

The Effect of Corporate Governance Practices on Performance of Deposit Taking Savings and Credit Cooperative Societies in Kiambu County, Kenya

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ABSTRACT

Corporate governance is regarded as the key foundation upon which organizations are more productive, better managed and controlled. Performance has a link to good corporate governance for the sustainable organizational success. This project narrowed down specifically to the factor of corporate governance to determine the practice of corporate governance in SACCOs in Kiambu County, Kenya. The researcher used a descriptive survey design in soliciting information on the practice of corporate governance in SACCOs in Kiambu County, Kenya. The research also made use of both secondary and primary data. Secondary data was collected from statistical data available from the SASRA records and those from the Ministry of Cooperatives. Primary data was obtained by use of a closed ended questionnaire administered on senior managers of the sampled SACCOs. The target population was 8 deposit taking SACCOs and a total population of 200 SACCO managers in Kiambu County, Kenya. Each SACCO had a different number of respondents depending on its size and the number of senior managers in it. Data analysis was done using Statistical Package for the Social Sciences (SPSS) to generate quantitative reports which is presented in this project in the form of tabulations, percentages and descriptive statistics and inferential data computed using a regression equation. The findings of this project are that the practices of corporate governance have a direct effect on the overall performance of SACCOs in Kiambu County, Kenya contributing to 70% of the factors affecting performance. Recommendations put forward from the findings of this project is that there is need to research on the effect of corporate governance on performance of other institutions such as commercial banks, microfinance institutions and small and medium enterprises. The findings of the research include the finding that majority of those in senior positions in the SAACOs sampled are men at 64% of the sample size while women are at 36%. Another finding of the research is that majority of those in senior management positions are persons aged between 40 and 59 years. The research further brought out the fact that majority of the respondents comprising of 39% had held their current position for a period of between 4 and 6 years while 42% of the respondents had worked in the SACCO for a period of between 10 and 12 years. One of the recommendations from the research is on the need to have increased disclosure of information to the shareholders. A further recommendation was the need to train the board of governance often on corporate governance so as to better equip them to uphold the practice in their respective SAACOs. A final recommendation is the need for further research by other scholars.

Key Words: Corporate Governance Practices, Equitable Treatment, Transparency, Accountability, Deposit Taking Savings and Credit Cooperative Societies

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1. Introduction

The English Oxford Dictionary defines performance as the measure of the extent to which an organization is profitable especially in relation to investments made. It refers to a business entity yielding profitable returns for the shareholders and by extension benefitting not only them but other stakeholders as well. Financial performance is no doubt the most key measure of the success or failure of any business and SACCOs are no exception. Performance has a direct link with good corporate governance for sustainable organizational success (Attiya & Iqbal, 2010). Black, Zimmerman, Brown & Biela (2013), also emphasize that companies with better corporate governance practices have better performance than companies with poor corporate governance. A sound corporate governance structure therefore not only provides useful information to investors and creditors to reduce information asymmetry but also aids the company to improve its overall performance. It also boosts the integrity of corporations, financial institutions and markets which is an essential ingredient in maintaining confidence in the economic activities and protecting the interests of stakeholders.

Corporate failures and scandals have called into question the veracity of published financial information and have compelled governments to take policy initiatives of a legal or regulatory kind. Examples are cited from the US (Enron, World Com and Tyco), the UK (the collapse of Maxwell publishing group), Germany (the cases of Holtzman, Berliner Bank, and HIH), Korea (the declined financial performance of banks such as Industrial Bank of Korea in 2011) Australia (Ansett Airlines and One Tel), France (Credit Lyonnais and Vivendi), and Switzerland (Swissair). Since the 1930s, organizational scholars have developed theoretical frameworks related to corporate governance along such dimensions as transaction costs, and the behavior of agents, occupational communities, resource dependence, and stakeholder management (Demirag, 2005). The evolution of corporate governance started to attract attention in 1997 when the Jordanian Government began implementing a privatization program under the guidance of the World Bank and the International Monetary Fund. Jordan as one of the countries ascribing to that school of thought realized the increasing importance of corporate governance if Jordanian organizations were to prosper in a competitive global marketplace. Today's economic and political climate in the Middle East region makes it more important than ever for Jordanian family-owned businesses to put into practice effective planning and corporate governance frameworks so as to guarantee the success of their businesses (Al-Smadi, 2009).

Corporate governance is regarded as the key foundation for organizations to be more productive, increase efficiency, effectiveness and be well managed and controlled. In addition, the rate of collapse of institutions and the failure of firms across the world has also prompted researchers to study the ways by which organizations are governed and controlled (Lee, 2008). Dozie, (2011) believes that corporate governance is characterized by transparency, accountability, probity and the protection of stakeholders' rights. Oyediran, (2011) further observes that corporate governance refers to the manner in which the power of a corporation is exercised in the management of its total portfolio of socio and economic resources with the aim of increasing shareholders' value and safeguarding the interest of other stakeholders in the context of its corporate mission. Major contributions of corporate governance to the company include enhancing performance and fraud prevention (Yeh, Lee & Ko 2014). Cheffins, (2011) said corporate governance first came into vogue in the 1970s in the United States. With the collapse of Enron Corporation and Arthur Andersen LLP in the United States of America (US) and similar disasters in the United Kingdom (UK) such as Marconi Corporation PLC, corporate governance has become increasingly important. As a result, international organizations have shown concerns about governance issues. The international monetary fund has demanded that governance improvements be included in its debt relief program (Khanchel, 2007). In 2012, the Organization of Economic and Cooperation

Development (OECD) issued its influential OECD principle of corporate governance, intended to assist member and non-member countries in their efforts to evaluate and improve the legal, institutional and regulatory framework for better corporate governance (Nestor & Thompson 2001).

