CORPORATE GOVERNANCE AND PERFORMANCE OF SELECTED SAVINGS AND CREDIT COOPERATIVE SOCIETIES IN NAIROBI COUNTY, KENYA

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OCTOBER, 2020
DECLARATION

I declare that this project is my own original work and has not been presented for award of any degree in any University.

Signature: ___________________________ Date: 26th October 2020

Diaz Muthiora Mbiriti

D53/OL/CTY/32676/2016

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

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DEDICATION

I humbly dedicate this research work to my family. I appreciate your support, thanks for the love.
ACKNOWLEDGEMENT

Thanks to Dr. Elishiba who is my supervisor for her efforts in this journey. I appreciate the presence of my classmates with whom we have shared this journey from day one for being a source of encouragement.
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<td>ANOVA</td>
<td>Analysis of Variance</td>
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<td>BoDs</td>
<td>Board of Directors</td>
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<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>KUSSCO</td>
<td>Kenya Union of Saving and Credit Cooperatives</td>
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<td>SACCO</td>
<td>Savings and Credit Cooperative Society</td>
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<td>SASRA</td>
<td>SACCOs Regulatory Authority</td>
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<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
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<tr>
<td>ROA</td>
<td>Return on Assets</td>
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OPERATIONAL DEFINITION OF TERMS

**Board Composition**  The professional diversity of the board members emanating from their background, skills and professional competencies.

**Board Members’ Qualification**  The board members academic, skill, knowledge and professional competencies.

**Board Size**  Refers to the entitled corporate decision making board members of an organization.

**Corporate Governance**  Refers to an organizational system of various practices, rules and processes that an organization abides by. This involves seeking to achieve a balance between the complex and diverging interests of various stakeholders of the company.

**Gender balance**  Refers to the number of male board members in relation to their female counterparts.

**Performance**  The ability of firms to operate profitability by generating returns, satisfying customers by delivery quality services and enhancing shareholders value.
ABSTRACT

The rate at which the SACCO sector is becoming increasingly crucial to the Kenyan economy is high. The sector provides key in the nation as it controls around 43 per of gross domestic product (GDP). The cross-cutting issues affecting co-operatives are governance, weak regulations and supervision as well as risks involved in investments. Top on the list and one which results to SACCO failures, stagnation and collapse is lack of a framework to ensure enforcement, regulatory and supervisory agencies possess the integrity, resources and power, integrity to function objectively and efficiently. Lack of proper direction, control and accountability by the directors and management in SACCOS to the principal shareholders, exposes them to irregularities. This called for an investigation into the effect of corporate governance on the performance of selected SACCOs in Nairobi City County, Kenya which was the general objective of the study. The specific objectives of the study was to establish the influence of board composition, size of the board, board members qualification and gender balance of the board members on the performance of SACCOs in Nairobi. The study was underpinned by two theories which are agency theory and stakeholders’ theory. The study used a descriptive research design. The unit of observation was six selected SACCOs in Nairobi City County while the unit of analysis was the 191 management staff working with the SACCOs. Stratified random sampling technique was used to select a sample of 30% from each strata making up a sample of 58. Semi-structured questionnaires was used to collect data from the respondents. A pilot study was carried out on the research questionnaire. Research data was then be analyzed by the use of descriptive and inferential statistics using SPSS. Descriptive statistics were percentages, frequencies, standard deviations and means while inferential statistics were largely based on multiple regression analysis. Data analysis was then presented in the form of tables and graphs. Research ethics was also upheld in the course of the study. The findings show that the predictor variables explained 74.4% of the variations in the corporate governance in the SACCOs. The result from the regression analysis showed that the board composition and board size were significant at 0.05 level of significance with p values of 0.009 and 0.31 respectively. However the board members’ education and gender diversity were not significant with p values being 0.150 and 0.178 respectively. The study concludes that board composition and board size have a significant effect on the performance of the selected SACCOs. This study thus recommends that the SACCOs must put much emphasis on a lean board size and ensure that the composition of the board takes into consideration the professional and knowledge diversity of the board members.
CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

The world of business today is an ever changing one having various challenges requiring strong
systems of corporate governance and sound system for decision making. Mudibo (2005) opined
that SACCOs have spurred development of the economy globally despite most of them going
under soon after inception. There are external factors that can cause financial failure of
SACCOs which may include lack of information, deregulation. Madhyam and Stichele (2010)
进一步 indicate that the native management and governance of SACCOs by informal groupings
which later formalize leads to poor financing management of the SACCOs with majority of them
not coping with the ever growing competition in the financial services sector.

According to Jensen and Meckling (1976) there exist a contract based on principal and agent
(agency relationship) where the latter is engaged by the former to act on his/her behalf which
result to agents costs which include auditing, budgeting, control, and compensating systems and
residual loss due to divergence of interest between the principal and the agent. To increase the
firm value, one must therefore reduce the agency costs and risks. Agency cost theory assumes
human behavior is opportunistic and self-servicing and therefore prescribes strong directors and
shareholders. Governance, according to Edwards and Clough (2005) means the strategy, method
and the manner in which a group of people directs controls and manages an organization. Lipton
and Lorsch (2012) defines corporate governance as the way a corporation is directed and
controlled to maximize shareholders value.

In the UK, Gu et al, (2012) realized that SACCOs due to their friendly terms perform a key
function in the growth of the economy. Mumanyi (2014) says SACCO’s are voluntary
co-operative financial organizations which are controlled and owned by the owners (members). The main objective is to promote saving, provide financial services and provide loans at low interest. They are community membership based financial institutions that are formed and owned by their members to promote the economic interest of its members. It is regarded as another way of enhancing the durable circumstance of less privileged citizens. They are crucial in mobilizing resources for different development matters. The earlier co-operatives were established by the colonial government who could not trust Africans in keeping business account of SACCO’s (Oyoo, 2001). They are key players in the financial sector in Kenya and have embraced mobile money transfer services to remain competitive in the financial industry.

Edwards & Clough (2005) opined that poor corporate governance have recently brought about the proliferation of the codes of corporate governance which lays emphasis on key issues such as institutions’ conformance measures and accountability. The reason of using these codes is to find out what proper corporate management comprises in a company. In order for any company to excel in attaining effective results, it should be committed to implementing effective corporate leadership characteristics as enshrined in the codes for instance Cadbury code in the United Kingdom (UK) (Edwards & Clough, 2005).

Poor nations are in recent period rapidly embracing good corporate governance which is due to its direct influence on the growth and sustainability of countries. Good governance brings about investor confidence and goodwill. Organizations now seek to improve the governance practices which the follow as it is key in value additions and boosting of bottom line. Many view leadership management as the way a framework which is aligned in directing and managing of the affairs of business which enhances corporate accountability and prosperity of business with which at the same time taking into consideration the various interests of different shareholders.
Claessens, Fan, & Wong (2002) put forward that good top governance are beneficial to organization as it brings better finance access and firm performance, minimal cost of capital and a favourable stakeholders’ treatment.

Institution of Corporate Governance of Uganda (2000) stated that corporate framework has been key to institutions due to its role of aiding good organizational leadership and efficiency in the corporate world. Corporate governance therefore is characterized by various attributes which include; leadership for transparency and for accountability, leadership for integrity, efficiency, and that which respects the various stakeholders’ rights. Good corporate governance remains key to company results and also the input of shareholders more specifically when the renowned entities close down who had scams like Enron, World.com among others in US, working as an agent of United States of America corporate regulations. Other examples include; Parmalat in Italy, Marcos10b & Fortune and Baby Doc of Haiti. Here in Kenya we have Kenya United Insurance, Lake Star Insurance, Goldenberg, Kenrenas well as Anglo-Leasing scam majorly indicated the requirement of effective corporate management.

Liberalization and Globalization of financial markets, various cases of corporate governance scandals couples with the high demand of transparency and accountability by stakeholders has been forwarded to the forefront of the debate of corporate management on task and roles of board of directors (BODs) (Ingleby & Van der Walt, 2005). Board of Directors play important functions in an organizational settings (Finkelstein and Money, 2003). Their major roles include control, strategy and service. The achievement of the roles by the BOD is dependent on the various board characteristics, which in turn predicts organizational performance (Johnson et al, 1996).
Companies’ board composition can provide an avenue for addressing the problems arising from agent-principal relationship. The inclusion of external directors serves as a way of enhancing the firm’s ability to guard itself from environmental threats and help in aligning the resources of the firm for higher advantage. Studies external directors impact has significantly grown, however, with conflicting results. Wen et al. (2012) indicated a negative association existing between board external directors and firm performance, on the contrary, Bhagat and Black (2011) indicated that no connection exists among performance and directors. Weisbach (2008) however, found outside directors proportion to significantly and positively affect the performance of companies. Baysinger and Butler (2005) assert that companies with more external directors are assumed to seek activities which aim yielding low financial leverage while at the same time possessing high equity market value.

The size of an institutions BOD is believed to impact on its performance. The company board is mandated with the task of overseeing the management of the firm and firm activities. There is generally no consensus on whether a small or large is more effective in doing the task. As suggested by Yermack (2006), smaller number of BOD translate into better performance of firms. Yermack (2010) is of the view that larger board sizes are marred by slow decision making process. Similarly, the expenses incurred in monitoring and poor communication which is common with larger board is the main point counting against larger boards (Jensen, 2003). Various researches which include Abor (2007) and Wen et al. (2012) have indicated that a link exists between leverage and board size. The argument was that large boards are characterized by a superior ability of monitoring which is used to enhance the firm value.
1.1.1 Performance of SACCOs

The SACCO sector of Kenya has an increase in total assets in 2010 from K.sh. 216 to K.sh.248 billion. SASRA (2011) reported that the sector which is the largest in the continent (Africa), holds 60, 63 and 64% of savings, assets and loan respectively of Africa. Similarly, there was an from 9.2 - 10.6 in the years 2009 to 2013 in the use of financial products offered by SACCOs. The ratios for getting credit from SACCO ranged from 3.1 and 4.0 which was an indication that activities in the SACCO sector had increased (CBK & FSD Kenya, 2013).

