CORPORATE GOVERNANCE PRACTICES AND PERFORMANCE OF DEPOSIT TAKING SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN NAIROBI CITY COUNTY, KENYA

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DECLARATION

This research project is my original work and has not been presented for a degree or any other award in any other university.

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DEDICATION

This research project is dedicated to my wife Neema and children Karen and Ricky; thank you for your moral support. I also want to dedicate to my Mother Grace Tungo Chesire, my late father Joshua Chesire and my siblings Jane, Moses, Christine and George for their encouragement and the love of education which has been my source of inspiration.

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ABBREVIATIONS AND ACRONYMS

BOD	:	Board of Directors
CG	:	Corporate Governance
DTSs	:	Deposit Taking Saccos
FOSA	:	Front Office Services Activities
NSE	:	Nairobi Exchange Securities
ROA	:	Return on Assets
SACCOS	:	Savings and Credit Co-operatives Societies

OPERATIONAL DEFINITIONS OF TERMS

Board Diversity: In this study, board diversity refers to members of the board of firm with different characteristics in terms of race, gender, educational background, experience, age and culture.

Board Size: In this study, board size entails totality of members in a board as well as those who frequently attend meetings.

Board: This entails executive and non-executive directors of a particular organization. The board is chosen by the shareholders and is mandated to ensure realization of the firm's objectives.

Corporate Governance: This encompasses practices employed in the regulation of how managers and stakeholders of an organization related. In this study, it entailed the corporate governance practices employed by the DTS within Nairobi city county, Kenya.

Deposit Taking Saccos: These are Saccos that take deposits, and thus offer withdraw able savings accounts services similar to those offered by banks. They also offer front office services where members can walk into their banking halls as they withdraw or deposit money into their accounts.

Firm Performance: This is how well a firm is able to accomplish the set organizational objectives based on resources utilization and revenue maximization.

ABSTRACT

In Kenya, the deposit taking savings and credit societies segment of the Kenyan SACCO subsector is vital for the growth of the developing economy in playing a distinct and important role of providing financial services. However, DTSs' performance has been dwindling with members seeking financial services from SACCOS in Kenya declining from 13.5% in the year 2009 to 9.1% in the year 2015. Most of them are providing for potential bad loans in their books of accounts raising questions over their fitness in the key credit market. Despite the contribution to the economy, DTSs continue to experience huge losses with others even collapsing questioning the measures put in place in ensuring continued performance. This study therefore, aimed at determining the effect of corporate governance practices on performance of deposit taking Saccos in Kenya. The specific objectives of this study were to establish the effect of board independence, board size, board diversity and board composition on performance of deposit taking Saccos in Nairobi City County, Kenya. Descriptive cross-sectional survey was adopted by the study. The target population comprised of 35 licensed deposit taking Saccos in Nairobi County which formed the studies unit of analysis while the unit of observation was 105 staff members at the managerial level in the Saccos. Semi-structured questionnaires were utilized in obtaining primary data. Descriptive statistics were used to provide summary measures of data observed and these included frequencies, percentages, mean and standard deviation. Inferential statistics was conducted using correlation and multiple regression analysis. The findings on the correlation analysis showed that all variables had positive linear correlation. On the overall corporate governance measures' effect on performance, the regression analysis reported that the independent variables have a strong positive relationship on DTSs' performance. The model coefficients further revealed the performance was significantly influenced by all the variables. It implied that these variables' unit increase would result in a proportional change in the performance. The study therefore concludes that maintenance of a well-functioning, balanced and diverse board is a main determinant of organizational performance. Organizations having effective boards will thus tend to outperform those having challenges in their corporate governance. The study recommends that the firms should ensure that their corporate boards are carefully select so as to meet the specifications of that particular company. The study also recommends development of a gender code or policy basing on stewardship theory since it is well aligned to co-operative principles. Additionally, the study recommends that the companies should conduct frequent monitoring and evaluation of the boards put in place so as to maximize their potentials.

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

In the current volatile macro-environment posed by technology advancement and globalization, the performance of an organization is critical in determining its success and growth in a particular industry (Whittington & Pany, 2016). Performance is crucial in increasing the firm worth and boosting the growth of the entire industry thus leading to economic growth and development. Determination of a firm's performance is by the returns accrued when the year ends in comparison to the start of the year (Mwangi, & Birundu, 2015). It is assessed by the effectiveness of resources management based on the prevailing external environment in line with the firm's strategic goals.

A sound financial performance thus enables firms to manage the risks faced by the organization including solvency, liquidity problems, market fluctuation and creditworthiness of the customers (Ahsan, 2016). This acts as an appraisal of efficiency, accountability, productivity and preparedness of the entity within a particular timeframe. However, globally, financial scandals have been witnessed with most organizations showing dismal performance proving that it has become more difficult for most organizations to remain profitable (Mbaire, 2017). A study conducted by Lincolin, (2015) revealed that Deposit Taking Savings and Credit Societies (DTSs) continue to underperform due to poor governance mechanisms.

In developed countries such as Canada and Europe Credit unions continue to perform dismally due to challenges in administration, governance and accountability (Iyikirenga, 2014). This implies that most DTSs are not retaining sufficient earnings to build capital, proportionately to the growth of their asset base. Financial institutions including DTSs are faced with an array of challenges leading to some being declared insolvent (Mumanyi, 2014; Duncan, Njeru, & Tirimba, 2015).

Regionally, Deposit Taking Saccos (DTS) continue to experience credit, interest, liquidity and operational risks which threaten their survival (Ogega, 2014). Studies conducted in Ethiopia, Zambia and Tanzania have revealed that these challenges hinder the exploitation of the full potential of DTSs leading to poor performance (Magali, & Lang'at, 2014). While a study conducted in Rwanda revealed that DTSs have come under spotlight for mismanagement cases and majority have been liquidated (Muvuna, 2017). Inadequate managerial policies for risk mitigation have been also established to negatively affect the profitability and financial stability of the DTSs (Elyasiani, & Jia, 2019).

In Kenya, the contribution of financial institutions towards financial inclusion and access cannot be ignored because of their support in financial resources allocation to other sectors of the economy (Anyanga, & Rotich, 2017). However, in spite of their growth in the past ten years, deposit taking savings and credit societies are faced with various challenges which limit their expansion which mainly occur as a result of poor governance and mismanagements (Wambua, 2011; Njenga, & Jagongo, 2019). Challenges bedeviling deposit taking savings and credit societies include improper regulations, lack of separation of ownership, inadequate experience in the management as well as lack of accountability of the board members which reduce their financial performance (Omwenga, 2019).

Efficient and well performing organization are characterized by well laid out management practices guided by proper missions and visions which translate to increased returns and growth of the firm (Nyamita, 2016). Financial institutions particularly deposit taking savings and credit societies therefore should identify and implement practices to ensure they perform by minimizing possibilities of negative impact due to financial problems (Tsamenyi, 2017). Therefore, corporate governance aspects including equitability, shareholders respect, accountability and transparency are vital in assuring that maximal financial performance is attained.