The four core corporate governance principles were the main focus for this project. These are equitable treatment of shareholders, transparency, and discharge of responsibility and accountability of the board.

Equitable treatment of shareholders refers to fairness and equal treatment of all shareholders including the minority. In addition to shareholders, there should also be fairness in the treatment of all stakeholders including employees, suppliers and even the community in which the SACCO is located. The fairer the entity appears to stakeholders, the more likely it is that it can survive the pressure of interested parties. Transparency is a principle of corporate governance that means openness and willingness to provide clear information to shareholders and other stakeholders. It entails openness and willingness to disclose financial performance figures which are truthful and accurate as well as the business activities and what it plans to do in the future and any risks involved in its business strategies. This disclosure must also be timely and relevant for it to be useful to the stakeholders. Discharge of responsibility is a principle relating to those authorized to act on behalf of the company. This includes the Board of Directors as well as the management. The Board of Directors is responsible for overseeing the management and in so doing, it is required to act in the best interests of the company. The management on the other hand is tasked with overseeing the day to day operations and ensuring efficiency and effectiveness.

Accountability refers to the obligation and responsibility to give an explanation or reason for actions and conduct. Accountability goes hand in hand with responsibility. The Board of Directors is held accountable by the shareholders for the way in which the company carries out its responsibilities. The SACCO sub sector is in present day part of the larger cooperative movement in Kenya. There are two broad categories of cooperatives: Financial co-operatives (Savings and Credit Co-operative Societies-SACCOs) and Non-financial co-operatives (includes farm produce and other commodities marketing cooperatives, housing, transport and investment cooperatives). In the recent past, SACCOs have witnessed faster growth than other cooperatives. The establishment of SACCO Societies Act 2008 places the licensing, supervision and regulation of deposit taking under the Sacco Societies Regulatory Authority (SASRA). Through this legal framework, regulations have been introduced to guide SACCO's growth and development (Barrales, 2012). The Cooperative Alliance of Kenya Limited (CAK) was also registered in 2009 as the national apex organization for the movement under the Cooperative Societies Act (Ministry of Industry, Trade & Cooperatives, 2010).

This sub-sector comprises of both deposit taking and non-deposit taking SACCOs. Deposits taking SACCOs are licensed and regulated by SASRA while non-deposit taking SACCOs are supervised by the Commissioner for Co-operatives. SASRA licenses SACCOs that have been duly registered under the Cooperative Societies Act CAP 490 (SASRA, 2012). Kenya is applauded for having the most vibrant and dynamic SACCO sector in Africa. Kenya's SACCOs have been recognized internationally and admitted to the Group 10 of the most developed movements globally. The other top countries in this ranking are the United States, Canada, Mexico, Brazil, Australia, Poland, Costa Rica, Caribbean Confederation and Ireland. As at 31st December 2012, the total number of deposit taking SACCOs in Kenya was 215 of which 124 had been licensed. The remaining 91 SACCOs were at different levels of compliance with the provisions of the law. As at January 2017, 164 SACCOs had been licensed to carry on the business of deposit taking in the year 2017 while 12 others had restricted licenses due to expire on 30th June 2017 (SASRA, 2017). All deposit taking SACCOs that were in operation prior to establishment of SASRA in 2009 have had to apply to be considered for licensing to undertake deposit

taking business. They are spread across the various counties in the country and are categorized as follows: 87 Government based SACCOs, 74 Farmers based SACCOs, 24 private institutions based SACCOs and 30 Community based SACCOs (SASRA, 2012).

SACCOs operating in Kenya range from government based SACCOs to professional based such as those by teachers and agricultural and livestock based which are predominantly in the rural areas. Metropolitan counties such as Kiambu extend between the Nairobi urban and Kiambu rural areas, thus, the county harbors several categories of SACCOs. Kenya's cooperative movement encourages SACCO autonomy and independence although the Ministry of Cooperative Development and Management plays some regulative role as one way of checking SACCO's practices of corporate governance which is seen to directly impact on performance. In Kiambu County, there are 62 registered savings and credit cooperative societies and despite the government's efforts to register, promote and develop these SACCOs for the purpose of uplifting the standards of living of the residents, little seems to have been achieved as the SACCOs have not fully met the member's needs to their satisfaction and expectations. They have a long string of pending loans not paid. Some SACCOs pay little or no dividends /interests on member's savings. Others have low multiplying factor, a number of them have not computerized their services for the purposes of efficiency and accuracy in their delivery of services (Mwaura, 2005).