It is necessary for SACCOs to ensure the safeguarding of profits made and also earn and sustain public confidence as any SACCO bankruptcy serves as an indication of instability of the industry. The financial crises of the year 2007 had adverse implications for the growth of the economy in both developing and developed nations. The financial system and economy of Kenya are still marred by vulnerabilities which can be linked to various financial risk. Globally, there was a decline of 3.9 percent in economic growth for 2011 (CBK, 2011). Markets in emerging economies are characterized by risks which are triggered by weak global growth lack of funding costs, thus weakening local banks and its financial system.

The current state of economic growth in a nation impacts on SACCOs through their membership registration and request for loans. Mpiira, et al. (2013) indicated that individuals wouldn’t get SACCO membership in a case where there is no economic stimulation that will ensure income generation for them. Hesse and Cihák (2007) put forward that cooperatives usually are more stable during crisis period because their patterns of investement utilize members capital in ways which will cater for their interest and needs in the long run. Notably, their the stability of their comparative under extraordinary and average conditions will in turn aid in mitigating the impact
of crisis on members, particular in the short-run. SACCOs mostly get membership registration largely from formal sector, as such in such situations of economic meltdown, SACCOs functions can be jeopardize if the income of members affected economic fluctuations which may result to a decline in savings by members while at the same time bringing about higher loan requests.

As per the information by AMFIU report (2008) across the world, in two out of three SACCOs established first were not functional because they have collapsed or they are not actively functioning. A research done by WOCCU (2005-2008) shows that the culture of loans being awarded to SACCOs is collapsing from the year 2008. The research indicates that loans had gone up for about 23.15% within 2005 and 2006 and 26.71 within 2006 and 2007. Hence IMF (2001) came to a conclusion that SACCOs had experienced many challenges which had tainted their past image as the loan lenders. The SACCOs belong to members and their main function is make loans accessible to them. The owners of the SACCOs cumulatively provide resources that are used to allocate and distribute loans to them ((Were, 2009). In return making them users of their own output thus providing financial support to the shareholders (WOCCU, 2005-2008).

1.1.2 Corporate Governance

Mayer (1997) opined that corporate framework focuses on various ways and methods that will be investors’ interests and that of firm managers to a balance. It seeks to ensure that the interests of investors are key considerations in the running of firms. Its concern lies in ways by which various stakeholders make sure employees, executive as well as insiders mostly have adequate procedures protecting their welfare. That. It is a program where organizations are guided and managed. Muriithi (2009) refers sets of associations between firm shareholders, directors
among others which stipulates the powers and authority firm directors, employees’ right, creditors’ rights among others. Metrick and Ishii (2002) further assert that corporate governance entails the agreement repay a sincere capital invested returns which also includes commitments by firm managers to efficiently operate the firm.

Corporate framework has also been explained by Keasey, Thompson & Wright (1997) as a composition of cultures, processes, systems and structures which determine a successful firm operations. This assertion is based on the interactions between the firm and stakeholders in its environs. As viewed by Maati (1999), corporate governance entails a set of measures to be considered within an organization which allows economic agents engage in various productive and investment process which leads to the generation of firm surplus and its distribution among various associates in consideration of their contributions. Shleifer and Vishny (1997) opines that corporate governance refers to ways by which the returns of finance suppliers investments are assured. Many studies on corporate framework have been searching various means where investor can watch over their investments, in a manner the team of directors acts as the intermediary between the shareholders and managers.

Inadequate governance systems in place has aided financial scandals and corruption in general to excel thereby suppressing and limiting effective economic policies. Importantly, though corporate governance evolved as a way of managing modern corporations, equally it also remains handling cooperatives, family enterprises and state-owned enterprises. Irrespectively to the kind of business good performance can only be ensured through corporate governance (Freeman, 1984). This is because firms having strong good corporate governance are capable of sustaining high standards of quality services. Poor governance on the other hand within a firm
settings often leads to failure and collapses of businesses. Good governance of firms entails clarity, accountability and transparency thereby ensuring public trust on firms (Baker, 2007). Good governance also leads to a transparent and fair business environment where firms account for their wrong doings (Nicolaescu, 2012). The key idea of this research is to evaluate if elements (independent variables) given priority will find the impact of financial results of corporations by using corporate framework, independent variables, members of the board in the financial period, diverse genders, compensation of board members as well the experience in the board.

The board composition of firms is key to their performance (Polovina & Peasnell, 2015). The key issue of contention in the design of Board composition therefore lies in ensuring that a proper balance exists between corporate and public as well as having sufficient diversity in various components such as but not limited to age, educational and cultural background, professional experience, ethnicity, knowledge, length of service and skills. As all these affect the discharging of duties by members in efficiently and effectively enhancing decision making and ultimately performance of institutions.

There exists various views about board size in the operationization of firms. There is a view that larger board sizes are good for the performance of firms due to the notion that they have a wide range of experience which in turn is expected to translate into quality decision making for firms (Ashenafi, 2013). On the other hand, negatives are attributed to large board sizes. This is due to beaurocratic reasons as large boards take too long to arrive at a decision thereby hampering the performance of firms (Awino, 2011).
Carpenter and Westphal (2011) put forward that BOD have a combination of capabilities and competencies which collectively represent a collection of social capital which also brings about value creation in executing the governance roles of the board. Board members qualifications are key in decision making process. From perspective of resource dependency, skilful and qualified board members can be regarded as strategic resources which provide linkage to the various different resources from other places (Ingley & van der Walt, 2011). As such members who posses advanced achievement for bringing about a successful board with high levels experience, intellectual skills, integrity and sound in making decisions (Hilmer, 2008).

Milliken and Martins (2006) indicated that the gender diversity of boards in Key for the performance of firms. A balance should be struck between the two gender in the board. Since boards are keen to achieving enhance firm performance, then the right composition is key so as to have diverse perspectives presented (Akodo & Moya, 2012). A board that has well balanced on terms of gender is highly to perform well put in mind various ideas and the foundation of every gender in making decisions as well as diverse corporate factors (Raissa, 2014).

1.1.3 SACCOs in Kenya

SACCO is regarded as a meber driven, democratic and self-help union of like minds. SACCOs are governed, controlled and owned by registered members having a common interest or bond: as they work for same owner, belong to same labour union, attend same church and or from same society. In a cooperative, various individuals interact voluntarily with the sole purpose of addressing the socio-economic issues which they have via mutual contribution, self-help initiatives ventures which seeks to benefit the various members equally. The major famous kinds of co-operative societies in Kenya but not limited to; SACCOs such as consumer, transport,
housing, marketing, industrial, horticulture, service, multipurpose and building and construction SACCOs (SASRA, 2015).

The sector of Saccos is a component of Kenya’s cooperative industry that has over the years enhanced the livelihood of several disadvantaged individuals in Kenya. Kenya SACCOs are classified into two, non-financial as well as financial cooperatives. The non-financial market their products as well as services of members which include coffee, livestock, dairy, tea, among others. Conversely, the financial include investments and housing cooperatives. This SACCO sub sector is regarded as two-tiered because of the span of work to the participants therein.

In line with WOCCU’s performance measurements, liabilities, asset base, loan book performance are considered. In the research, financial results are rated when Sacco Societies Regulatory Authority (SASRA) evaluates the financial result of deposits made by SACCOs on the basis of assets, deposits made by members, advancement loans, cumulative capital and the excess outflow of the surplus indicated in the financial reports. Financial results of a company is an operation of many elements and the organization which performs effectively to give results. These factors are equivalent to level of the board are such as authority and the purpose of the board, board governance relationship, openness and transparency, board formation, company values, management style, and conditions of recruitment of directors (Mutunga, 2002).

1.2 Statement of the Problem

SACCOS perform a key function in mobilization of savings. According to Mucovi (2002) SACCOS are formed with the aim of mobilizing financial and other resources of the members in order to fulfill social and economic needs of the individuals and groups. The cross-cutting issues
affecting co-operatives are governance, weak regulations and supervision as well as risks involved in investments. Top on the list and one which results to SACCO failures, stagnation and collapse is lack of a framework to ensure that regulatory and supervisory bodies possess the power, resources and integrity to efficiently carry out their functions. The said authorities should also make timely rulings, be transparent and fully explain their undertakings. Lack of proper direction, control and accountability by the directors and management in SACCOS to the principal shareholders, exposes them to irregularities. According to Lipton and Lorsch (2012), the need for good corporation governance is over the years being recognized especially in the case of developing nations.

Mudibo (2005) indicated that the key factors impacting on Kenya SACCOS performance span from inadequate human resource, poor governance, supervision and regulations, limited services and products, lack of innovation and marketing. These factors are issues that either support or undermine operations of SACCOS. However, the research is marred by inconclusive findings on the nature and extent to which these factors affect SACCO performance. SACCO in Kenya have increasingly become key in Kenya’s economy because contribute about 43 % of GDP in Kenya. However, the poor performances of SACCOS in Kenya which are attributed to poor corporate governance practices have been sources of concern. Therefore, the need to ascertain corporate governance influence on SACCOS performance in Nairobi.

Various researches have been conducted in regard to corporate management and organization results from inside and outside Kenya, with limited focus on the SACCO sector. For the case of Kenya, research carried out centered on banks and other firms and not the SACCO sector. Jebet (2001) Manyuru (2005) and Muriithi (2005) carried out various analysis on corporate
management and results relationship for entities at the Nairobi Stock Exchange, while Matengo (2008) studied the linkage between performance and corporate governance: the case of financing sector industries in Kenya. These studies were however largely on listed firms in Kenya, the ongoing research seeks to investigate the influence of corporate management on results of selected SACCOs in Nairobi area.

1.3 Objectives of the Study

1.3.1 General Objective

The main objective of this study was to ascertain the effect of corporate governance on performance of selected SACCOs in Nairobi City County, Kenya.

1.3.2 Specific Objectives

The specific objectives included;

i. To evaluate the effect of board composition on performance of selected SACCOs in Nairobi City County, Kenya.

ii. To determine the effect of board size on performance of selected SACCOs in Nairobi City County, Kenya.

iii. To assess the effect of board members’ qualification on performance of selected SACCOs in Nairobi City County, Kenya.

iv. To establish the effect of gender diversity on performance of selected SACCOs in Nairobi City County, Kenya.
1.4 Research Questions

The research aimed at answering these questions:

i. How does board composition affect the performance of selected SACCOs in Nairobi City County, Kenya?

ii. What is the effect of size of the board on the performance of selected SACCOs in Nairobi City County, Kenya?

iii. How does board members qualification affect the performance of selected SACCOs in Nairobi City County, Kenya?

iv. What is the effect of gender diversity on the performance of selected SACCOs in Nairobi City County, Kenya?