Corporate governance is regarded as the key foundation for organizations to be more productive, increase efficiency, effectiveness and be well managed and controlled (Lee, 2018). In addition, the rate of collapse of institutions and the failure of firms across the world has also prompted researchers to study the ways by which organizations are governed and controlled.Dozie, (2017) believes that corporate governance is characterized by transparency, accountability, probity and the protection of stakeholders' rights. Oyediran, (2018) further observes that corporate governance refers to the manner in which the power of a corporation is exercised in the management of its total portfolio of socio and economic resources with the aim of increasing shareholders' value and safeguarding the interest of other stakeholders in the context of its corporate mission.

1.1.1 Firm Performance

According to OECD, (2017) performance may entail an organization's success in achieving its set goals and targets through strong governance and sound management. Performance may also be termed as the rate and efficiency at which operations are undertaken in the organization. The initiative to measure the performance of a firm assists organization to mitigate against factors that may prevent it from achieving its mission and offer certainty. There is no standard measurement of an organization's performance due to the varied opinion on the theoretical and practice assessment of a well performing entity (Mensah, & Maponga, 2017).

Performance evaluation is crucial for any organization due to the fact that it is an indicator of its growth and fulfilment of financial obligations. A firm is a voluntary association of productive assets which include capital resources, Physical and human for the sole reason of achieving a common purpose (Ismi, 2018). Organizational performance may be measured using product quality, employee satisfaction, innovation in new products and speed of response. Product quality relates to the how the customer perceives the product or service to fulfill their expectations. Quality of products therefore tends to influence customer satisfaction and loyalty which have an effect on the returns of the organization (Post, & Byron, 2017).

Satisfied employees positively impact an organization's profitability through improved engagement and productivity (Mule, & Mukras, 2015). Therefore, assessment of the employee performance is essential in determination of any potential problems in human resource and may be measured using service delivery quality and employee productivity. Innovation on the other hand entails developing and marketing new services/products that cause value addition to the customers by meeting their needs at the right time in a convenient and efficient manner than that offered by competitors. For the organization to be well performing it is supposed to have a prompt response to not only internal operations but also externally to the customers' welfare, demands and stakeholder's interests (Buhovac, & Yuthas, 2015).

In this regard, performance measurement is gaining popularity globally including developing countries it is increasingly gaining acceptance both in public and private entities (Mugane, & Ondigo, 2016). This study was on the performance of organization with respect to corporate governance practices of DTSs. A successful organization performance can be attributed to corporate governance which will depend largely on the external environment based on the complexity and dynamism (Green, 2019). They are decisions and actions geared towards achievement of the firm's objectives. The measures of performance in this study included product quality, employee satisfaction, new products and speed of response. The measures were chosen based on works of Harrison and Poole (2017) who found that the use of performance measurement product quality, employee satisfaction, new products and speed of response might be associated with organisational performance.

1.1.2 Corporate Governance

Hargovan, and Harris, (2018) term Corporate Governance (CG) as practices done in ensuring that there is alignment of interests of stakeholders, employees and investors in capital maximisation. Similarly, Kenani, and Bett, (2018) term corporate governance as procedures geared at directing and management of the affairs of an organization in an orderly manner so as to foster transparency and accountability. Good CG practices ensure that businesses are managed properly and return on investment to the investors is fair as observed by (Karuma, 2017).

There are various pillars and principles that corporate governance is premised on. The pillars include; fairness, transparency, responsibility and accountability. It is through the pillars that we interrogate their impact on performance. Through Fairness, shareholder's rights are safeguarded, transparency ensures timely and accurate dissemination of information and responsibility (Waweru, & Prot, 2018). Responsibility ensures leaders are well capable and fully represent their organizations. The significance of CG has been underscored in the due to emerging developments in a number of organizations. Institutions operate on a chain of governance which is a representative of groups influencing the firms either as owners or management.

CG is operationalized based on the state of chief executive officer duality, board diversity, board size and disclosure of information regarding the organization to the stakeholders, supervisory role of the directors and board independence (De Haan, & Vlahu, 2016; Eisenberg, & Ozili, 2017). Each organization thus aims at ensuring that its board is not only diversified but also well-structured so as to effectively perform the delegated duties. However, the boundaries and extent of operations of the corporate governance structures tend to vary based on business or corporation. Through corporate governance, proper interactions are made among the resource providers in the company and those who assure and maintain continued organizational performance.

The aims of CG is to ensure that there is accountability among the corporate managers in enhancing proper management of the corporate and financial performance through proper organization control (Barako, & Brown, 2016). However, ineffective corporate governance may result in mismanagements of funds, corruptions, waste mismanagement, loss of employees and customers' trust, nepotism, and even insolvency of the organization. The corporate scandals witnessed in the recent past lead to increased demand for more accountability and responsiveness both to the Management and owners (Johnson, schools & Whittington, 2014). In this study, corporate governance was measured in terms of board composition, board independence, board size and board diversity. According to Shleifer and Vishny (2017), corporate governance deals with board composition, board independence, board size and board diversity and this ensures that the suppliers of finance to corporations get a return on their investment.

1.1.3 Deposit taking SACCOs

Deposit taking Saccos are financial organizations which are started and operated on basis of promotion of the financial wellness of its members (Anyanga, & Rotich, 2017). Introduction of Saccos was started early 1960s and later increased greatly since then. By the end of year 2016, the number had risen even higher to over 7 million members (CMA, 2017), indicating an immerse increase in popularity of Saccos among the people. Sacco Societies Regulatory Authority (SASRA) has been given the mandate of regulation of these SACCOs with a total of 177 DTS being licensed by 2017.

The co-operatives have in the past successfully provided financial services to many sectors of the Kenya economy including salaried employees and Jua Kali artisans (Oseno, 2019). Saccos therefore offers similar products as banks. Their growth in customer base, market share and expansion level is not substantial as compared to banks. This performance and growth in those terms also varies among different Saccos. Though there also has been tremendous growth witnessed over the years with some societies expanding to deposit taking services and running Front Office Services Activities (FOSA), effective corporate governance practices are yet to be fully attained.

1.2 Statement of the Problem

The number of Cooperative Societies in Kenya have substantially increased and equally spread across both the urban and rural areas due to their substantial contribution to their members' economic lives. However, most of them are plagued by a number of challenges such as; constant wrangles, corruption and mismanagement resulting in poor service delivery and becoming bankrupt. This partly explains why literature on cooperatives is awash with more stories of cooperative failure than stories of cooperative success (Bwisa, 2018).

According to Kimutia (2018) DTS performance has been dwindling with members seeking financial services from SACCOS in Kenya declining from 13.5% in the year 2009 to 9.1% in the year 2015. More than 100 deposit-taking Saccos did not meet the mandatory capital adequacy requirement in 2016 and 22% increase in loan loss allowance implying that more and more are providing for potential bad loans in their books of accounts raising questions over their fitness in the key credit market (SASRA, 2017).

Despite the contribution to Kenyan economy, DTSs continue to experience huge losses with others even collapsing questioning the measures put in place in ensuring continued performance (Oseno, 2019). Similarly, most of the DTSs in developing have been riddled with financial scandals and management related challenges leading to dismal performance (Twesigye, 2014; Waiganjo, Wanyoike, & Koitaba, 2016; Saidi, 2016). This concurs with Ammar, (2017) who studied performance of Sudanese Microfinance Sector. While Keben, and Maina, (2018) found that more than 40% DTS located in Uasin Gishu continue to face diminished performance.