2. Statement of the Problem

According to Ogoye (2012), the increasing number of corporate failures and financial scandals has been caused by incompetence, fraud and abuse of office by the agents running corporations. In Kenya, cases where managers and directors have been accused of poor corporate governance resulting to corporate scandals include the placement of Uchumi Supermarkets under receivership due to mismanagement, the near collapses of Unga Group, National Bank of Kenya and CMC Motors (Madiavale, 2013). SACCOs as financial institutions offer similar products to banks and most of them opened shop years before some commercial banks such as Family Bank which has only been in operation since 1984 yet their dismal performance cannot be compared to that of commercial banks and other financial institutions (Gathurithu, 2011). This poor performance may be attributed to poor utilization of surplus and reserves, mismanagement of funds and poor dividend and investing decisions as well as disregard of principles of corporate governance. Andelic, (2010) studied the Impact of Governance Strategies on the Insurance and Reinsurance Market and confirmed that there is a significant relationship between governance and changes in the insurance and reinsurance markets. The insurance companies studied showed significant improvement in overall performance measured in financial terms as a direct outcome of consistent application of governance practices. Awino, (2013) studied the challenges of corporate governance in the reinsurance industry. This research was limited to reinsurance companies as opposed to insurance companies as studied by Andelic.

Both studies focused on one industry of the larger financial sector that includes SACCOs, banks and microfinance institutions. Elser, Hannig & Eschborn (2009) carried out a study in savings mobilization in which they concluded that mobilization of small and micro savings responds to the effective demand of poor people and is a commercially viable source of funds. Increase in savings by the poor is a sign of improved disposable income. From the findings, the researchers identified that increased savings in SACCOs is an indicator of increased disposal income amongst the working class of a country and hence improved living standard. Local studies carried out on economic performance include, Owiti (2007) who did a study on the Relationship Between Stock Market Development and Economic Growth in Kenya and another by Deraso, (2010) who did a study on the Effect of Macroeconomic Factors on Financial Performance of Commercial Banks in Kenya whereas Ruibi, (2012) carried out a study on the Impact of Investment Banking on Economic Growth in Kenya. Unfortunately, no study has been carried out in

Kenya on the relationship between economic performance and income levels of the general population. The above studies have focused on corporate governance in respect to other financial sectors but none has delved into the SACCO business. This study therefore aims to bridge this gap by looking at corporate governance in light of SACCOs as opposed to other financial institutions and more specifically to investigate corporate governance practices in SACCOs in Kiambu County, Kenya.

3. Research Objective

The study investigated the effect of corporate governance practices on performance of SACCOs in Kiambu County, Kenya.

Specific objectives were:

- i) To determine the effect of equitable treatment of shareholders on performance of SACCOs in Kiambu county, Kenya.
- ii) To examine the effect of transparency on performance of SACCOs in Kiambu county, Kenya.
- iii) To evaluate the effect of accountability by the board on performance of SACCOs in Kiambu county, Kenya.

4. Theoretical Review

A theory is a set of statements or principles devised to explain a group of facts or phenomena especially one that has been repeatedly tested or is widely accepted and can be used to make predictions about natural phenomena (Popper, 1963). Theories are analytical tools for understanding, explaining, and making predictions about a given subject matter (Hawking, 1996). A formal theory is syntactic in nature and is only meaningful when given a semantic component by applying it to some content that is, facts and relationships of the actual historical world as it is unfolding (Zima, 2007).

4.1 Stewardship Theory

Stewardship theory is a theory that argues that managers, left on their own, will act as responsible stewards of the assets they control. This theory is an alternative view of agency theory, in which managers are assumed to act in their own self-interests at the expense of shareholders (Davis, Weisburd & Hamilton 1997). Stewardship theory has its roots in the socio-psychological model of human behavior, with the main assumption that manager's behavior is pro-organizational and collectivistic, achieving higher utility by serving an organization than working to satisfy personal goals (Tipuric, 2008). Gay, (2002) on the other hand, looks at stewardship theory as having been derived from the economic model of human behavior which McGregor classified as Theory Y, whose main assumption is that people are inherently motivated to work and perform a good job. In this theory managers are considered good stewards who will act in the best interest of the owners (Donaldson & Davis 1991). According to Smallman, (2004) when the wealth of the shareholders is maximized, the steward's utilities are maximized too, because organizational success will serve most expectations and the stewards will have a clear mission. Stewardship theory sees a strong relationship between managers and the success of the firm, and therefore the stewards protect and maximize shareholder wealth through the organization's performance. A steward who improves performance successfully, satisfies the various stakeholder groups in an organization (Davis, Schoorman & Donaldson, 1997). Where the CEO of an organization also couples up as the chairman of the same organization, the fate of the organization and the power to come up with a strategy becomes the power of an individual (Kumudini, 2011). The stewardship theory however, focuses on structures that facilitate and empower rather than monitor and control (Davis, 1997). Therefore stewardship theory takes a more relaxed view of the separation of the role of the chairman from that of the CEO and supports appointment of one individual for both positions

and a majority of specialist executive directors rather than non-executive directors because they are intrinsically inclined to be responsible for the assets they control (Clarke, 2004).