1.5 Significance of Study

The research intended to ascertain the link that exists between corporate governance and performance of SACCOs in Nairobi. Research results were therefore anticipated to be useful in these ways: the results will help managers of SACCOs in making sound decisions with regards to corporate governance and SACCOs performance. Theoretically, the study will be of significance as it documents a conceptual framework which can be applied in corporate governance studies. Similarly, the study contributes to empirical literature by providing various empirical works which have been conducted on corporate governance and performance.

Also, academicians will find this study key as it will furnish them with foundation and suggestions for further investigation. The study will also be important in formulation of policy by the regulatory agencies in the SACCO sector, government, relevant agencies and management of SACCO.
1.6 Scope of the Study

This study focused on corporate governance effect on performance of selected SACCOs in Nairobi City County, Kenya. Six (6) Saccos operating in Nairobi City County, Kenya were the context of research interest based on market share. The theoretical framework of the study is based on Agency Theory and Stakeholder Theory. The investigation targeted the management staff in the SACCOs. The study used descriptive research design in collecting, analysing and presenting the findings for the study. The study was also confined to the head offices of the SACCOs in Nairobi.

1.7 Limitations of the Study

Given the tight schedule of the respondents in the banking institutions, there was a concern that they may not have more time to provide the feedback to questionnaires. This was addressed through revisits and follow ups to make sure the distributed questionnaires were returned on time. The respondents were also willing to divulge the sensitive information required for the study. In countering this, the researcher sought authority from SACCOs management and relevant authorities and let the respondents know the essence of the research which is academical. The researcher was also limited by scarce resources and time thus the study was conducted within the available means and time to make it a success.

1.8 Organization of the Study

The research comprises of several sections and subsections therein. Research background, research problem, research objective and questions, limitations and organization are presented in chapter one. Chapter two covers literature review which analyses relevant theories to the study
and a review of the empirical literature on the four independent variables and their influence on the dependent variable to establish the gap in the knowledge and conceptual model. Methods and procedures that were used which range from research design, sampling, study population, collection of data and its analysis and ethical norms and standard are contained in section 3. Section four presented the information analysis and the findings from the analysis. The results from the descriptive statistics, correlation tests, ANOVA, model summary and the multiple regression output are presented in this chapter. Chapter five presented the summary, conclusions, policy recommendations and suggestions for further studies.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This section provides the review of diverse literature connected to the area of research. Empirical literature covers, composition of the board, number of board members, board membership achievement and gender equity and performance.

2.2 Theoretical Review
The section covers relevant theories to the research in relation to corporate governance and financial performance. The theories guiding this research include; the agency theory and the stakeholders theory. These theories are discussed in the following manner.

2.2.1 Agency Theory
Agency Theory was propounded by Jensen and Meckling (1976) which illustrates the connection among the principal and the agent where the individual assigns another person to perform functions, to execute or make key decisions on behalf of the principal. Executive leadership in a company work on behalf of shareholders who belief that the norms directing them aimed at maximizing the resources of the shareholders.

Realistically, this idea depends on three aspects which include; conflict of personal interests between the agent and principal since agents may work focusing their own good forgetting the principal. Secondly, due to enormous ambiguous information between the principal and agent and the probability that the agent may capitalize on it to the individual benefit. Lastly, difficult of the principal to ensure the agent executes the work as expected thus turning the process complex and expensive to monitor the agent when performing the work (Beasley, 2012).

16
The theory seeks to provide various ideas towards addressing the potential agency relationship conflicts. The conflicts emanate from diverging interest and views of the parties involve that is agent and principal and largely attributed of control and ownership separation in line with Davis, Schoorman and Donaldson (1997). Executive want to adopt opportunistic behaviour because of the legitimate power that has been ordained to them share owners, such acts result in variations in interest and thus agency problem.

The principal expects that he gets compensation for actions by the agent which become detrimental his or her investment. In instance is when directors (agents) decide or choose risky projects to invest in, firm shareholders will in reaction demand and expect compensation which in turn increases the prices on capital. Therefore, it is difficult to balance the various needs of agents and principals. This is because such associations are characterized by several conflicts relating to issues such as; earnings retention, risk perception and time horion. These are collected regarded as agency problems (Shleifer & Vishny, 1989; Jensen & Meckling, 1976). In agency theory, employees are portrayed as individualistic and self-interested (Jensen & Meckling, 1976).

Share owners in many cases like to receive cash after a long period of time as per the dividends and enhanced value of the share to the contrary of the executive who like to earn cash produced during their period in authority. With time it creates conflicts. Dechow and Sloan (2011) realized that investment in research and development as well as investment in fixed assets by an organization decreases during the last time of the CEO in power. The reason to this might be connected to the personal interest of the CEO since there will be no such opportunity future. On the same spirit, the managers of the company might also start developing accounting in such a
manner in which they will create leeway to squander money before they leave power in a process of utilizing their performance based benefits (Ermina & Mariamp, 2010).

Within the SACCO industry companies, agency conflicts come in various forms because various parties are involved. The shareholders of SACCOs invest more or less of the stipulated capital by the regulator with the aim of taking advantage of money lenders who are usually institutions which invests i and also other shareholders who may be having large number of shares (Beasley, 2012). Usually, these institutional investors possess the authority to control and monitor executive to the level that secret information can be shared to them by managers which they can in turn utilize in the exploitation of minority shareholders. Government therefore saw the need to regulated the SACCOs through the SASRA with the aim of safe guarding the a few shareholders’ and other stakeholders’ interests.

Agency theory indicates that the boards and management of the SACCOs (agents) are all in the interest of the shareholders (principal). The board should always ensure they have the best interest of the shareholders or investors in the firms at heart to deliver through improved performance. In relation to this study, principal and agent relationships exist in SACCOs, where the management serve as the agents while the owners serve as the principals.

2.2.2 Stakeholder Theory

Stakeholder Theory was propounded by Ian Mitroff in 1983 in San Francisco. The theory evolved from the criticism of Agency theory due to the narrowing down of stakeholder, assuming that shareholders are the only firms’ interest group. Stakeholder theory over the years came to prominence as various scholars have identified that firm activities affects and is affected
by the external environment of firms. McDonald and Puxty (1979) assert that companies are no more instruments to share owners alone but the community at large. However, this fact has been recognized just of recent. Furthermore, the realization that economic value is brought about by individuals that interact voluntarily to add value to each other’s lives (Freeman & McVea., 2004).

Wheeler et al. (2002) are of the view that stakeholder theory emanated from a mixture of organizational and sociological doctrines. This theory is interested with beliefs and value on the various associations between firms, individuals and the state. The theory therefore advocates for the balancing of accountability, power and responsibilities in the society. The community view of corporate management presumes to be better regarded more as a philosophy other than a theoretical element. Blair (1995) is of the view that stakeholders are the various actors who have made contributions to the assets of the firm.

Stakeholder theory sees governance as primarily interested in the effectiveness of different systems of governance in enhancing firm long run investment and various stakeholders commitments (Williamson, 1985). As put forward by Kester (1992), “the central problem of governance is to devise specialized systems of incentives, safeguards, and dispute resolution processes that will promote the continuity of business relationships that are efficient in the presence of self-interested opportunism”. Blair (1995) puts the argument that management be seen as a composition of sequence in a firm for controlling and coordinating connection between various firm stakeholders. The stakeholders of firms argue that firms ought to consider all stakeholders in the behaviour. The prepositions of stakeholder theory support the relationship between corporate governance and firm performance. Stakeholder Theory is based on the idea
that the performance of institutions is a function of various stakeholders which must be taken into consideration.

2.3 Empirical Review

This part provides the various research conducted on the all issue of corporate governance with an emphasis on composition of the board, number of the board members, education of the board members’ as well as gender parity.

2.3.1 Board Composition and performance

Board composition refers to the non-executive directors’ proportion on the Board of firms. Board composition therefore indicates unique firm characteristics, as such directors with excellent skills and good backgrounds are desired so as to complement each other. They are usually professionals such as Accountants, lawyers, Economists and bankers. Through the firms’ diverse composition, the firm collectively possesses the needed knowledge and skills handle challenging and strategic demands arising from companies. Additionally, the board is mandated to monitor the behaviour of the firm’s function with aim of analysing on the on-going technique, if the firm is governed in the way which is in align with promoting share owners as well as stakeholders value (Yermack, 2010).

Eisenberg et al. (2008) did a research where it was indicated that an inverse association lies between profitability and board size in the context of little and average and Finnish firms. Similarly, Mak and Yuanto (2003) in their study found that board inversely impacts on listed firms in Malaysia and Singapore as the indicated that valuation of firms is highest in the case where a board is comprised of 5 directors, this number is therefore considered small in such
markets. In the case of Nigerian, Sanda et al. (2003) in their study while using regression analysis indicated that small board size is positive related to company performance as opposed to firms with a large board size. The research was however, done in relation to Nigeria.

Ongore and K’Obonyo (2011) did a research to ascertain the interrelations existing between ownership, manager and board characteristics and firm performance. The research focused on 54 listed firms at the NSE which were the sample of the study. Results show positive relationship existing between executive wish and firm results. The study indicated that the influence of government and ownership concentration on company performance was found to inversely significant.

### 2.3.2 Size of the Board and Performance

Belkhir (2006) did a research on the importance of the number of the board members on SACCO performance in the context of Kenya. The research found out that a company’s BOD is vital in monitoring the behaviour of managers. The general notion as regards to the ideal size of board is that higher BOD number results to lower firm performance. This rests on the fact the communication, coordination of task, sharing of ideas and decision making in a large group is slow and more difficult as compared to minority groups. The research shows effective and a board with few members is productive on the results as compared the one with more members. This research aimed to develop the manner in which the number of the board will stimulate results of SACCOs in Kenya.

Lipton and Lorsch (2012) did a research on the reason behind the number of the board may have challenges within companies. The research found that restricting the size of board to a certain level is generally agreed to lead to the improvement of firm performance at the various firm
stages. The merits emanating from enhanced management as in the case of larger groups (boards) becomes outweighed due to poor communication and slow decision making process. Several researches pertaining board size have provided similar findings. Large board size are likely to be ineffective and characterized by bureaucracies. Large boards are less efficient and in such cases they are likely to be controlled by the CEO. In this scenario, the number of board members has a key responsibility on the results of each excelling company.