A number of studies have been carried out in this area of interest. Jebet (2017) researched on corporate governance and organizational performance the case of companies quoted at the NSE. Gakuo (2018) carried a study on the corporate governance and financial performance on Non-governmental organizations Ademba (2017) dealt with corporate governance practices on DT Saccos. The above studies left both conceptual and methodological gaps. Its only Demba study that studied deposit taking Saccos but the study was carried out is a different geographical location and different variables were used in measuring corporate governance.

The literature reviewed though supports that majority of DTS continue to struggle in performing, most of the empirical studies undertaken have concentrated mainly commercial banks. Moreover, the studies conducted have established contradicting results on how firm performance is affected by CG. Subsequently, a number of the studies reviewed concentrated on financial performance as opposed to non-financial performance that the study intends to focus on. The study sought to establish how corporate governance practices influenced performance of deposit taking Saccos in Nairobi City County, Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

To establish the effect of corporate governance practices on performance of deposit taking SACCOs in Nairobi City County, Kenya.

1.3.2 Specific Objectives

i. To determine the effect of board independence on performance of deposits Saccos in Nairobi City County, Kenya.
ii. To establish the relationship between board size and performance of deposit taking Saccos in Nairobi City County, Kenya.
iii. To determine the effect of board diversity on performance of deposits taking Saccos in Nairobi City County, Kenya.
iv. To determine the effect of board composition on of deposit taking Saccos' organizational performance in Nairobi City County, Kenya.

1.4 Research Questions

This study aimed to respond to the following research questions:

i. To what extent does board independence affect performance in deposit taking SACCOs in Nairobi City County, Kenya?
ii. How does board size affect performance of deposit taking SACCOs in Nairobi City County, Kenya?
iii. What is the relationship between board diversity and deposit taking SACCOs' performance in Nairobi City County, Kenya?
iv. How does board composition affect deposit taking SACCOs' performance in Nairobi City County, Kenya?

1.5 Study Significance

The management of the Saccos as well as other organizations in different sectors will gain insights on corporate governance practices and its nature of influence on their respective organizations' performance. Therefore, management of the Deposit Taking Saccos will formulate policies that will enhance firm growth. Other financial institutions with similarities to Deposit Taking Saccos can also benefit from the findings by replicating the results in their situations for better performance.

The government and other agencies will be enlightened on the best corporate governance practices that are necessary for DTS to prosper and come up with policies on governance practices which individual firms ought to have in place to operate efficiently and effective and thus ensure growth. Co-operative societies apex bodies such as Kenya union of Saccos, Co-operative Alliance of Kenya, World council of Credit unions can also use the study findings in petitioning the legislature to pass Laws necessary to ensure that DTS remain profitable and true to their mandate for which they were formed to the benefit of their members. Other researchers may utilize the findings for conceptual, contextual and empirical gaps identification in their studies and progress research on the study variables.

1.6 Study Scope

The study was undertaken in Nairobi City County, and involved deposit taking Saccos. The purpose was determination of how corporate governance practices and Deposit Taking Saccos' performance relate. The theoretical framework included Stakeholder Theory, Stewardship Theory and Agency Theory. The study targeted top managerial employees of the Saccos.

1.7 Study Limitations

The study used a sample rather than all the Deposit Taking Saccos and therefore findings were generalized to all other deposit taking Saccos. However, the research was conducted to minimize errors of precision as much as possible through careful stratified and random sampling of the study population.

Some participants were not willing to fully corporate due to privacy issues. The researcher handled the problem by engaging them in a brief interview before issuing them with the questionnaires and presenting them an introduction letter and offered assurance that the study is purely academic. The other challenge encountered was that of failing to complete the questionnaires on time and incomplete questionnaires. The problem was mitigated by providing information relating to the nature of the study and using contact persons for purposes of making necessary follow ups with individual respondents.

1.8 Organization of the Study

The project contains five chapters. The first section covers background information, problem statement, objectives, importance and scope of the study. Chapter two entails literature review relating to the study and an overview of the conceptual framework. The third chapter encompasses the methodology used in conducting the research. Chapter four is on the research findings, presentation and interpretation of the data. The project concludes with chapter five by providing a summary of the key findings obtained, conclusions and recommendations reached at thereafter.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section covered relevant literature review related to the research objectives. Theoretical review focused on different theories and frameworks, discussing their implication and proposition to the study variables and the empirical literature reviews other studies conducted that are relevant. Conceptual framework analyzed how the dependent and independent variables relate is also covered.

2.2 Theoretical Literature Review

2.2.1 Agency Theory

It was introduced by Barley and Myers (1932) and later modified by Meckling (1976) and was the anchor theory to this study. According to the theoretical framework, organizations undergo separation during which agency problems may arise which may negatively affect the performance. The assumptions made by theory are that agents may divert from the realization of the objectives of the firm. However, Hiebl (2018) argued from an individualistic view that agents tend to align more towards long term projects as opposed to the incentives. The relevancy of the theory is in describing a positivist approach where agents are controlled through rules designed by the principals that are aimed at maximizing stakeholder's value. Thus, a more individualistic view is used in the theory. However, the theory fails to does not reduce or eliminate corporate misconduct.

Agency theory postulates that in organizations, there exists principal agent relationship mainly between owners and managers (Jensen & Meckling, 1976). When the interests of agents are not aligned to the principals', agency conflicts occur (Eisenhardt, 1989). Further, the theory posits that all stakeholders have interests in organizations that often conflict, and that each stakeholder endeavours to attain their own benefits. Thus, managers are viewed to be opportunistic actors who take advantage of corporations to fulfil their interests at the expense of the principals. Subsequently, corporate governance is viewed as a mechanism through which these conflicts are mitigated.

The agency theory therefore works on the assumption that principals and agents act rationally and use contracting to maximize their wealth (Jensen & Meckling, 1976). This theory is applicable to this study simply because internal control is one of many mechanisms used in business to address the agency problem by reducing agency costs that affects the overall performance of the relationship as well as the benefits of the principal (Ray & Kurt, 2017). Internal control enhances the provision of additional information to the principal (shareholder) about the behavior of the agent (management) reduces information asymmetry and lowers investor risk.

The importance of the theory is describing how ownership, management and performance are interrelated. According to the agency theory, the employee model has great aspects of individualistic approaches and is bounded rationally with punishment and reward (Jensen, 2011). The proposition of the study is that well-functioning boards are a key functionality of organization in overseeing conduct and productivity of managers hence affect the DTSs' organizational performance. This theory backed all the study variables since it was the anchor theory to the study.

2.2.2 Stewardship Theory

It was proposed by David and Donaldson, (1993) and further advanced in explain management in organizations. The theory postulates it's the core aim of managers in maximizing the performance of organizations in attempts of ensuring prosperity and growth. The interests of the managers are therefore purely oriented in accomplishment of the organizational goals and not their self-interests. The importance of the theory is that it incorporates the concept of accountability among the stakeholders (Otieno et al, 2015).