4.2 Stakeholder Theory

The theory is derived from a combination of two academic disciplines: sociological and organizational (Wheeler, 2003). Stakeholder theorists suggest that all individuals or groups with legitimate interests participating in an enterprise do so in order to obtain benefits giving no priority of one set of interests and benefits over another (Smith, 2003). Therefore managers in an organization have an elaborate network of relationships to serve. Solomon, (2010) in explaining the theoretical basis of stakeholder theory states as follows: “companies are so large, and their impact on society so pervasive, that they should discharge accountability to many more sectors of society than solely their shareholders. Not only are stakeholders affected by companies, but they in turn affect companies in some way”. Freeman, (1984) further argues that the core idea of stakeholder theory is that organizations that manage their stakeholder relationships effectively will survive longer and register better performance than organizations that do not.

In support of the role and in appreciation of every stakeholder in corporate governance Fama, (1980) argues that, “the firm is viewed as a team whose members act from self-interest but realize that their destinies depend to some extent on the survival of the team in its competition with other teams the productivity of each member manifesting a direct effect on the team and on the other members.” Thus, through the team, every manager has stimulants in order to monitor the activities of the other managers, being subordinates or superiors. This is a position further articulated by Cadbury, (2004) who holds the view that a corporation is not formed for the sole purpose of serving the shareholders but to also serve the diverse range of people who have a legitimate concern in the organization’s outcome and performance, and further serve a broad societal purpose. It is on the premise of this theory therefore, that the BOD is called upon to uphold good governance to ensure equitable treatment of all stakeholders.

4.3 Resource Dependence Theory

Resource dependency theory is premised on the fact that dependence on resources increases uncertainty for an organization making it a useful theory in analyzing environmental opportunities and threats. Organizations are therefore constrained by both internal and external pressures (Pfeffer & Salancik, 1978). Smith & Graetz, (2011) further argue that an attempt to avoid or subvert institutional norms and expectations by an organization leads to pressure being exerted by the institutional environment like the government, regulatory institutions and professionals. For an organization to survive in the environment it must possess enough power and influence over environmental and institutional factors to enable it reduce uncertainty and have control over critical resources which are key in determining an organization’s success or failure. It is therefore important that an organization possess the ability to gather, alter and exploit raw materials faster than competitors in order for it to be successful.

Resource dependency theory concentrates on the role of BOD in providing access to resources needed by the firm. Hillman, Canella & Paetzols (2000) argued that resource dependency theory focuses on the role that directors play in providing or securing essential resources to an organization through their linkages to the external environment. Therefore, resource dependence theory is the reason behind the appointment of an independent representative as a way of gaining access in resources critical to the firm’s success. For instance, resource dependence perspectives looks at how board members can provide connections to major sources of finances from both private and public, introduce new technology to the firm and offer the overall strategic direction on the organization (Brown, 2007).

Resource dependency theorists perceive a board of directors as a provider of resources among them provision of legitimacy, advice and counsel as well as links to other organizations (Hillman & Dalziel, 2003). Key among the resources is the board capital which includes the skill set, and experience brought into the organization. The board also provides relational capital which is the network of ties to other firms and external contingencies.

7. Empirical Review

Equitable treatment of all shareholders is a practice that cannot be derogated from corporate governance. Any SACCO or other organization that purports to have in place corporate governance practices must have this practice in place. Equitable treatment of shareholders” is among six key principles of corporate governance recommended by OECD and is considered to be of utmost importance for the protection of all shareholders. This reinforces the idea that “the watchwords of corporate law include not only wealth maximization, but also fairness”. All shareholders, majority or minority, should receive adequate protection from the law. Minority shareholders are those who not only hold a small number of shares but are also non-controlling parties in an organization. Shareholders' rights and the need for their legal protection result from the separation of ownership from control in the modern corporation (Guan, 2005). Equitable treatment of shareholders also requires that minority shareholders be protected from abusive practices by or in the interest of controlling shareholders acting either directly or indirectly. It further calls to ensure that in the event of such occurrences, the minority shareholders have effective means of redress Bohrer, (2007). Equitable treatment of shareholders under corporate governance mechanism requires that shareholders within any series of class carry the same rights. All shareholders should be able to obtain information about the rights attached to all series and classes of shares before they purchase. Any changes in voting rights should be subjected to approval by shareholders of those classes of shares which are affected.

Equitable treatment of shareholders has attracted a wide range of opinion among researchers. The Bohrer, (2007), study on mergers and acquisitions in relation to protecting the rights of shareholders found that financial performance of a firm could be affected by among others, the reason why one was a minority shareholder in the first place. The study highlighted several reasons why investors took minority equity ownership positions in target firms. Among the reasons, he identified the use of minority shareholder position as a foothold to a complete takeover, in order to obtain appropriate technologies, markets or projects in exchange for token capital influence. Corporate governance that focuses on emphasizing and appreciating the role of minority shareholders is likely to impact on a firm’s financial performance. In a study to investigate the impact of minority shareholders on performance of targeted firms, Rahman, (2009), found that firms targeted by the Minority Shareholder Watch Dog Group (MSWG) earned statistically significant higher stock returns than non- targeted firms. The results of various hypotheses tests involving firms’ performance measures showed that MSWG targeted firms experienced significant increase in earnings relative to non-targeted firms in the first and second years of MSWG involvement.