In addition, Hermalin and Weisbach (2003) did a research on the impact of the number of the board on governance management. The board size is indicated to have a material effect on corporate management quality. The research is in agreement with the view that large board’s often become inactive. The researchers put forward that board size serves as a proxy for the activities of the board. The study indicated that smaller board sizes are more effective in enhancing company performance. Studies by Eisenberg et al. (2008) and Yermack (2006) indicated an opposite relation between size of board and firm value, the studies reveal that smaller boards’ numbers are more effective as compared to large board numbers since they have fewer coordination and communication problems.

Boards are advocated to increase the frequencies of meetings in the case where high control and supervision is needed (Shivdasani and Zenner, 2004). Some researches advocate that boards is supposed to ensure the balance of expenses and advantages of frequency. This is because when the board increases meetings frequency, the recovery process from poor performance is ensured and faster (Vafeas, 2009). Studies on board size and performance however, remain inconclusive with varying results.
2.3.3 Board Members Educational Qualification and performance

Carpenter and Westphal (2011) did a research on the connection among members of board’s information and expertise on company result. It was found out that BOD have a combination of capabilities and competencies which collectively represent a collection of social capital which also brings about value creation in executing the governance roles of the board. Board members qualifications are key in decision making process. Thus, the role of monitoring by the board can be implemented effectively in the case where the BOD are experienced and qualified. From perspective of resource dependency, skilful and qualified board members can be regarded as strategic resources which provides connection to the various resources outside the frim (Ingley & van der Walt, 2011). As such members who possess advanced qualifications bring about a performing board with high levels experience, intellectual capacity, integrity and sound of making right decisions (Hilmer, 2008).

Various researches have indicated a direct linkage between firm’s capabilities and results (Dunphy, Turner & Crawford, 2007; Carver, 2012, Ljungquist, 2007). Members of boards having higher level of qualifications are beneficial to the firms as they provide mixture of capabilities and competencies (Carver, 2012; Carpenter & Westphal, 2011). This in turn aids in the creation of diverse decision making perspectives (Milliken & Martins, 2006; Biggins, 2009) Having board members with higher expertise extends the knowledge base and enhances a more effective processing of problems (Cox & Blake, 2011). Furthermore, members of board having higher qualifications in education such as PhDs and research knowledge will be rich sources of modern and innovative ideas which will help in developing policy initiatives (Westphal and Milton, 2000).
Research works connecting directors’ educational level to performance of firms is scanty. Bilimoria and Piderit (2004) did a study on board members’ qualifications in regards to general characteristics such as age, tenure, director type. The study indicated that members’ qualification is key in achieving organizational performance. Similarly, Haniffa and Cooke (2012) in their research indicated a directed relationship existing between performance and members’ accounting education, information disclosure and top management team credibility. The study found the various factors to impact on business performance. Ferris, Jagannathan and Pritchard (2003) also investigated directors’ professional background focusing in the scenario numerous directorships. The research indicated that professional background of directors affects effectiveness of organizations. Smith et al. (2006) did a research on women directors; the study results indicate that influence of women on performance of companies is dependent on their various qualifications. The study indicated that the results is generalizable to all members.

In the evaluation of corporation’s conformance to corporate governance, educational qualification is important (Institutional Shareholder Service, 2006). Yermack’s study (2006) carried out a study and indicated that share price are very sensitive to the educational qualification of director, especially in the area of finance and accounting. The study and others studies indicate that the specializations and qualifications of directors are directly related to the performance of firms. Notably, the educational qualifications level of board directors and performance of companies have received little attention in empirical literature. The ongoing research therefore, seeks to ascertain the influence of educational qualification on firm performance of Kenyan SACCOS.
2.3.4 Gender Diversity and Performance of SACCOs

Milliken and Martins (2006) in their research on gender equity and diverse on the side of the board, found out that the formation of board members must represent the community framework and include fully gender, expertise of the board members as well as ethnicity. Boards become interested in achieving the right composition so as to have various views presented. A board with gender equity has high probability to perform well through various perspectives and the foundation of everybody in contributing to decision matters and perception on diverse corporate factors. This study is different as it was focused on SACCOs.

Carver (2002) did a research on stimulating factor of board diversity and institutional establishment. It was found out that board diversity is founded on the foundation of moral values to share owners, corporate philanthropy, and business purposes as stated by Martins (2000). It was shown that board gender equity breeds various expertise, competences, experience, interaction and civilization stages which when utilized well result to better results as well as decision making.

Daily & Dalton, (2003) also did a research on how gender stimulates board decision making. Gender diversity factor is not supported properly by the director hence resulting to poor decisions due to majority male in comparison to female. But if all people are involved and their skills and capability tested in an equal way, effectiveness and right decisions will be realized. The element of equity not only be based on the equality but also by considering professionalism. (Burton, 1991). It can be stated that a board with both genders portrays best dynamics of the board which enhances the results. It has been proven that a board governance with female being
the majority members shows good leadership in comparison with the one where their male counterparts are the predominant.

2.4 Summary of Literature Review and Research Gaps

The table below summarizes the above gaps to the research study on the influence of corporate governance on SACCO performance in Kenya.

Table 2:1: Summary of Literature Review and Research Gaps

<table>
<thead>
<tr>
<th>Author/year</th>
<th>Focus of the study</th>
<th>Study findings</th>
<th>Research gap</th>
<th>Focus of the current study</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eisenberg et al,</td>
<td>Board size and profitability of Finnish firms</td>
<td>There is a negative correlation between board size and profitability of a firm</td>
<td>The study only looked at the number of members but not their input, skills and knowledge</td>
<td>The researcher’s study focused on the influence of board size on performance of SACCOs in Kenya</td>
</tr>
<tr>
<td>(2008)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sanda et al,</td>
<td>Board composition and firm performance among firms in</td>
<td>Firm performance is positively related with small as opposed to large boards</td>
<td>The study focussed on the number of board members as opposed to their roles and contribution</td>
<td>The study sought to establish the effect of board composition on performance of SACCOs in Kenya</td>
</tr>
<tr>
<td>(2003)</td>
<td>Nigeria</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carpenter and Westphal</td>
<td>The relationship between board members’ knowledge and</td>
<td>The higher the knowledge and qualification of board members the better the</td>
<td>The qualifications may be higher but their input questionable, this requires experience and exposure for better performance</td>
<td>The study sought to establish the influence of board members’ qualifications and the performance of SACCOs in Kenya</td>
</tr>
<tr>
<td>(2011)</td>
<td>skills on firm performance</td>
<td>contribution and performance of the firm therefore</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Milliken and Martins</td>
<td>Gender balance and board diversity</td>
<td>A gender balanced board brings on board diversity in decision making</td>
<td>The individual contribution of each members if significant compared to balancing of gender in firm performance</td>
<td>The study sought to establish the role of gender balance on performance of SACCOs in Kenya</td>
</tr>
<tr>
<td>(2006)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher (2019)
2.5 Conceptual Framework

A conceptual framework refers to the display of association existing between research variables in a form of a diagram. It clearly indicates the interconnecting between the dependent and independent variables (Kothari, 2010). The independent variables are Board composition, number of the board members, board member qualification and gender equity while the SACCO performance serves as the dependent variable.

![Conceptual Framework Diagram]

**Independent Variables**

- **Board composition**
  - Background diversity of non-executive directors on the board
  - Skill diversity of the directors

- **Size of the board**
  - No. of board of directors

- **Board Member qualification**
  - Competencies
  - Capabilities

- **Gender Diversity**
  - Ratio of male to female
  - Merit levels of either gender

**Dependent variable**

- Performance of SACCOs
  - Market Share
  - Employee Productivity
  - Customer Satisfaction

**Figure 2.1: The Conceptual Framework**

*Source: Author (2019)*
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter comprises of the various methodological approaches and steps used in the study. The chapter entails the study methodology employed in the research and covers; the study design, empirical model, study population and sample, data collection and information analysis.

3.2 Research Design

The study design that was used was descriptive research design which involved all the participants in the study. According to Kothari (2004) descriptive study design is used in a study which seeks to establish the why, where and how of a phenomenon. The purpose of the design was to permit evaluation of qualitative information which cannot be measured through figures. It also entailed synchronized gathering of information from participants involved in answering to the questionnaires (Cooper & Schindler, 2009).

3.3 Target Population

The target population for this research was 6 Saccos in Nairobi area with their headquarters in the city. The selection of the six SACCOs was based on their market share as at 2017. The selected SACCOs were those in the large market share category according to SASRA (2017) that have an asset base of more than 4billion and are based in Nairobi City. Therefore, the six (6) largest SACCOs based on market share formed the population of the study. These include Unaitas, Stima, Afya, Ardhi, Asili and Chai Saccos. From each of the Saccos five board members were involved and the members of staff that deal with board affairs. This was as indicated in the table below;
Table 3.1: Target Population

<table>
<thead>
<tr>
<th>SACCO</th>
<th>Frequency of Population</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unaitas</td>
<td>45</td>
<td>24%</td>
</tr>
<tr>
<td>Stima</td>
<td>34</td>
<td>18%</td>
</tr>
<tr>
<td>Afya</td>
<td>28</td>
<td>15%</td>
</tr>
<tr>
<td>Ardhi</td>
<td>27</td>
<td>14%</td>
</tr>
<tr>
<td>Asili</td>
<td>25</td>
<td>13%</td>
</tr>
<tr>
<td>Chai</td>
<td>32</td>
<td>17%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>191</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: SASRA (2017)*

3.4 Sample Design

The sampling design provides description on the sampling frame, unit, size and procedures for the study (Cooper & Schindler, 2009). The research used stratified random sampling method as the size of the population of interest was not uniform, therefore can be broken down into strata or groups so as derive a representative sample. The population in Table 3.1 has 191, which means a 30 percent sample was chosen from each of the groups in proportions to each group of the research population. The unit of analysis of the study comprised of fifty-eight (58) respondents. This type of sample was ideal for the study because the research population was not homogeneous and the units were not uniformly distributed. Table 3.2. displays the sample size.
Table 3.2: Sample Size

<table>
<thead>
<tr>
<th>SACCO</th>
<th>Population</th>
<th>Rate</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unaitas</td>
<td>45</td>
<td>0.3</td>
<td>14</td>
</tr>
<tr>
<td>Stima</td>
<td>34</td>
<td>0.3</td>
<td>10</td>
</tr>
<tr>
<td>Afya</td>
<td>28</td>
<td>0.3</td>
<td>8</td>
</tr>
<tr>
<td>Ardhi</td>
<td>27</td>
<td>0.3</td>
<td>8</td>
</tr>
<tr>
<td>Asili</td>
<td>25</td>
<td>0.3</td>
<td>8</td>
</tr>
<tr>
<td>Chai</td>
<td>32</td>
<td>0.3</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>191</strong></td>
<td></td>
<td><strong>58</strong></td>
</tr>
</tbody>
</table>

Source: Researcher, 2018

3.5 Data Collection

The research utilized original information gathered from the questionnaires issued. Designed questionnaires, entailing open-ended as well as closed questions were applied. The purpose of the questionnaires was due to huge population of the participants. Data collected was through observation hence participants can show their feelings, attitudes and motivations.