A key assumption made by the theory is that there is harmonization between the stakeholders, managers and owners. The proposition of the theory to the study is that stewards constitute a crucial component of performance of entities. A main focus of the theory is that decisions made by the corporate board take into consideration the intrinsic interests of the stewards. The stewards' interests are also assumed to over-ride all other interest that may deter profit maximization and improvement of performance. The theory was utilized in describing the influence of size and independence of the board on how DTSs perform.

2.2.3 Stakeholder Theory

Freeman (1984) formulated this theory in describing determinants of corporate accountability. It encompasses aspects including philosophy, ethics economics, organization science and political theory and was obtained from both socialistic and organization disciplines. The theory holds that organizations ought to be accountable to stakeholders in the society other than just the organizations owners or principals. These are individuals or groups that directly benefit from the functioning of the firm and whose rights are of major concern (Wheeler *et al*, 2009).

According to this theory therefore, stakeholders are vital for they determine the firm's prosperity. The theory suggests that management has a number networks they serve and include business associates, suppliers and includes employees who are of great importance in comparison to the association of management-staff (Freeman, 2010). It focuses on the decisions made by the managers and recognizes that whereby the interests and those of the stakeholders ought to align.

Stakeholder Theory however makes the assumption that the stakeholders depend on the interests of the managers which are not always predictable (Jensen, 2017). The stakeholders are thus theorized to promote the success of the organization which may not always be the actual situation. This theory therefore focuses on addressing the stakeholders deserving the managements' attention, Sandaram and Inkpen (2004). This theory was applied in the study in investigating how performance of DTSs is influenced by board composition.

2.2.4 Balanced Scorecard

This theory was introduced and advanced by Kaplan and Norton (1992). It proposes performance measurement of a firm both tangible and intangible aspects ought to be placed into consideration. This acts in providing a comprehensive layout of how the organization is performing. Introduction of the balanced score card arose mainly after earlier performance metrics were inclined only to the financial aspect only. Balanced score card thus is used to track both financial objectives and strategic objectives; it encompasses both financial measures and complements these with operational measures.

The model's key assumption is that in order to get an actual picture of the performance of an organization, a holistic review of all aspects of operation has to be undertaken. Therefore, the importance of this model to the study is that it provides a framework for comprehensive determination of performance in terms financial, non-financial, employee and customer perspectives (Kaplan and Norton, 1992). In this study, the theory was employed in determining how the CG practices influence all the aspects of performance of the DTS.

2.3 Empirical Literature Review

2.3.1 Board Composition and Performance

The relationship between composition of boards and performance could be endogenous. Ngugi (2007) how performance and CG are related. The study revealed that diversity of the board translated increased the financial returns. The study concluded that a proper selection of the board lead to increased returns. However, the study was limited only to the insurance companies which may differ to other organizations.

Vasile (2013) researched CG and ROA taking case of the banks in Roman. The study used inferential statistics in analyzing the data and found a negative influence of corporate governance index and ROA. The study concluded that board composition was a crucial determinant on how the commercial banks performed. The study was also undertaken in the Romanian sector which may not be equally compared locally.

Bonsa (2015) used mixed research approach panel data covering ten-year period from 2005 to 2014 for nine insurance companies. The results showed that, chief executive compensation and educational qualification of directors improve financial performance of Insurers' proxy by ROA. On the other hand, board size and presence female directors don't have statically significant impacts on Insurers' performance. The study was dominantly based on the insurance sector which differs both structurally and operationally to the Saccos.

Luyima (2015) did a study on the influence of CG on how insurance companies performed using a cross sectional design. The study revealed that corporate governance accounted for a great portion of the financial performance. The study concluded that proper corporate governance also promoted the prosperity of the firms. This current study increased the scope of the study by focusing on the DTSs.

Karina, (2016) investigated the effects of composition of boards and performance. Two constructs of board composition were investigated namely independence and size influencing performance. The results revealed that board size had a positive impact with ROE but not ROA. The study however found an insignificant effect brought about by board composition and did not fully distinguish the underlying factors.

2.3.2 Board Size and Performance

The available literature is not conclusive on whether huge or small boards cause an increase in performance. According to a study by Yermack, (1996) having small but manageable board sizes will translate to effective leadership and governance. In this regard, large corporate boards are argued to increase operational costs and wrangles during decision making processes. This coincides with Majid, (2012) who concluded that Board sizes of most companies reduced over the period of 1991-95. Wu, (2010) on the other hand suggest that market confidence increased with small boards.

Black, et al., (2002) in a study on how performance and board size related established that increased in the board sizes led to reduced performance. This tends to contradicts Jensen, (2017) who studied Japanese and Australian firms established that board sizes are endogenous to how organizations' returns annually. While Otieno *et al* (2015) studied the effect brought about by corporate governance. The study adopted Spearman rank correlation in analyzing the findings and presented in tables and figures.

Waithaka, (2014) utilized descriptive survey approach sampling 39 commercial banks in investigating the board effectiveness concept. It was revealed that characteristics of the board played a great role on how the banks performed including expertise and experience. This current study narrowed the scope even further focusing on DTSs which are emerging to be crucial component of the financial sector.

2.3.3 Board Independence and Performance

Ogega (2010) studied CG and performance of NSE listed firms in the financial sector. The independent variables were board independence, board governance disclosure, shareholding compensation, shareholder's rights and corporate governance index. Key finding of the study was that board governance disclosure positively affected performance. The study was however limited to the listed institutions in NSE leaving out the DTSs which will be investigated by the study.

Kakabadse, Yang and Sanders (2010) analyzed the extent to which independent member functions were effective in Chinese firms. The study was conducted using interviews and established that the CG system of the state owned enterprises was still lacking. Board independence was also establishing to negatively affect performance. As such, the board member were concluded to have difficulties in remaining independent which prevented them to adequately control and monitor the management.

Ombaba, (2018) investigated CG practices among SACCOs guided by the credit risk theory. Purposive technique was used in sampling of the respondents. The study concluded that risk management and corporate governance associated positively. Matanda, (2016), obtained similar results on a study focusing on Kenya's commercial banks. The study however might not be equally compared to deposit taking Saccos.

2.3.4 Board Diversity and Performance

Empirical studies conducted have sensitized the need for a thorough analysis of the behavioral processes that occur within the board of management in order to gain insights regarding the requisite conditions for effective corporate governance practices. According to Robinson and Dechant (2017) diversity of the board more so gender diversity was crucial in fostering the growth of the organizations by promoting creativity, innovativeness and problem solving. This resulted in improvement in performance of the organizations.

Similarly, Erhardt, Werbel & Sharader (2003), who undertook a literature review established that diversity in terms of dynamic boards significantly enhanced the decision making processes. The study investigated the phenomenon among large American firms and confirmed a positive relationship that existed.

Tandelilin et al., (2012) on study on CG and performance revealed that bank ownership and diversity affects ROA. This coincides with Love and Rachinsky (2013) who did a study in Russia in the period 2003-2006. Using regression analysis, the results showed that increased diversity led to increased performance. This current study aimed at ascertaining the same effect among deposit taking Saccos. Ogega, (2014) did a study aimed at determination of how performance of commercial banks was related to CG practices. The population was some 44 banks in Kenya. The study concluded only minimal effect brought about by However, the study did not examine how the research variables related and was focused entirely on the commercial banks.