According to Guan, (2005), board independence was viewed as one of corporate governance mechanisms in which board expropriation of minority shareholders wealth could be stopped. In a study on corporate governance and financial performance in relation to minority shareholders, Haat, (2008), found that there was a relationship between proper planning and implementation of certain technique, minority shareholders could effectively preserve their agreed upon corporate governance rights and guard against oppressive measures adopted by majority shareholders who attempt to frustrate the provisions. The OECD (2015) on corporate governance identifies some of the key areas of disclosure; they include financial and operating results, company objectives, major share ownership, remuneration,

related party transactions and risk factors. In a study to establish the importance of transparency on preventing financial fraud in the money market Bhaghat, (2008) noted that when self-interest behavior veers into criminality, true transparency would cast a light on financial malpractice activities and lead to a change in behaviour. The study further noted that increasing transparency would be important to the future success of corporate governance. Transparency was underscored in Bhaghat's study as the only practice that was likely to deter fraud, embezzlement and financial scandals and enhance fostering of efficiency in allocation of investments across companies and countries. The study concluded that rules, regulations, laws, concepts, structures, processes, best practices and most progressive use of technology cannot ensure transparency but can only be exhibited when individuals of integrity do the right thing.

The SASRA Guidelines on Good Governance Practices for Deposit Taking SACCOs, Principle number 16 on Transparency and Disclosure states: The Board should maintain a formal and transparent strategy for engaging its key stakeholders in the decisions and development of the Sacco as a business as a co-operative enterprise. Disclosure and transparency in corporate governance is availing the truth to others (Smith, 2014). According to OECD, (2007) effective governance frameworks should ensure timely and accurate disclosure of all material matters, including financial situation, performance, ownership and governance of the company. The study of corporate governance, particularly transparency and disclosure, as applied in the business field is vital to understanding the free market regime under which international business systems thrive. Disclosure and transparency in the stock market play crucial roles in corporate governance, allowing organizations to publish data on key management practices, such as financial and non-financial statements, CSR activities and audit reports. Shareholders need to know about their capital in the company which is managed by corporate directors and make sure that the directors are leading the company for the benefit of the shareholders' interests. Procedures and strategies for the organization in order to reduce costs to shareholders that result from the failure of management in the performance of its duties are also necessary (Sanders, 2013). Consequently, disclosure has become highly important practice in corporate governance which just as with equitable treatment of shareholders, it too cannot be derogated. Interested parties should be aware of the company's activities in order to determine whether the business is serving their best interest. Disclosure can also reveal faults within the company and conflicts of interests between management and shareholders. In addition, disclosed information can affect the value of the company, the buying and selling of shares and the appointment and exemption of directors. The OECD, (2015) on corporate governance identifies some of the responsibilities of the board to include review of corporate strategy, selecting and compensating management, overseeing major corporate acquisitions and divestitures, and ensuring the integrity of the corporation's accounting and financial reporting systems. Emerging responsibilities discussed include the role of the board of directors in risk management, tax planning and internal audit, recommending board training and evaluation and a recommendation on considering the establishment of specialized board committees in areas such as remuneration, audit and risk management.

Muriithi, (2004) studied the relationship between corporate governance mechanisms and performance of firms quoted on the Nairobi Securities Exchange (NSE) and found that the size and the composition of the board of directors together with the separation of the control from that of the management have the greatest effect on the performance. He emphasized that proper demarcation of the BOD's roles distinct from those of the management is very crucial in upholding corporate governance practices. Failure to do so results in conflict either as a result of overlapping functions or absconding of responsibility by either group. In its report titled Guidelines on Good Governance Practices for Deposit Taking SACCO Societies, SASRA principle number 13 deals with powers and function of the board and states: The

Board of Directors shall exercise all the powers of the SACCO other than those reserved to members in a general meeting by the law and by-laws (i.e. approval of the audited accounts, approval of dividend, election of directors, appointment of auditors etc.) and subject to any limitations contained in any other law, in particular the Cooperatives Societies Act of 2004 and the Sacco Societies Act of 2008 (SASRA Guidelines on Good Governance Practices for Deposit Taking SACCO Societies, 2010). Principle number 14 on the other hand deals with separation of powers: The Board should ensure clarity and appropriate separation in the key leadership role of the chairperson and the CEO. The Chairman is responsible for running the board of the SACCO while the Chief Executive officer has been delegated by the board with responsibility for running the day-to-day business of the SACCO. The true test of good corporate governance is in this aspect where the BOD is required to limit itself to only those powers and duties that are delegated to it. More often than not, the BOD gets involved in the day to day operations of the SACCOs overshadowing the CEO and management. The same board goes a step further to make decisions that should otherwise only be approved at an AGM. Many SACCOs have ended up in huge financial crisis as a result of poor judgment on the part of the BOD. Some of the key responsibilities expected of the BOD include a duty of care, duty to exercise proper judgment, diligence, loyalty, reporting and attendance of board and committee meetings (Sedo, 1986). It is this delicate balance that is lacking in most SACCOs in that the BOD either fails to discharge that which is expected of it or goes ahead to perform that which it ought not to leading to the collapse of the SACCO.