3.6 Validity and Reliability of the Study

A pilot study was conducted in Mwalimu National SACCO whose headquarters is in Upperhill Nairobi. The SACCO is medium in size and enjoys a vast member and client base countrywide. The Pilot study was aimed at checking the validity and reliability of the data by pre-testing the data collection instrument. According to Mugenda, (2008), a pre-test refers to a trial run which is used to ascertain if research instrument is free from biases and accurately coded.
3.6.1 Reliability of the Study

In ensuring the reliability of the research instrument, Cronbach’s Alpha was used to ascertain the co-efficient of internal sequence. The Cronbach’s alpha is a measurement of averages of the measurable items in an instrument and its thereafter its correlation. The statistical software SPSS was utilized in order to verify the reliability research data. The overall reliability scale of the present and desirable situations was therefore tested with the use of Cronbach's alpha where the threshold is 0.70 as recommended by Hair et al., (1998). Alpha values above 0.7 are desirable and will be accepted (George & Mallery, 2003). The results from the reliability test are provided in Table 3.3 below;

Table 3.3: Reliability Test

<table>
<thead>
<tr>
<th>Variable</th>
<th>Cronbach's Alpha</th>
<th>No of Items</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board composition</td>
<td>0.776</td>
<td>8</td>
<td>Reliable</td>
</tr>
<tr>
<td>Board size</td>
<td>0.758</td>
<td>7</td>
<td>Reliable</td>
</tr>
<tr>
<td>Board members' education</td>
<td>0.824</td>
<td>7</td>
<td>Reliable</td>
</tr>
<tr>
<td>Gender diversity</td>
<td>0.785</td>
<td>9</td>
<td>Reliable</td>
</tr>
<tr>
<td>Overall Reliability Coefficient</td>
<td>0.786</td>
<td>31</td>
<td>Reliable</td>
</tr>
</tbody>
</table>

Source (Pilot study, 2019)

As per the findings in Table 3.3 the overall reliability coefficient was 0.786. All the variables in the study had an alpha of more than 0.70. This means that the research instrument used was reliable (Polgar & Thomas, 2009).

3.6.2 Validity of the Study

Validity refers to a measure of the extent to which research data collected using research instrument fully represent the theoretical concept as enshrined in a study. When validity is ascertained, inferences made from such data will be meaningful and accurate (Mugenda &

3.7 Data Analysis and Presentation

Collected data was cleaned and coded for purposes of descriptive and inferential analysis. The fully answered questionnaires were checked for completeness as well as consistency. The information was designed in a manner to allow the participants to be divided into diverse categories. Descriptive statistics for instance means, frequencies, standard deviation and tables were involved to analyse the information. Descriptive statistics presented a robust summary to collected research data which in turn made it easier to inferences and recommendations. Inferential analysis was further carried out which was based on multiple regression analyses. The inferential analysis was based on a threshold of 0.05 significance level. The SPSS software was used to analyse the coded information from the questionnaires. In determining the effect of corporate governance on performance of SACCOs, multiple regression analysis was used.

\[
Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon
\]

Where

- \(Y\) = Performance of Saccos
- \(X_1\) = Board composition
- \(X_2\) = Size of the Board
- \(X_3\) = Board member qualification
- \(X_4\) = Gender Balance
- \(\beta_1, \beta_2, \beta_3, \beta_4\) = Regression Coefficients
- \(\varepsilon\) = Error term
3.8 Ethical Considerations

Ethics in research relates to the standard and norms governing research. Ethical considerations are to be observed before, during and after research. The study carefully followed ethical guidelines. The identities of the respondents were not disclosed. The researcher ensured that the data collected was handled and treated with utmost privacy. A research permit was first obtained to facilitate the collection of research data. The intention of the research was explained to the respondents where they were given a choice to participate or decline to participate in the process.
CHAPTER FOUR
RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the outcome of the analysis of both the descriptive and inferential statistics carried out. It exhibits the outcome of the analysis using correlation, ANOVA, model summary, and regression. Additionally, the chapter presents the interpretation of the findings in relation to the empirical review presented in the previous chapter.

4.2 Response Rate

The analysis of the response rate was premised on the total number of the questionnaires returned by the respondents out of the total number of questionnaires that were distributed. The results are exhibited in Figure 4.1 below;

![Pie Chart showing response rate](image)

Figure 4.1: Response rate
Source: Survey Data (2019)

The outcome presented in Figure 4.1 shows that the response rate was 51 respondents that is 88% while the non-response was 12% amount to 7 respondents. The response was perfectly
represented. This is according to Mugenda and Mugenda (2013) who stated that a response rate of 50% and above is sufficient for evaluation ample to make a conclusion.

4.3 Background Information of the Respondents.

The research examined the background features of the respondents on the basis of the gender, age, education level and additionally the number of years worked in the organisation.

4.3.1 Gender Distribution

The gender characteristics of the respondents were examined and the findings exhibited in table 4.1 below.

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>26</td>
<td>51.0</td>
<td>51.0</td>
</tr>
<tr>
<td>Male</td>
<td>25</td>
<td>49.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey Data (2019)

From the results presented in Table 4.1, it is clear that both genders were well represented in the study sample. The female respondents were the slight majority at 51 percent with the male respondents being 49 percent.

4.3.2 Age Bracket

The study also sought to examine the age brackets of the respondents. The outcome of the examination is displayed in figure 4.2 below;
From the results displayed in figure 4.2, majority of the respondents were between the age of 20-30 years with a frequency 20, followed by the age bracket of between 31-40 years at 19, then those above the age of 41 were 12. This reveals that organisations have more young people than older ones.

4.3.3 Level of Education

The research aimed to do research on the levels of education of the participants and the results illustrated in Figure 4.3 below;
Figure 4.3: Levels of Education

![Education Level Frequency Chart]

Source: Survey Data (2019)

From the results displayed in Figure 4.3, the degree holders were the majority of respondents with a frequency of 25, followed by masters with a frequency of 13, followed by diploma and certificate at 9 and 4 respectively. The results reveal that most respondents are learned and thus were in able to adequately address all the study issues posed to them.

4.3.3 Position Held by Respondents

The research also aimed at examining the management levels of various respondents. The study was aimed at getting respondents mainly from those in the management level and the results illustrated in Table 4.2 below;
Table 4.2: Positions Held by Respondents

<table>
<thead>
<tr>
<th>Position</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top management</td>
<td>9</td>
<td>17.6</td>
<td>17.6</td>
</tr>
<tr>
<td>Middle management</td>
<td>29</td>
<td>56.9</td>
<td>74.5</td>
</tr>
<tr>
<td>Other</td>
<td>13</td>
<td>25.5</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>51</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source (Survey data, 2019)

From the results presented in table 4.2, it is apparent that most participants were mainly from the middle level management at 56.7%. The top management were 17.6 percent while the other levels were 25.5 percent.

4.4 Descriptive Analysis

The researcher conducted a descriptive analysis by focusing on the mean and standard deviation of the various questions for various variables that were examined in the study. This enabled the researcher to present the summary measures of the sample that was observed. The basic feature of the observed sample formed the basis for quantitative data analysis for this study.

4.4.1 Board Composition

The researcher scrutinised the data collected on the measures of the board composition of the various SACCOs under the study and exhibited the results in Table 4.3. below;
Table 4.3: Descriptive Statistics on board composition

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The board has sufficient number of non executive directors</td>
<td>51</td>
<td>1.00</td>
<td>5.00</td>
<td>4.0196</td>
<td>.88295</td>
</tr>
<tr>
<td>The directors are all experienced</td>
<td>51</td>
<td>2.00</td>
<td>5.00</td>
<td>3.6863</td>
<td>.58276</td>
</tr>
<tr>
<td>The company directors have the necessary professional experience to conduct their mandate</td>
<td>51</td>
<td>2.00</td>
<td>5.00</td>
<td>3.9020</td>
<td>.72815</td>
</tr>
<tr>
<td>The directors have diverse skills from finance, accounting, leadership, strategic management and administration</td>
<td>51</td>
<td>2.00</td>
<td>5.00</td>
<td>3.9745</td>
<td>.75042</td>
</tr>
<tr>
<td>The directors have diverse background from ethnic, professional to civilisation</td>
<td>51</td>
<td>2.00</td>
<td>5.00</td>
<td>3.2745</td>
<td>.72328</td>
</tr>
<tr>
<td>The board has strong networking skills which have improved company linkages</td>
<td>51</td>
<td>2.00</td>
<td>4.00</td>
<td>3.7529</td>
<td>.68771</td>
</tr>
<tr>
<td>The board sources directors from performing organisations and excellence role models</td>
<td>51</td>
<td>2.00</td>
<td>4.00</td>
<td>3.7059</td>
<td>.57599</td>
</tr>
<tr>
<td>The board represents the interest of shareholders</td>
<td>51</td>
<td>2.00</td>
<td>4.00</td>
<td>3.3725</td>
<td>.66214</td>
</tr>
<tr>
<td>Average scores</td>
<td></td>
<td></td>
<td></td>
<td>3.7110</td>
<td>0.6992</td>
</tr>
</tbody>
</table>

Source: Survey Data (2019)

From the findings, majority of the respondents agreed that the board had sufficient number of non-executive directors with a mean of 4.0196. The participants concurred that all directors have the required experience to execute their mandate with a mean of 3.6862. The majority of the participants also agreed that the firm directors have the required professional competence to perform their duty with a mean of 3.9020. On the question of the diversity of skills of the directors most respondents agreed that they have diverse skills with a mean of 3.9745. The respondents moderately agreed that the directors had diverse background in terms of ethnicity as shown by the mean of 3.2745. With regard to networking skills, the participants also acknowledged that the directors have strong networking skills that have improved company linkages. Most respondents were in agreement that the board sources directors from performing organisations as indicated by the mean of 3.7059. Lastly, the majority of the participants relatively agreed that the board represents the interests of the shareholders with a mean of 3.7110.
Overall, majority of the respondents agreed that board composition have an influence on the results of the SACCOs under study.