2.4 Research Gaps and Literature Review Summary

Incorporation of appropriate corporate governance mechanisms is theorized to improve the efficiency of an entity (Mumanyi, 2014). However, while some scholars found a positive significant relationship, others established minimal to negative relationship as shown by Table 2.1. This study aimed at addressed this research gap.

Table 2. 1: Research Gaps and Literature Review Summary

Author (years)	Research Topic	Findings	Research Gaps	Focus of the study
Ngugi (2007)	Corporate governance and performance of insurance companies.	Balanced boards led to enhanced performance.	It was only limited to the insurance firms.	The research examined the effect of board composition among other variables on performance of DTSs.
Ogega (2010)	Listed firms' performance and Corporate governance.	Board composition and financial performance are positively correlated.	The study considered board governance disclosure and shareholders rights as a measure of corporate governance	The study included other elements on corporate governance to enable comprehensiveness.
Bhagat,Black, (2002)	Performance and Board size.	No credible evidence on how board size and performance was established. However, there was evidence of existence of an inverse correlation between the two.	The study scope was only on board size.	The study sought to establish how other corporate governance aspects like board independence, board diversity board composition affects performance of DTs.
Erhardt,Werbel &Sharader 2003)	Board diversity and the performance.	The more diverse the board, the better the performance.	The study was done on American listed firms and could not be generalized to represent deposit taking Saccos.	The study included board diversity as one of the independent variables and establish its impact on performance of DTs Savings and credit societies.
Bonsa (2015)	Corporate governance of Insurers in Ethiopia.	The results showed that, chief executive compensation, educational qualification and	The study was done on insurance companies and could not be generalized to	This current study aimed at investigating as to whether the same phenomenon exists in the savings and

		industry specific experience of directors has positive and significant effects on financial performance of Insurers' proxy by ROA.	represent deposit taking Savings and credit societies.	credit societies sector.
Karina, (2016)	Board composition and performance.	Board size and performance positively associated.	The study did not fully distinguish the underlying factors on corporate governance practices.	This study sought to statistically distinguish the underlying factors.
Otieno et al (2015)	How corporate governance affects SACCOs' performance.	Board performance significantly related with performance.	The study was however based on SACCOs in Nakuru and this might not be the actual representation of the Saccos in other parts of the country.	The study targeted the Saccos in Nairobi County hence enable comparison to be made.
Mbugua (2014)	Board diversity and bank performance.	The findings revealed that there is very minimal association of board diversity on ROA.	The study was only limited to commercial banks.	The study broadens the scope to deposit taking Saccos.

Source: Researcher (2020)

2.5 Conceptual Framework

Fig 2.1 represents the variables investigated in the study.

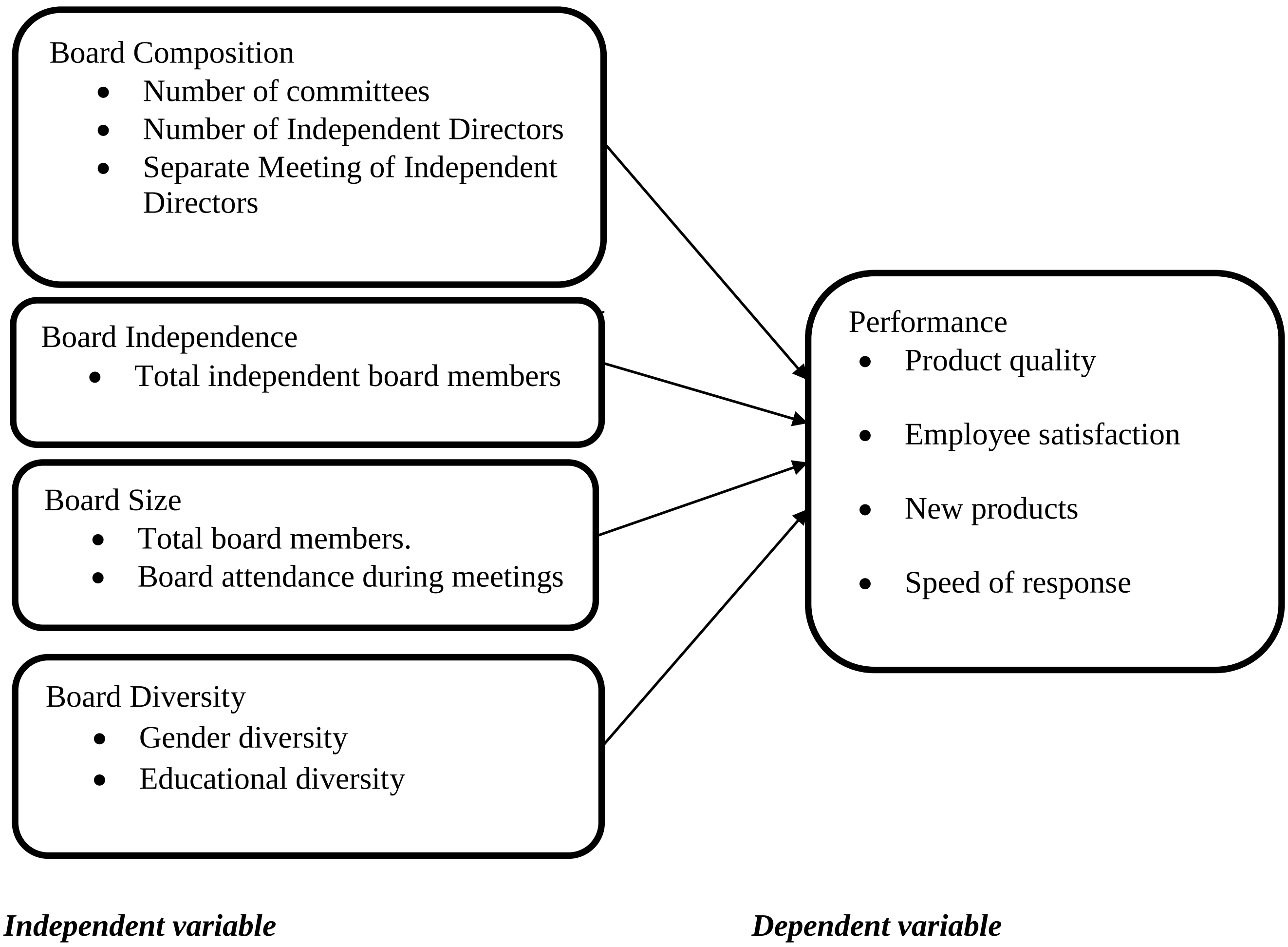

Figure 2.1: Conceptual Framework

Source: Author (2020)

Figure 2.1 depicts the hypothesized relationship between performance of deposit taking savings and credit societies and corporate governance practices elements. The independent variables included four dimensions i.e. board composition, board independence, board size and board diversity. Where's performance was operationalized based on non-financial indicators which included product quality, employee satisfaction, new products and speed of response.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The section discusses the approach used on executing the study. It constitutes population, sampling procedure, collection of data and analysis of data techniques.