According to Bonn (2004) the board is the management body in a firm responsible for suggesting and implementing major policies, a responsibility that may lead to agency problems between the management and shareholders (Eisenhardt, 1989; Roberts, McNulty, & Stiles, 2005; Shleifer & Vishny, 1997). The board should therefore ensure the integrity of its reports and they should be prepared annually and should convey adequate information regarding the SACCO's financial performance. Integrated reporting enables stakeholders to better assess the value of a company. The board should furthermore ensure that the company complies with applicable laws and that it also considers adherence to non-binding rules, codes and standards (Ramani, 2009). To account is to give a description or depiction of something that happens or happened. Accountability would therefore be taken to literally mean the process of giving an account of an event. The tricky part about it is that for the people to whom the account is being given, the accuracy and probity of the story is very important. To achieve this, accountability usually moves hand in hand with seven other principles. These include: delegation, responsibility, disclosure, autonomy, authority, power and legitimacy (Chansa, 2006). In its report titled Guidelines on Good Governance Practices for Deposit Taking SACCO Societies, principle number 17 deals with accountability of the BOD to members and stakeholders and states: In accepting appointments, directors should recognize that they become subject to immense pressure imposed by the law and regulations as well as the high expectations of members. Henceforth they may be held liable for all loss or damage that may arise from the performance of their duties as directors (SASRA, June 2015). In an earlier report, SASRA emphasizes the scope of accountability in financial cooperatives. It reiterates that accountability refers to a situation where the directors are answerable for the consequences of their actions and are held solely liable for all acts arising from performance of their duties (SASRA, 2012). In 2005, the then managing director of Kenya Union of Savings and Credit Co-Operatives (KUSCCO) highlighted the main issue with corporate governance as being the lack of adequately defined by-laws of the cooperatives (Mudibo, 2005).

Muriithi, (2004) studied the relationship between corporate governance mechanisms and performance of firms quoted on the Nairobi Securities Exchange (NSE). His area of focus was on the need to define the roles of the BOD independent from those of management for accountability purposes. Ngugi, (2007) did

a study on the relationship between corporate governance structures and the performance of insurance companies in Kenya and found that directors are more familiar with the firm's activities and they can act as monitors of top management. The board should serve as the watch dog of the management but in turn the shareholders too should watch the activities of the board. In that sense, all key players remain accountable and are therefore less likely to act beyond their authorized mandates. It is imperative that the board as the overall organ of the SACCO and to whom the management and staff members are accountable is also held to account. One such way is through annual general meetings (AGMs). This provides a forum for shareholders who are the shareholders of the SACCO to hold the board to account for performance of the institution. Many SACCOs have declined in their performance due to lack of this corporate governance element. Where a SACCO fails to hold AGMs where the BOD can have a chance to account, then misappropriations result. It is not uncommon to hear of SACCO AGMs that were cut short as a result of physical confrontations that erupted amongst members or where the BOD was jeered and assaulted for failure to give satisfactory explanations to shareholders. The board is not only accountable to the shareholders but to the society as well. Corporate governance calls for an account of how the institution such as a SACCO has given back to society (Ribstein, 2005). Through accountability, other facets of corporate governance are manifested such as transparency and disclosure, fulfilment of responsibility and equitable treatment of all shareholders.