The aggregate mean for the board composition is 3.7110. This is a clear indication that majority of the respondents do agree that the composition of the board have an influence on the results of an organisation. The results are consistent with that of similar studies done in the past. For instance, Ongore and K’Obonyo (2011) on their research on the interrelations existing between ownership, manager and board features and company results, found the significance of board composition towards the performance of an organisation.

4.4.2 Board Size

The researcher conducted the analysis of the data collected on the descriptive statistics of the board and displayed the results in Table 4.4;

<table>
<thead>
<tr>
<th>Description</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lean board size is cost effective and efficient</td>
<td>51</td>
<td>2.00</td>
<td>5.00</td>
<td>3.725</td>
<td>.75042</td>
</tr>
<tr>
<td>Large boards have an enhanced company monitoring capacity</td>
<td>51</td>
<td>2.00</td>
<td>5.00</td>
<td>3.686</td>
<td>.73458</td>
</tr>
<tr>
<td>Large board size faces communication and logistical problems</td>
<td>51</td>
<td>2.00</td>
<td>5.00</td>
<td>3.647</td>
<td>.65798</td>
</tr>
<tr>
<td>A small board size makes decisions easily and in time</td>
<td>51</td>
<td>2.00</td>
<td>5.00</td>
<td>3.805</td>
<td>.80732</td>
</tr>
<tr>
<td>Large board size is less effective in discharge of its mandate</td>
<td>51</td>
<td>2.00</td>
<td>5.00</td>
<td>3.706</td>
<td>.72922</td>
</tr>
<tr>
<td>A small board is easily controlled by the company CEO and top management</td>
<td>51</td>
<td>2.00</td>
<td>5.00</td>
<td>3.745</td>
<td>.82081</td>
</tr>
<tr>
<td>Small boards have fewer communication and coordination problems</td>
<td>51</td>
<td>2.00</td>
<td>5.00</td>
<td>3.744</td>
<td>.65858</td>
</tr>
<tr>
<td><strong>Average scores</strong></td>
<td></td>
<td><strong>3.7228</strong></td>
<td><strong>0.7370</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey Data (2019)
From the findings most of the respondents on agree that a lean board size is cost effective and efficient with a mean of 3.7255. Most respondents also agree that large boards have an enhanced capacity to monitor the company at mean of 3.6863. In terms of communication, majority of the respondents agree that a board with many members encounters communication as well as logistical challenges at a mean of 3.6471. On the question of decision making, the respondents also agreed that a board with few members’ makes decisions effectively and in time with a mean of 3.8055. On the issue of efficiency, most respondents agreed that a board with many members is ineffective in the discharge of its mandate as shown by the mean of 3.7059. Last but not least, the respondents also agreed that a small board is easily controlled by CEO and top management as shown by the mean of 3.7451. Lastly, boards with few members have less communication as well as coordination challenges as shown by the mean of 3.7442.

Overall, majority of the respondents agree that the board size have an influence on the performance of the SACCOs under study as depicted by the average mean of 3.7228. A research did by Belkhir (2006) on the significant of board size on SACCO effectiveness in the context of Kenya found that a company’s BOD is vital in monitoring the behaviour of managers and that board size is vital to the performance in an organisation.

4.4.3 Board Member’s Education

The researcher analysed the data collected on the measures of the board members composition and presented the results in Table 4.5.
Table 4.5: Descriptive Statistics on board members’ education.

<table>
<thead>
<tr>
<th>Board directors have diverse skill and knowledge backgrounds</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The directors have a high level of intellectual ability</td>
<td>51</td>
<td>2.00</td>
<td>4.00</td>
<td>3.3529</td>
<td>.62685</td>
</tr>
<tr>
<td>The vast experience of director has steered</td>
<td>51</td>
<td>2.00</td>
<td>5.00</td>
<td>3.4902</td>
<td>.67446</td>
</tr>
<tr>
<td>The directors are of high integrity</td>
<td>51</td>
<td>2.00</td>
<td>5.00</td>
<td>3.7255</td>
<td>.85037</td>
</tr>
<tr>
<td>The directors have come up with innovative ideas which has contributed to high performance of SACCO</td>
<td>51</td>
<td>2.00</td>
<td>4.00</td>
<td>3.6078</td>
<td>.63493</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>3.6549</strong></td>
<td><strong>0.6854</strong></td>
</tr>
</tbody>
</table>

Source: Survey Data (2019)

According to the findings presented in table 4.5 Most respondents agreed that the board directors have diverse skill and knowledge as indicated by the mean of 4.0980. Majority of the participants moderately acknowledged that the directors have high level of intellectual ability with a mean of 3.3529. The participants moderately acknowledged that the vast experience of the directors has steered the performance of the SACCOs; mean is 3.4902. The respondents also agreed that the directors have a high level of integrity; mean is 3.7725. Lastly, a good number of the respondents agreed that the directors have innovative ideas that contribute to high performance as depicted by the mean of 3.6549 which is close to 4 that represents agreed in the Likert scale.

Overall, a good number of the participants agree that the education level has an influence on the performance of the SACCOs under study. A study by Carpenter and Westphal (2011) on the connection between members of board’s knowledge and expertise on company results also established the significance of education on performance.
4.4.4 Gender Diversity

The researcher analysed the data collected on the measures of gender diversity and presented the results in Table 4.6.

**Table 4.6: Descriptive Statistics on Gender Diversity**

<table>
<thead>
<tr>
<th>Description</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The SACCO board gender distribution reflects the structure of the society</td>
<td>51</td>
<td>2.00</td>
<td>5.00</td>
<td>3.9804</td>
<td>.70683</td>
</tr>
<tr>
<td>The board is gender balanced</td>
<td>51</td>
<td>2.00</td>
<td>5.00</td>
<td>3.7843</td>
<td>.57667</td>
</tr>
<tr>
<td>The board leadership is rotational and considers gender</td>
<td>51</td>
<td>2.00</td>
<td>5.00</td>
<td>3.7059</td>
<td>.9010</td>
</tr>
<tr>
<td>The board gives roles fairly without discrimination based on gender</td>
<td>51</td>
<td>2.00</td>
<td>4.00</td>
<td>3.5882</td>
<td>.60585</td>
</tr>
<tr>
<td>The board entrusts women with leadership where men are the majority</td>
<td>51</td>
<td>2.00</td>
<td>4.00</td>
<td>3.5294</td>
<td>.61165</td>
</tr>
<tr>
<td><strong>Average scores</strong></td>
<td></td>
<td></td>
<td></td>
<td>3.7176</td>
<td>0.6804</td>
</tr>
</tbody>
</table>

**Source:** Survey Data (2019)

From the results exhibited in table 4.6 most of the participants on agree that the board gender reflects the structure of the society; mean is 3.9804. In terms of gender balance, a good number of the respondents agree that the board is gender balanced; mean is 3.7843. Majority of the respondents also agreed that board leadership rotates based on gender.; mean is 3.7059. Last but not least most respondents agreed that the board gives roles fairly without discrimination on gender as depicted by the mean of 3.5882. Lastly, most respondents agreed that the board entrusts women with leadership; mean is 3.5294.

Overall, a good number of the respondents agree that the gender diversity is instrumental towards the performance of the SACCOs under study as shown by the mean of 3.7176. A study by Daily & Dalton, (2003) regarding gender having an impact on decision making of the board
reveals that gender equality if well communicated among boards of directors and is likely to lead to good decision making and this is instrumental to the performance.

4.4.5 Performance

The researcher analyzed the data collected on the measures of organisational performance and presented the results in Table 4.7.

Table 4.7: Descriptive Statistics on organisational performance

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The company plays important role in the organisation’s strategy</td>
<td>51</td>
<td>2.00</td>
<td>4.00</td>
<td>3.5882</td>
<td>.57189</td>
</tr>
<tr>
<td>in creating stakeholder value</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board has clear programs that enhance the profits of the organisation</td>
<td>51</td>
<td>2.00</td>
<td>4.00</td>
<td>3.6078</td>
<td>.63493</td>
</tr>
<tr>
<td>The company directors have been instrumental in</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>improving performance of the company</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The directors are qualified, professional and</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>intellectuals who have delivered on their mandate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The board gender diversity has contributed to better</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>performance of the SACCO</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The size of the board is lean, effective and efficient for the SACCO</td>
<td>51</td>
<td>2.00</td>
<td>5.00</td>
<td>3.8039</td>
<td>.52989</td>
</tr>
<tr>
<td>The board has improved organisational linkages</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average scores</td>
<td></td>
<td></td>
<td></td>
<td>3.6513</td>
<td>0.5891</td>
</tr>
</tbody>
</table>

Source: Survey Data (2019)

From the findings most of the respondents on agree that the company plays an important role in the organisation’s strategy in creating stakeholder value; mean is 3.5882. The respondents agree that the board has clear programs that enhance profits of the organisation, mean; 3.6078. Majority of the respondents agree that the directors have been instrumental in improving the performance of an organisation; mean is 3.6667. Majority also agreed that the directors are qualified professionals who have delivered on their mandate as shown by the mean of 3.6275.
They also agreed that the board gender diversity has contributed to performance; mean is 3.8039. Last but not least, majority of the respondents agreed that the size of the board is lean and efficient for the SACCO; mean is 3.5098. Finally, a good number of the respondents agreed that the board has improved linkages; mean is 3.7551. Overall the participants acknowledged that various measures of performance were being applied in the organisation as depicted by the mean of 3.6513.