3.2 Research Design

Descriptive cross-sectional survey was adopted. The design's concern is to establish the way things are and help in determining the current nature of a phenomenon under study (Cooper & Schindler, 2012). It incorporates quantitative as well as qualitative approaches in establishing the underlying phenomenon. This is through gathering of required data in description of events, practices and activities therefore appropriate for the study. Unit of analysis for the study was Nairobi based deposit taking Saccos and target population were top managerial employees in the firms. The research design further enabled data analysis using both descriptive and inferential statistics.

3.3 Target Population

All the 177-registered Kenyan deposit Saccos formed the population for this study (SASRA, 2017). As such the 35 licensed DTSs in Nairobi City County, Kenya formed the study target population as per appendix I. The DT-SACCOs are those that take deposits, and thus offer withdraw-able savings accounts services similar to those offered by banks. They also offer front office services where members can walk into their banking halls as they withdraw or deposit money into their accounts. This target population was chosen due to its proximity to the researcher and thus the most convenient for conducting the study on.

3.4 Sampling Design and Sample Size

The sample used was selected using a census sampling approach so as to encompass all the 35 licensed DTSs. Census sampling attempt to gather information about every individual in a population (Creswell & Creswell, 2017). A sample is a part of the population that is actually examined in order to represent the whole. Census sampling approach entailed all items' complete enumeration in a population (Lohr, 2019). The use of census sampling approach is recommended in a case where study population is manageable and small hence facilitate equal representation of the study elements (Creswell & Creswell, 2017). Census sampling is recommended where the entire group is to be used to enable comprehensive determination of the phenomena under study where variability within the population is high. The sampling approach also minimizes any variability and biasness in the responses obtained (Cooper & Schindler, 2014). The sample size of the 35 licensed deposit taking Saccos therefore enabled large amount of data to be collected from an ideal population and in a highly economical way. This maximized reliability of the data collected and also responding adequately to the objectives of the problem being studied while conforming to time, resources and skills availability of the researcher. The study targeted 3 respondents from each firm comprised which comprised of the head of finance, head of operations and director or their equivalents which made a total of 105 respondents.

3.5 Data Collection Instrument

Both secondary and primary data were used. The primary data was obtained using a semi structured research questionnaire. The questionnaires were structured into sections which addressed the variables of the study on a 5-point Likert Scale. The questionnaire had five parts. The first part entailed the respondent's demographics. This was followed by questions addressing the four independent variable. The last part entailed questions on the study dependent variable. Secondary data was gathered for a period of 5 years (2015-2019). This related to the information pertaining to the financial performance of the DTS. The secondary data were collected using data collection sheets and were collected from the annually published commercial banks' financial statements.

3.6 Data Collection Procedure

Transmittal letter obtained from Kenyatta University and used to process permit from NACOSTI. The research permit and transmittal letter were used to secure appointment with the management and target respondents of DTS. Drop and pick method was utilized in questionnaire administration to the respondents, this gave them enough time to fully respond to the questionnaires and ensured a high response rate. Follow ups were then done using calls and emails to the respondents. The process continued until a reasonable number of questionnaires were collected. The collected questionnaires were then tracked using a register.

3.7 Pilot Study

Piloting was done with twenty respondents who were chosen from the target population. The employees involved in the pilot test did not take part in the final study. This was done to ensure that the study instruments met the validity and reliability test.

3.8 Research Instruments Validity and Reliability

3.8.1 Validity Test of Research Instrument

The instrument was evaluated for content, construct and face validity. Content validity was achieved by ensuring that the questionnaire had proper vocabulary, structure and relevancy. Coherence and accuracy of data collection tools and daily cleaning of data was also ensured. Further experts in corporate governance were involved in enhancing the instruments and ensuring that it captures the very vital information under investigation. Construct validity was achieved from literature review and aligning the data collection instruments (Heale, & Twycross, 2015). Face validity further ensured validity of questionnaire based on respondent's attitude and opinions and multiple-choice questions with adequate opinions were used.

3.8.2 Research Instrument Reliability Test

Reliability refers the nature of consistency of the data obtained by the research instruments (Mugenda & Mugenda, 2008). A pilot study was conducted and pretesting of questionnaires was done for reliability and rectifying inconsistencies that may arise. In this study SPSS was used in computing Cronbach Alpha which indicated the reliability of the measurement scales as per Table 3.1.

Table 3. 1 Reliability Analysis

Variable	No of items	Cronbach's Alpha	Comment
Board independence	8	0.787	Reliable
Board Size	5	0.774	Reliable
Board Diversity	6	0.761	Reliable
Board composition	6	0.788	Reliable
Organization Performance	8	0.815	Reliable
Aggregate Score		**0.792**	**Reliable**

Source; Research Findings 2020

As shown, Board independence had a Cronbach Alpha of 0.787, Board Size 0.774, Board Diversity 0.774, Board composition 0.774 while Performance 0.774. This confirms that the research items were all reliable as they were more than 0.7 as recommended by Field, (2009). Comparably, the aggregate reliability score was also this recommended threshold.

3.9 Data Analysis and Presentation

Data obtained was sorted, classified, coded into coding sheets then analyzed with the aid of SPPS Version 22. Measures of central tendencies including means, frequencies and standard deviations were utilized in calculation of the summarized quantitative data. In analyzing open ended questions, content analysis method was used and data presented in the different thematics. Results presentation was by figures and tables. Inferential statistics made the use of multiple regression analysis as shown in model 1 in establishing the relationship between the study variables.

$$\mathbf{Y} = \beta_0 + \beta_1 \mathbf{X_1} + \beta_2 \mathbf{X_2} + \beta_3 \mathbf{X_3} + \beta_4 \mathbf{X_4} + \varepsilon \quad \text{………………………………. Model 1.}$$

Where,

Y = Performance

X_1 = Board independence

X_2 = Board Size

X_3 = Board Diversity

X_4 = Board composition

β_0 = constant or intercept

$\beta_1 - \beta_4$ = regression coefficients;

ε = the "error" term.

3.10 Ethical Consideration

In the study, permission was sought from NACOSTI and management of the DTSs prior to the actual study. Respondents were adequately informed on the study requirements after which they were required to consent their participation. The participants' confidentiality was not compromised since their identity was not disclosed on the questionnaires and codes were used (Mugenda & Mugenda, 2008). The researcher further ensured that no one or organization or any party was harmed by this study. Participation was voluntary without coercing or enticement and privacy was ensured throughout the study period.

CHAPTER FOUR
RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

Field data results are presented in this section. Particularly, the chapter covers the response rate, regression analysis, descriptive analysis and reliability analysis. Discussion of key findings are also covered here.

4.2 Response Rate

Managerial employees at the licensed DTSs in Nairobi City County, Kenya were targeted. The study attained a 78% response rate as indicated in Table 4.1 which is deemed appropriate as supported by Mugenda and Mugenda's, (2008) recommendation of a rate of response of over 70%.