8. Conceptual Framework

Corporate Governance

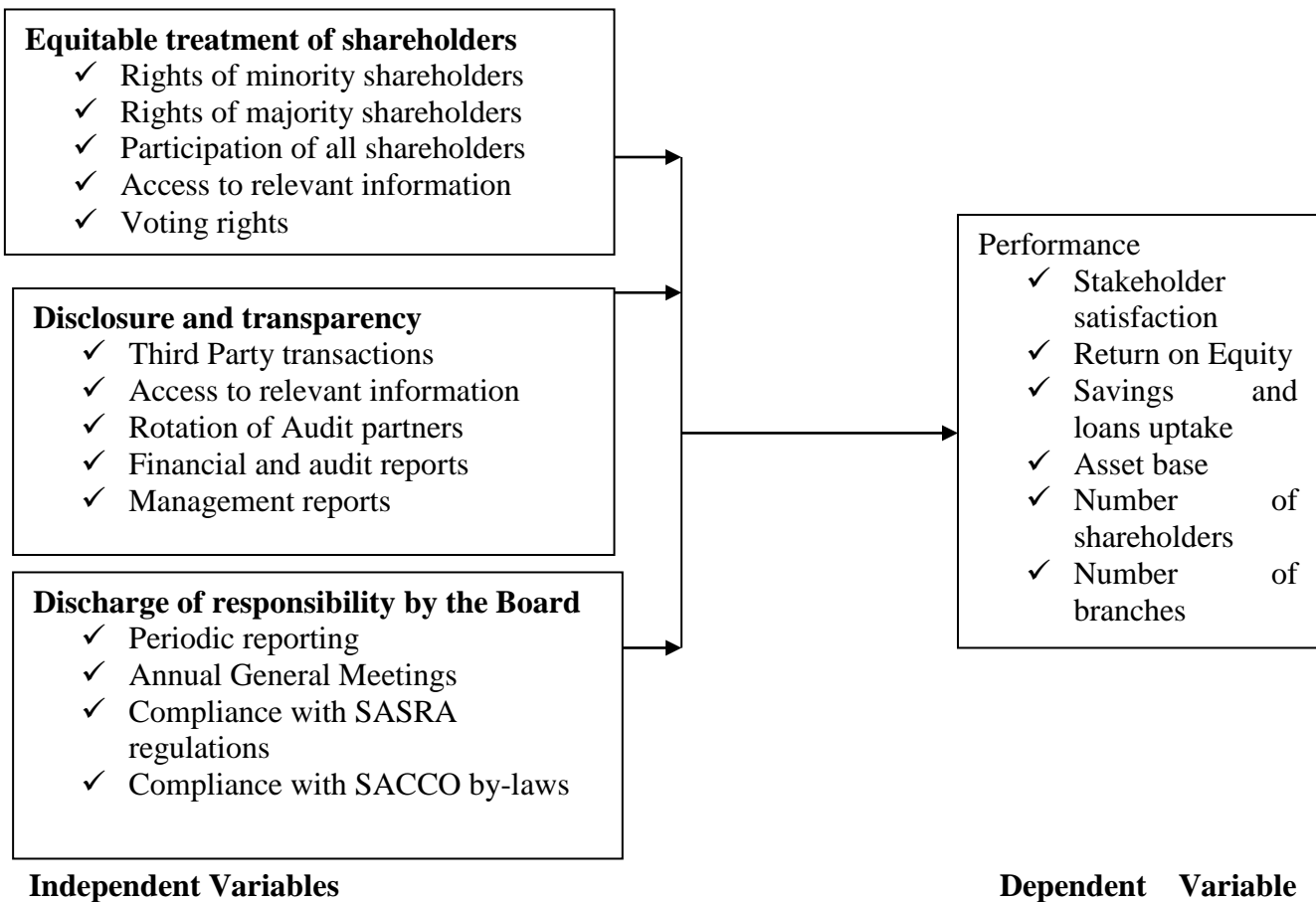


Figure 1 Conceptual Framework

Source: Researcher (2020)

9. Research Methodology

The study adopted a descriptive survey design in soliciting information in investigating corporate governance practices in SACCOs in Kiambu County, Kenya. Descriptive survey design was used since it provides insights into the research problem by describing the variables of interest. It was used for defining, estimating, predicting and examining associative relationships. This helped in providing useful and accurate information to answer the questions based on who, what, when, and how (Kombo & Tromp, 2006). The descriptive research seeks to depict what already exists in a group or population and further seeks to measure the effect of a variable in order to explore the various characteristics from the selected samples. The target population was made up of 8 deposit taking SACCOs in Kiambu County. The 8 deposit taking SACCOs were selected from the SASRA list of SACCO Societies licensed to undertake deposit taking business for the financial year ending December 2017. This SASRA list comprises of 164 SACCOs in the country that are the only ones licensed to engage in deposit taking activities. Of the 164 SACCOs listed, 15 are in Kiambu County but not all were under study. The study only focused on the 8 SACCOs that are deposit taking, are in Kiambu County for ease of data collection (SASRA, 2017).

The respondents from each of these SACCOs were the senior managers who are members of staff with vast knowledge and skill in a section gained through experience. Senior managers are often persons who have scaled up the ladder at the same SACCO, worked in various departments, positions and even various branches of the SACCO if any. This means that they have been in the SACCO long enough to draw informed conclusions from their observation and experience with regard to corporate governance practices. For each SACCO, the sample comprised of those senior managers who had been at the same SACCO for a period of over 10 years. Each SACCO served as a stratum and the sample size was based on the total percentage. The number of respondents per SACCO was determined by the size of the SACCO and its overall organizational structure. For four of the SACCOs sampled, that is, K-Unity, Metropolitan, Githunguri and Tai, the number of staff is significantly higher than those of the other four SACCOs. K-Unity for instance has 175 members of staff across its 15 branches while Nderi Rural SACCO has 25 members of staff and a single branch. This is attributed to differences in customer base, capital and asset base and geographical distribution of the SACCOs branches.