4.5 Inferential Analysis

This part shows an evaluation on the correlation test, model summary, ANOVA, and various regression evaluations on the effect of corporate governance (Board composition, number of board members, board members’ education and gender equality) on performance of SACCOs.

4.5.1 Correlation Analysis

The correlation examination was also performed to find out how strongly a pair of variable is correlated. The results are presented in Table 4.8 below;
From Table 4.8 above, there is a significant positive relationship between the board composition and performance ($r=.489$, ‘p value’ .000). The results are in line with an examination by K’Obonyo (2011) whose study established a positive correlation between board composition and performance. There is also a significant positive correlation between board size and performance ($r=.521$, ‘p value’ .000). A study carried by Belkhir(2006) also found similar results. There is an significant positive correlation between board education and organisational performance ($r=-.223$,’p-value’ .115). The positive association is in line with a study by Carpenter and Westphal (2011) which ascertained a positive correlation between board knowledge and skills and performance. There is also a non-significant positive association between the gender diversity and organisational performance ($r=-.172$, ‘p value’ .228). This conforms to a study by Carver (2002) which established a positive association between board diversity and results.

---

**Table 4.8: Correlation Test**

<table>
<thead>
<tr>
<th></th>
<th>Org. performance</th>
<th>Board composition</th>
<th>Board size</th>
<th>Board education</th>
<th>Gender diversity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Org. performance</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board composition</td>
<td>.489*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board size</td>
<td>.521*</td>
<td>.490*</td>
<td>-.024</td>
<td>-.065</td>
<td></td>
</tr>
<tr>
<td></td>
<td>.000</td>
<td>.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board education</td>
<td>.223</td>
<td>-.024</td>
<td>-.065</td>
<td>-.340*</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>.115</td>
<td>.868</td>
<td>.650</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gender diversity</td>
<td>.172</td>
<td>.604*</td>
<td>.511*</td>
<td>-.340*</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>.228</td>
<td>.000</td>
<td>.000</td>
<td>.015</td>
<td></td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level (2-tailed).

**Source:** Survey Data (2019)
4.5.2 Analysis of Variance (ANOVA)

This study made use of the ANOVA statistics to find out the significance of the association between the performance of SACCOs in Kenya and the independent variables.

Table 4.9: Analysis of Variance (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>10.734</td>
<td>4</td>
<td>2.683</td>
<td>7.766</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>15.894</td>
<td>46</td>
<td>.346</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>26.627</td>
<td>50</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance
b. Predictors: (Constant), Gender diversity, Board members' education, Board size, Board composition

Source (Survey data, 2019)

From the findings, the model was significant with a p-value of 0.000 which implies that the model was good for estimation.

4.5.3 Model Summary

The study also examined the percentage of variation in the dependent variable as a result of a percentage change in the predictor variables. The results are presented in table 4.10 below.

Table 4.10: 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>.864^a</td>
<td>.746</td>
<td>.744</td>
<td>3.8564231</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Board composition, Board size, Board members’ education, Gender diversity

Source (Survey Data, 2019)
The model had an adjusted R-square value of 0.744. The R-square value of 0.744 implies that the predictor variables (Board composition, Board size, Board members’ education, Gender diversity) explain 74.4% of the changes in the performance of SACCOs.

### 4.5.4 Regression Analysis

This study carried out the multiple regression effect of corporate governance practices on the performance of SACCOs in Kenya. Table 4.11 exhibits the regression analysis output.

**Table 4.11: Multiple Regression Analysis**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>95.0% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>-2.241</td>
<td>1.404</td>
<td>-1.596</td>
</tr>
<tr>
<td>X1</td>
<td>.933</td>
<td>.339</td>
<td>.423</td>
</tr>
<tr>
<td>X2</td>
<td>-.379</td>
<td>.179</td>
<td>-.183</td>
</tr>
<tr>
<td>X4</td>
<td>-.490</td>
<td>.359</td>
<td>-.224</td>
</tr>
</tbody>
</table>

*Dependent Variable: Organisational performance*

**Source: Survey Data (2019)**

The regression model that was estimated through the results of regression analysis is presented below.

\[ Y = -2.241 + 0.933X_1 - 0.379X_2 + 0.307X_3 - 0.490X_4 + \varepsilon \]

Without the inclusion of the predictor variables, the performance of the SACCOs declines by 2.241 times. A unit increase in the board composition (X1) holding the other variables constant
results in a significant increase in the performance of SACCOs by .993 times with a p-value of .009 at 0.05 level of significance. Secondly, a unit increases in board size (X2) other factors held constant, results in a significant decrease in performance of SACCOs by .379 times. The ‘p-value’ is .031 at .05 significance level. Thirdly, a one-unit increase in board members’ education levels (X3) leads to a non-significant increase in the performance of SACCOs by .307 times other factors held constant. Lastly, there was an insignificant inverse relationship between the gender diversity and performance of SACCOs. A unit increase in gender diversity(X4) results in a decline in the performance by .490 times other factors held constant.

4.6 Interpretation of Findings

4.6.1 Effect of Board Composition on Performance

The first specific objective of the study was to determine the effect of board composition on the performance of SACCOs. The results exhibited in table 4.12 of regression analysis demonstrate that a unit increase in the board composition (X1) holding the other variables constant results in a significant increase in the results of SACCOs by 0.993 times. The increase is statistically significant at 95 percent confidence level as depicted by the ‘p value’ of .009.

The results are consistent with that of similar studies done in the past. For instance, Ongore and K’Obonyo (2011) on their research on the interrelations existing between ownership, manager and board features and company results, found the significance of board composition towards the performance of an organisation. Nevertheless, the findings disagree with that of Eisenberg et al. (2008) who established an inverse association between profitability and board size in the context of small and midsize and Finnish companies. Similarly, Mak and Yuanto (2003) in their study found that board inversely impacts on listed firms in Malaysia and Singapore as the indicated
that valuation of firms is highest in the case where a board is comprised of 5 directors, this number is therefore considered small in such markets.

4.6.2 Effect of Size of Board on Performance

The second objective of the study was to examine the effect of board size on the performance of SACCOs. The regression results indicate that a unit increase in board size (X2) other conditions held constant, leads to a significant decrease in performance of SACCOs by .379 times. The ‘p value’ is .031 which indicate significance at .05 significance level.

A research done by Belkhir (2006) on the relationship of board size on SACCO performance in the context of Kenya found that a company’s BOD is vital in monitoring the behaviour of managers and that board size is vital to the performance in an organisation. The findings are consistent with that of the current study in that it found that the bigger the size of the board, the lower the firms’ performance. In addition, Hermalin and Weisbach (2003) did a research on the impact of the number board members on corporate management and ascertained that the board size has a material effect on corporate governance quality. The study indicated that smaller board sizes are more effective in enhancing company performance. Studies by Eisenberg et al. (2008) and Yermack (2006) indicated an inverse relation between size of board and firm value, the studies reveal that smaller boards numbers are more effective as compared to large borad numbers since they have fewer coordination and communication problems. A recent study by Lipton and Lorsch (2012) found that restricting the size of board to a certain level is generally agreed to lead to the improvement of firm performance at the various firm levels.
4.6.3 Effect of Board Members’ Qualification on Performance

The third objective of the study was to ascertain the effect of the board members’ education levels on the results of SACCOs in Nairobi. A one unit increment in board members’ education levels (X3) leads to an insignificant increase in the performance of SACCOs by .307 times other factors held constant.

Unlike the current study, which equally establishes an increase in performance as a result of board educational skills, past studies established a significant relationship between the board skills and performance. For instance Carpenter and Westphal (2011) did a research in the connection between members of board’s knowledge and expertise on company performance and realized that BOD have a combination of capabilities and competencies which collectively represent a collection of social capital which also brings about value creation in executing the governance roles of the board. Ingley and van der Walt, (2011) in their study established that from the perspective of resource dependency, skilful and qualified board members are strategic resources which provide linkage to the different external resources. As such members who possess advanced qualifications bring about a performing board with high levels experience, intellectual capability, integrity and sound of judgment (Hilmer, 2008). Various researches have also established a direct linkage between board competencies and performance (Dunphy, Turner & Crawford, 2007; Carver, 2012, Ljungquist, 2007).

4.6.4 Effect of Gender Diversity on Performance

The last goal of the research was to assess the effect of gender equality on the performance of SACCOs. The results of regression analysis in Table 4.12 demonstrate that A unit increase in
gender diversity(X4) results in a non-significant decline in the performance by .490 times other factors held constant.

The findings from the current study are not line with the outcome of the research in the literature reviewed. For example, Carver (2002) did a research on the impact of board equality and institutional performance and found out that board equality has a positive and significant relationship with the performance of an organisation. According to a study by Dalton (2003) gender diversity positively influence the performance of organisations. He explains that gender equality factor if not supported among boards of directors and is likely to result into ineffective decision making which in turn adversely affects the performance. Milliken and Martins (2006) in their research on gender equality and board equality, realized that the composition of boards is supposed to be a reflection of the community structure and adequately incorporate the ethnicity, gender and professional foundation of members thus found a significant impact of gender diversity on performance of organisations.
CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This section presents the summary of the results, conclusions and what is supposed to be done as per the study as well as suggestions for further research. This section outlines the summary of the findings in relations to the specific objectives and research questions presented in the study. The study aimed at establishing the relationship between corporate governance and performance of SACCOs in Nairobi county Kenya with a focus on the board composition, the number of board members, board members’ education and gender equality.

5.2 Summary of the Study

The aim of this study was to ascertain the relationship between the corporate governance and performance of selected savings and credit cooperative societies in Nairobi. A primary research methodology was used. Both descriptive and inferential statistics were conducted with an aim of establishing the relationship. A multiple regression was conducted and the results obtained for each objective.

The first objective was to ascertain the impact of board composition on the results of SACCOs in Kenya. The results from the regression analysis demonstrate that a unit increment in the board composition holding the other variables constant results in a significant increase in the performance of SACCOs by .993 times with a p value of .009 at 0.05 level of significance. The results are consistent with that of Ongore and K’Obonyo (2011), Eisenberg et al. (2008) and Mak and Yuanto (2003) which established a positive connection among board composition and the results.
The Second objective of the study was to find the impact of board size on the results of SACCOs in Kenya. The regression results indicate that a unit increase in board size other elements maintains the same, results in a significant decrease in performance of SACCOs by .379 times. The p value is .031 which indicates significance at .05 significance level. This is consistent with studies by Belkhir (2006), Hermalin and Weisbach (2003) and Eisenberg et al. (2008) which established a significant and inverse effect of board size on performance.