Table 4.1: Response Rate

Status	Frequency	Percent
Responded	82	78%
Not Respond	23	22%
Total	105	100%

Source; Research Findings 2020

4.3 Descriptive Analysis

4.3.1 Respondents' Gender

This section sought to determine the participants' gender. Figure 4.1 illustrates the findings

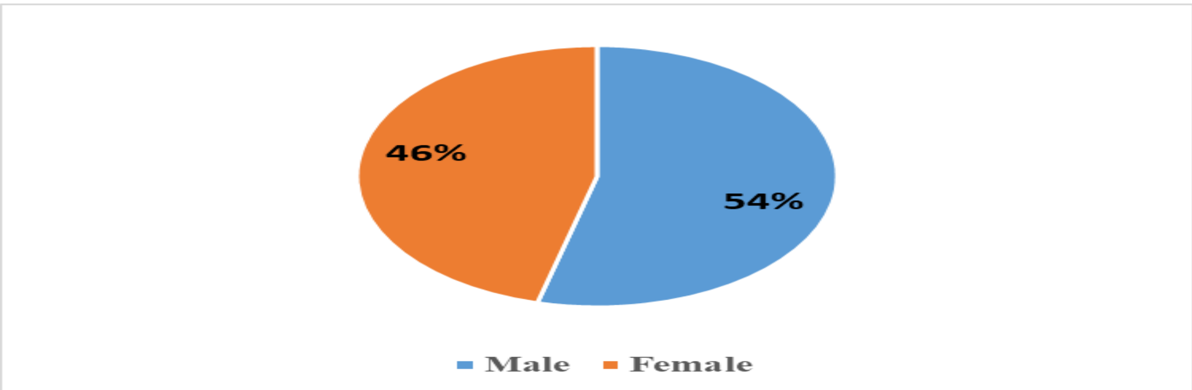

Figure 4.1: Respondents' Gender

Source; Research Findings 2020

The study findings indicated that of the participants, 46% were female while 54% were male. The equal distribution of responses gender-wise signifies that the data collected was balance with representation from both genders.

4.3.2 Age of the Respondents

Information on the respondents' age was sought and results presented in Table 4.2.

Table 4.2: Age of the Respondents

Age	**Percentage**	**Frequency**
18 – 24 years	5	6%
25 – 34 years	11	13%
35 – 44 years	24	29%
45 – 54 years	20	24%
Above 55 years	22	27%
Total	**82**	**100%**

Source; Research Findings 2020

As shown, 29% of the participants were between 35 to 44 years, 27% were above 55 years, 24% between 45 to 54 years, 13% between 25-34 years and the remaining 6% between 18 to 24 years. This meant that respondents' majority (51%) were above 45 years hence were able to give mature and well thought after responding.

4.3.3 Respondents' Academic Qualification

Information of the respondents' education level was sought and results are shown in Table 4.3.

Table 4.3: Respondents' Academic Qualification

Highest level of education	**Percentage**	**Frequency**
Diploma	32	39%
Undergraduate Degree	36	44%
Master/Postgraduate Degree	12	15%
PhD degree	2	2%
Total	**82**	**100%**

Source; Research Findings 2020

It is evident that 44% of the participants had attained an undergraduate degree, 39% had diplomas 15% had post graduate degrees and 2% had PhD. Hence showing that all the respondents had advanced their education post-secondary level hence in a position to provide the current trends and dynamics in the organizations in comparison with expected norms.

4.3.4 Respondents' Organization Position

This part aimed at determining the category that the respondents fell under based on their current positions. The results are demonstrated in Figure 4.2.

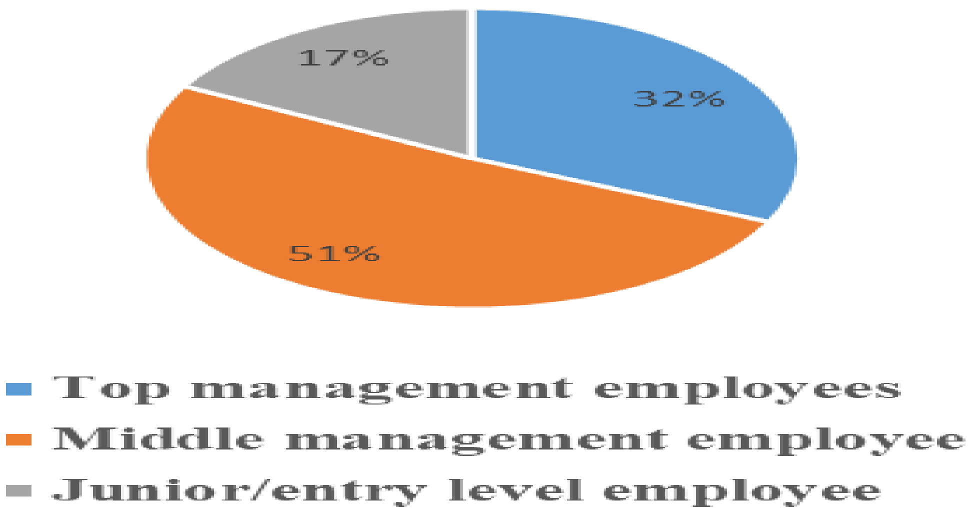

Figure 4.2: Organization Position

Source; Research Findings 2020

As per Figure 4.2, 51% of the respondents were middle level managerial employees, 32% were top managerial employees while 17% were junior level employees. This implies that majority of the employees (83%) were managerial employees hence well conversant with the study operations. The managerial distribution of the respondents is considered essential in reflecting the level of involvement of the respondents in their respective firms.

4.3.5 Work department of the Respondents

This section aimed at determining the department of the employees worked under. Figure 4.3. demonstrates the results

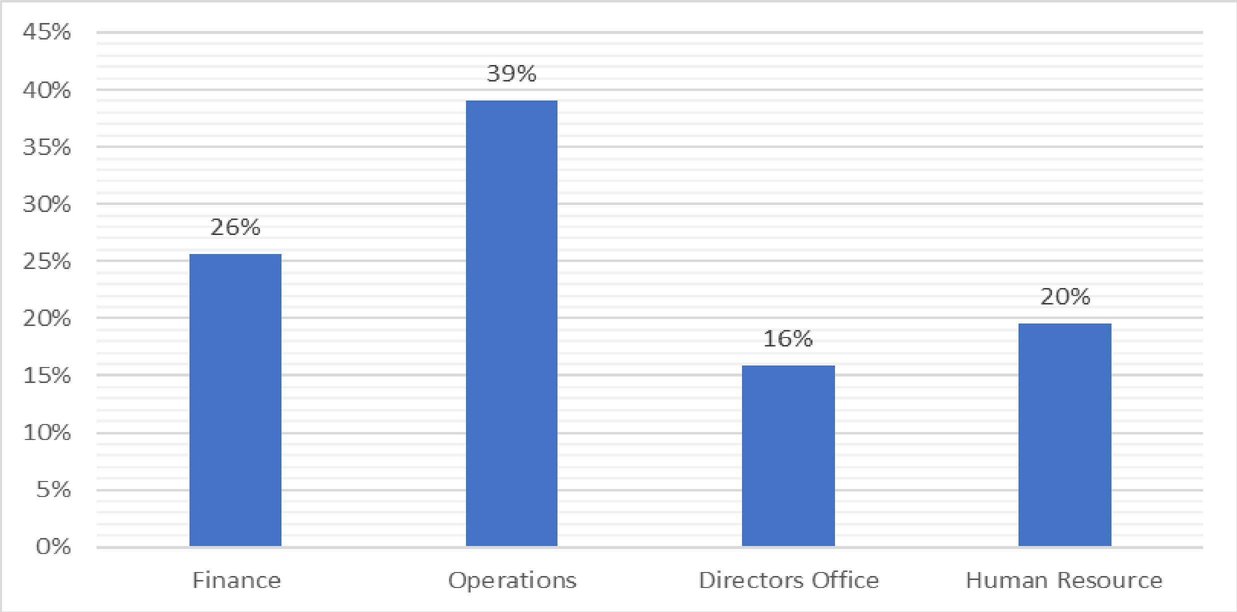

Figure 4.3: Work department

Source; Field Findings 2020

As shown, 39% worked in operations department, 26% in finance department, 20% in human resource while 16% under the director's office. Therefore, respondents were involved directly in the corporate governance and financial aspects of the Saccos.

