans to insiders</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compliance on code of conduct regarding insider lending</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SECTION E: Audit

9. By use of a tick (✓) indicate how the following disclosure requirements affect the net surplus of deposit taking Saccos.

(1-Agree strongly; 2- Agree; 3-Average; 4-Disagree; 5- Disagree strongly)

<table>
<thead>
<tr>
<th>Disclosure Requirement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formulation of policies in line with the Sacco regulations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Governance rules</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Establishment of various board committees for oversight of key functions and direction</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adherence of code of conduct to streamline operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quarterly reviews of internal audit function and financial condition of the Sacco</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

SECTION F: Financial Performance

10. By use of a tick (√) indicate the financial performance of the Saccos in regard to the following statements on a scale of 1-5

(1-Agree strongly; 2- Agree; 3-Average; 4-Disagree; 5- Disagree strongly)

<table>
<thead>
<tr>
<th>Financial Performance Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>The earnings capacity of the Saccos have improved</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>The percentage of targets set was met</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The level of customer satisfaction was high</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>The Saccos have been experiencing financial surplus in the past 5 years</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Saccos have increased their investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
APPENDIX 3: DEPOSIT TAKING SACCO’S IN NAIROBI COUNTY

1. Afya Sacco Society Limited

2. Airports Sacco Society Limited

3. Ardhi Sacco Society Limited

4. Asili Sacco Society Limited

5. Chai Sacco Society Limited

6. Chuna Sacco Society Limited

7. Comoco Sacco Society Limited

8. Elimu Sacco Society Limited

9. Harambee Sacco Society Limited

10. Hazina Sacco Society Limited

11. Imarisha Sacco Society Limited

12. Jamii Sacco Society Limited

13. Kenpipe Sacco Society Limited

14. Kenversity Sacco Society Limited

15. Kenya Bankers Sacco Society Limited


17. Kingdom Sacco Society Limited
18. Magereza Sacco Society Limited
19. Maisha Bora Sacco Society Limited
20. Miliki Sacco Society Limited
21. Mwalimu Sacco Society Limited
22. Mwito Sacco Society Limited
23. Nacico Sacco Society Limited
24. Nassefu Sacco Society Limited
25. Nation Sacco Society Limited
26. Nyati Sacco Society Limited
27. Safaricom Sacco Society Limited
28. Sheria Sacco Society Limited
29. Shirika Sacco Society Limited
30. Shoppers Sacco Society Limited
31. Stima Sacco Society Limited
32. Telepost Sacco Society Limited
33. Tembo Sacco Society Limited
34. Ufanisi Sacco Society Limited
35. Ukristo na Ufanisi Sacco Society Limited
36. Ukulima Sacco Society Limited
37. Unaitas Sacco Society Limited

38. United Nations Sacco Society Limited

39. Wanaanga Sacco Society Limited

40. Wanandege Sacco Society Limited

41. Waumini Sacco Society Limited