The third objective was to analyse the consequence of board members’ education levels on the result of SACCOs in Kenya. The outcome shows that a one unit increase in board members’ education levels results to a non-significant increment in the performance of SACCOs by .307 times other factors held constant. These outcomes were however contrary to that of Hilmer (2008), Dunphy, Turner and Crawford (2007), Carver (2012) and Ljungquist (2007).

The fourth objective of the study was to determine the effect of gender diversity on the performance of SACCOs in Kenya. The results of regression analysis in demonstrate that a unit increment in gender diversity results in a non-significant decline in the result by .490 times other factors maintained the same. The findings were not consistent with that of studies by Carver (2002), Dalton (2003) and Milliken and Martins (2006) which establish an increase in performance with an increase in gender diversity.

5.3 Conclusions of the Study

The foremost conclusion from the findings in this study is that, corporate governance practices have an influence on the result of SACCOs in Kenya. The first conclusion was that board composition positively influence the result of SACCOs in Kenya. The results from the regression
analysis demonstrate that a unit increment in the board composition holding the other variables constant results in a significant increase in the performance of SACCOs by .993 times with a p value of .009 at 0.05 level of significance. The results are consistent with that of similar studies done in the past. For instance, Ongore and K’Obonyo (2011) on their research on the interrelations existing between ownership, manager and board features and the company results, found the significance of board composition towards the performance of an organisation.

The Second conclusion is that the number of board members has an inverse impact on the result of the SACCOs in Kenya. The regression results indicate that a unit increment in board size other factors maintained the same, results in a significant decrease in performance of SACCOs by 0.379 times. A recent study by Lipton and Lorsch (2012), on the reason the number of the board members is a challenge in many companies found that restricting the size of board to a certain level is generally agreed to lead to the improvement of firm performance at the various firm levels.

The third conclusion was that the education of board members doesn’t significantly increase the results of the SACCOs. The third objective was to examine the effect of board members’ education levels on the performance of SACCOs in Nairobi county Kenya. The outcome shows that a one-unit increase in board members’ education levels results to a non-significant increment in the performance of SACCOs by .307 times other factors held constant. This is in agreement with the findings by Carpenter and Westphal (2011) which concluded that BOD have a combination of capabilities and competencies which collectively represent a collection of social capital which also brings about value creation in executing the governance roles of the board.
The fourth conclusion was that gender diversity has a non-significant inverse influence on the results of SACCOs in Nairobi. The aim of the research was to determine the effect of gender diversity on the result of SACCOs in Kenya. The results of regression analysis demonstrate that a unit increment in gender diversity results in a non-significant decline in the result by 0.490 times other factors held constant. The findings from the current study are not consistent with a study by Carver (2002) did a research on the impact of board equality and institutional established and found out that board equality has a positive connection with the result of an organisation.

5.4 Policy Recommendations

As depicted by the outcome from this study, board composition and the board size are the most vital and significant corporate governance factors that affect the performance of the SACCOs in Kenya. The study thus recommends the following;

The study first suggestions that SACCOs in Nairobi should ensure that the organization of the board is rich in terms of the professional skills, competencies and knowledge in various fields. This will ensure proper decision making in the SACCOs which ultimately contributes towards good performance in the SACCOs.

Secondly, the study recommends that for the SACCOs to have better performance, they have to ensure that the board size is lean as this will ensure that there is faster decision making as well as efficiency which doesn’t happen in the case of large board size.

Thirdly, based on the findings board education was insignificant. The study recommends that much attention should be paid to the work experiences of board members as opposed to only the
education aspect which is a small element of the skills base. More experienced board members can add value notwithstanding their educational background.

5.5 Suggestions for Further Research

This research suggests that more research should be executed on the direct role of gender equality and board members’ education levels on the result of an organisation. In the current study, the board members’ education and gender diversity were found to be non-significant thus the study can be done using a larger sample size.
REFERENCES


Kimanzi , Y., & Baig, M. (2012). Role of Corporate Governance: Role of Corporate Governance in the survival of commercial banks in Rwanda


APPENDICES

APPENDIX I: INTRODUCTION LETTER

Diaz Muthiora Mbiriti

Kenyatta University,  
P.O. Box 702 – 60100,  
NAIROBI.

RE: Request to fill in the Questionnaire

Dear Respondent,

I am a graduate student at Kenyatta University, carrying out research on the effect of corporate governance on performance of selected SACCOs in Nairobi County, Kenya. This is in partial fulfilment of the requirement of the Master of Business Administration degree program at the Kenyatta University.

Kindly help in answering the questions in the questionnaires.

Thank you.

Yours faithfully,

Muthiora
APPENDIX II: RESEARCH QUESTIONNAIRE

BACKGROUND INFORMATION

1. Select your gender
   Male [  ]
   Female [  ]

2. Age
   20-30 years [  ]
   31-40 years [  ]
   41 and above [  ]

3. Highest level of education
   Certificate [  ]
   Diploma    [  ]
   Degree     [  ]
   Masters    [  ]

4. Select the number of years you have worked for SACCO
   0 – 2 years [  ]
   3 – 5 years [  ]
   6 – 8 years [  ]
   9 – 10 years [  ]
   Over 10 years [  ]

5. What is your position in the SACCO? Indicate appropriately, else specify.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Position</th>
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</thead>
<tbody>
<tr>
<td>Board Member</td>
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<tr>
<td>Top Management</td>
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<tr>
<td>Middle Management</td>
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<tr>
<td>Other (Specify)</td>
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</tbody>
</table>
PART ONE: BOARD COMPOSITION AND PERFORMANCE

6. Indicate the degree to which you agree to the statements below on a scale spanning from 1 – 5. Key: 1 (strongly disagree), 2 (disagree), 3 (moderately agree), 4 (agree), 5 (strongly agree).

<table>
<thead>
<tr>
<th>Statements</th>
<th>1</th>
<th>2</th>
<th>3</th>
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<tbody>
<tr>
<td>The board has sufficient number of non-executive directors</td>
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<tr>
<td>The directors are all experienced</td>
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<tr>
<td>The company directors have the necessary professional experience to conduct their mandate</td>
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<tr>
<td>The directors have diverse skills from finance, accounting, leadership, strategic management and administration</td>
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<tr>
<td>The directors have diverse background from ethnic, professional to civilization</td>
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<tr>
<td>The board has strong networking skills which have improved company linkages</td>
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<tr>
<td>The board sources directors from performing organizations and excellence role models</td>
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<tr>
<td>The board represents the interest of shareholders</td>
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</table>

PART TWO: BOARD SIZE AND PERFORMANCE

7. Indicate the degree to which you agree to the statements below on a scale spanning from 1 – 5. Key: 1 (strongly disagree), 2 (disagree), 3 (moderately agree), 4 (agree), 5 (strongly agree).

<table>
<thead>
<tr>
<th>Statements</th>
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<th>2</th>
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<tbody>
<tr>
<td>Lean board size is cost effective and efficient</td>
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<tr>
<td>Large boards have an enhanced company monitoring capacity</td>
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<tr>
<td>A large board size faces communication and logistical problems</td>
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<tr>
<td>A small board size makes decisions easily and in time</td>
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<tr>
<td>Large board size is less effective in discharge its mandate</td>
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<tr>
<td>A small board is easily controlled by the company CEO and top management</td>
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<tr>
<td>Small boards have fewer communication and coordination problems</td>
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</tbody>
</table>
PART THREE: BOARD MEMBERS’ EDUCATIONAL QUALIFICATIONS AND PERFORMANCE

8. Indicate the degree to which you agree to the statements below on a scale spanning from 1 – 5. Key: 1 (strongly disagree), 2 (disagree), 3 (moderately agree), 4 (agree), 5 (strongly agree).

<table>
<thead>
<tr>
<th>Statements</th>
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<th>2</th>
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</thead>
<tbody>
<tr>
<td>Board directors have diverse skill and knowledge backgrounds</td>
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<tr>
<td>The directors have a high level of intellectual ability</td>
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<tr>
<td>The vast experience of director has steered performance of the SACCO to greater heights</td>
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<tr>
<td>The directors are of high integrity</td>
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<tr>
<td>The directors have come up with innovative ideas which has contributed to high performance of the SACCO</td>
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</table>

PART FOUR: GENDER DIVERSITY AND PERFORMANCE

9. Indicate the degree to which you agree to the statements below on a scale spanning from 1 – 5. Key: 1 (strongly disagree), 2 (disagree), 3 (moderately agree), 4 (agree), 5 (strongly agree).

<table>
<thead>
<tr>
<th>Statements</th>
<th>1</th>
<th>2</th>
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<tbody>
<tr>
<td>The SACCO board gender distribution reflects the structure of the society</td>
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<tr>
<td>The board is gender balanced</td>
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<tr>
<td>The board leadership is rotational and considers gender</td>
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<tr>
<td>The board gives roles fairly without discrimination based on gender</td>
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<tr>
<td>The board entrusts women with leadership where men are the majority</td>
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</table>
PART FIVE: PERFORMANCE

10. Indicate the degree to which you agree to the statements below on a scale spanning from 1 – 5. Key: 1 (strongly disagree), 2 (disagree), 3 (moderately agree), 4 (agree), 5 (strongly agree).

<table>
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<tr>
<th>Statements</th>
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<th>2</th>
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<tbody>
<tr>
<td>The company board important role in the organization’s strategy in creating stakeholder value</td>
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<tr>
<td>Board has clear programs that enhance the profits of the organization</td>
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<tr>
<td>The company directors have been instrumental in improving performance of the company</td>
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<tr>
<td>The directors are qualified, professional and intellectuals who have delivered on their mandate</td>
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<tr>
<td>The board gender diversity has contributed to better performance of the SACCO</td>
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<tr>
<td>The size of the board is lean, effective and efficient for the SACCO</td>
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<tr>
<td>The board has improved organizational linkages</td>
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</table>