Stratified random sampling method was used to select the sample. Each SACCO was a strata unit. Out of a population of 8 deposit taking SACCOs and 200 respondents, the sample size comprised of 80% of the population. This meant that of the entire population, 6 SACCOs and 160 respondents in total had to be sampled for the findings of the research to be considered valid and reliable. This 20% margin catered for any errors and deviations. To ensure that the sample was representative of the population and to consequently generalize the findings, probability sampling technique was adopted. This ensured that each element within the population had an equal opportunity of being selected in the sample and thereby minimize chances of biased findings. The study used questionnaires as the data collection instrument. Data collected was analyzed using both descriptive statistics and inferential analysis. The descriptive statistical tools helped in describing the data and determining the respondents' degree of agreement with the various statements under each factor. Inferential analysis was used to assist in determining relationships between variables. Data analysis was done using SPSS to generate quantitative reports which were presented in the form of tabulations, percentages and descriptive statistics.

10. Research Findings

The study ran an overall ordinary least square regression model. All the measures of each independent variable were combined using mean into their respective independent variable. The results for the model summary are as presented in table 1. The study findings indicates that the equitable treatment of shareholders, transparency, discharge of responsibility, accountability by the board are positively associated with performance of SACCOS as indicated by a Pearson correlation, R^2 , value of 0.834. On the other hand, the proportion of the variance explained by the multiple regression model is indicated by "R squared" which in our case is 0.696. This means that a proportion of 69.6% of the variables in the study are explained by the adopted model.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.834 ^a	.696	.679	.050674

Source: Researcher (2020)

From the ANOVA results on table 2, the study established the model fitness by comparing the F-calculated and F-critical values where the F-value of 40.278, which is significant at $0.000 < 0.05$. This signifies that the model was fit for the study.

Table 2: ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	72.400	4	18.100	40.278.014	.000 ^b
Residual	31.585	123	.257		
Total	103.985	127			

Source: Researcher (2020)

The regression coefficients are as presented in Table 3. The results indicate that the relationship between equitable treatment of shareholders, transparency, discharge of responsibility, accountability by the board and performance of SACCOS was significant. The relationship was however positive implying that an increase in any of the factors results to an improvement in performance of SACCOS.

Table 3: Regression Model coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.116	.078		1.487	.002
Equitable treatment of shareholders	.624	.111	.563	5.617	.000
Disclosure and Transparency	.421	.049	.691	8.592	.000
Discharge of Responsibility	.603	.091	.545	6.655	.000
Accountability	.545	.156	.395	3.496	.000

Source: Researcher (2020)

The researcher conducted a multiple regression analysis so as to determine the relationship between performance of SACCOs and the four independent variables. The regression equation ($Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4$) now becomes: $Y = 0.116 + 0.624X_1 + 0.421X_2 + 0.603X_3 + 0.545X_4$. According to the regression equation established, taking all factors in the study (equitable treatment of shareholders, transparency, discharge of responsibility, accountability) to be constant at zero, performance of SACCOs will be 0.116 meaning that without equitable treatment of shareholders, transparency, discharge of responsibility, accountability, 11.6% of SACCO's performance will be explained by the other factors not considered in the study.

7. Conclusions of the study

The study concluded that treating shareholders equally served to enhance the trust and commitment that the shareholders had in SACCOs thus directly contributing to their performance. The study concluded that with representation of minority of the shareholders in the board and bringing in key governance practices that uphold the rights of the shareholders served to enhance the confidence of the shareholders to the SACCOs and their activities thus promoting performance. On the effect of disclosure and transparency on the performance of SACCOs, the study concluded that most of the SACCOs in Kiambu were not transparent and did not disclose some of the very important information to the shareholders and stakeholders who were affected by such information directly. The study further concluded that audit reports were not subsequently disclosed, a matter that greatly affects the trust of the customers and shareholders to the SACCOs and in turn adversely affects their performance. On the effect of discharge of board responsibilities and performance of SACCOs, the study concluded that the board is competent and able to discharge its duties. This in turn results in a high probability of the board steering the performance of the SACCO toward greater heights. The study concluded that the connection between the board and the management is also important if at all the board intends to steer the SACCOs' performance. Through receiving and sending key information to the management, the board is always kept aware of the continuities in the management thus making key decision before it is too late. Lastly, on the effect of accountability of the board and performance of the SACCOs, the study concluded that most of the SACCOs through the board did not uphold accountability to the board an aspect that could encourage misappropriation and later affecting the performance of the SACCO. With the board not having enough capacity to make assessment on the internal control systems, it means that the board cannot trace key prospects of operations despite this being a very important aspect of an accountable board whose aim is to steer growth and performance.

8. Recommendations

From the findings, the study recommends that the SACCOs through the management boards should equitably treat the shareholders and ensure that there are no observable differences in the way the shareholders are treated. AGMs should be adequately planned for to ensure that all the shareholders have the chance to take part and actively participate. The study recommends that the board of the SACCO should disclose any information that ought to make the link between the management and the stakeholders stronger. Moreover, the board should carry out proper research to identify the kind of information that the shareholders and other stakeholders are expecting to receive and therefore disclose such information. Information disclosed must not only be relevant but should also be timely to enable effective decision making. The study further recommends that the board members should always undergo training as frequently as possible to enhance their competency base and their ability to handle issues to steer performance. Moreover, organizations must ensure that they employ board members that have the required experience and expertise to effectively make key decisions to the SACCO operations.

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