4.3.6 Respondents' Working Duration

This section aimed at determining the respondents' duration of working as their work experience measure in their Saccos respectively. Findings are presented by Figure 4.4.

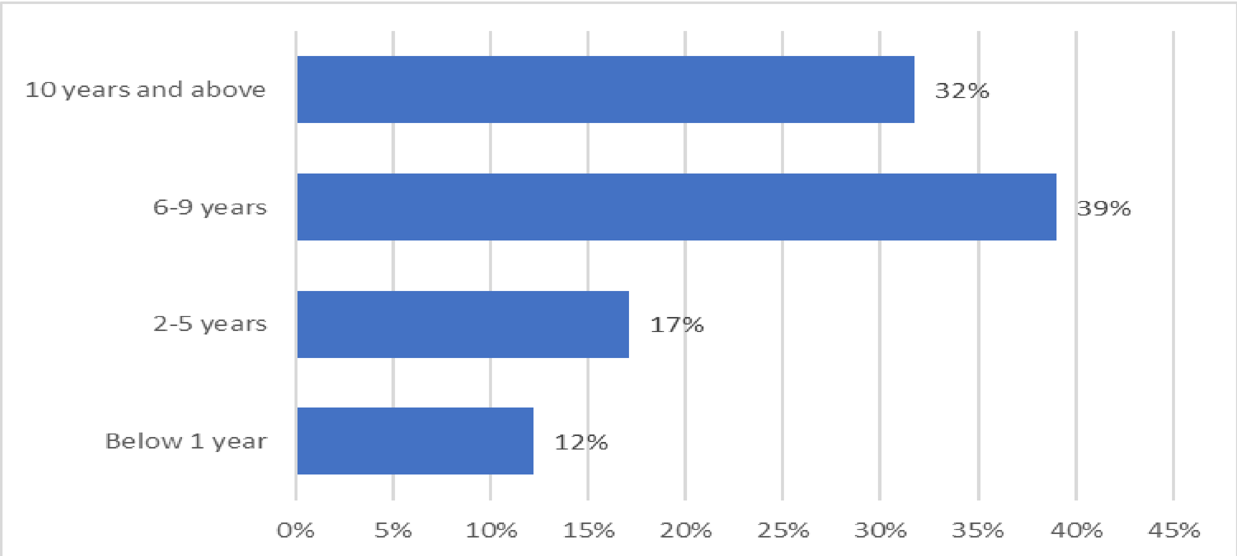

Figure 4.4: Working duration

Source; Research Findings 2020

Based on Figure 4.4., findings indicate that 39% had worked for a duration of 6 to 9 years, 32% for more than 10 years, 17% for 2-5 years while 12% for less than a year. This was proof that the participants had worked for long durations in their specific firms thus were capable of providing the information sought after by the study.

4.4 Corporate governance practices adopted by deposit taking Saccos in Kenya

This research aimed at determining how deposit taking Saccos' performance in Kenya was affected by corporate governance practices. Specifically, the study investigated four main constructs of corporate governance including board diversity, independence, size and composition.

4.4.1 Board Independence

The study sought to determine how deposit taking Saccos' performance in Kenya was influenced by board independence. A five point Likert Scale was utilized in achieving this. Table 4.4. illustrates the findings

Table 4.4: Board Independence

Board Independence	Mean	Std Dev
Non-executive directors act independently and also control stakeholders hence improving performance.	2.83	0.3324
The chairman acts independently which enhances his/her authority	3.60	0.6074
The organization' board management is not dominated by major stakeholders and on the board of directors, it is represented by more than twice its representation	3.32	0.4522
The Sacco has an audit committee and an independent director it is chairs it for mitigating financial risks.	4.15	0.9841
The company has a committee in charge of remunerations headed by an independent director.	3.66	0.6427
Nominations within the organization are conducted independently.	4.01	0.8406
The Sacco outsources external auditors.	3.66	0.6427
Keen consultations are undertaken involving all board members prior to any decision being made.	3.98	0.8049
The Sacco has representatives of large creditors of the company	3.78	0.6711
The independent members are free for any attachments or commitments which may cloud their judgments during performing.	3.20	0.4546
Average Score	**3.62**	**0.6433**

Source; Research Findings 2020

As shown, the respondents indicated a large extent on the Sacco have an audit committee chaired by an independent director for mitigating financial risks and nominations within the organization are conducted independently having respective means of 4.15 and 4.01. A large extent was illustrated on keen consultations are undertaken involving all board members prior to any decision being made, the Sacco has representatives of large creditors of the company and, the Sacco outsources external auditors, with means of 3.98, 3.78 and 3.66 respectively. On the chairman acts independently which enhances his/her authority. The organization' board management is not dominated by major stakeholders and on the board of directors, it is represented by more than twice its representation which may cloud their judgments during performing a moderate extent was indicated with means of 3.60, 3.32, 3.66 and 3.20 respectively. Whereas on non-executive director's act independently and also control stakeholders hence improving performance, a small extent was indicated having a mean of 2.83. These findings imply that the respondents agreed that the board independence practices were of essence in their respective firms. On aggregate, the scores of mean and SD were 3.62 and 0.6433 which confirm that these practices were adopted to a large extent in the Deposit Taking Saccos. These findings are in line with those of Ogega (2010) who revealed that that board governance disclosure positively affected performance.

4.4.2 Board Size

Information on how deposit taking Saccos' performance in Kenya was influenced by board size was sought. A five point Likert Scale was utilized in achieving this. Table 4.5. illustrates the results

Table 4.5: Board Size

Board Size	Mean	Std Dev
Need for professional diversification in decision making influences the board size	3.04	0.3713
Large board size is essential in checking the CEOs' excesses	3.50	0.5056
Large board sizes make the internal corporate governance mechanisms work better	3.20	0.4738
Large board sizes reduce risk of failure	4.02	0.8524
Board sizes affects the length taken in making corporate decisions	3.73	0.9098
Average Score	**3.50**	**0.6226**

Source; Research Findings 2020

Based on Table 4.5, results show that a large extent was indicated on large board sizes reduce risk of failure and board sizes affects the length taken in making corporate decisions with means of 4.02 and 3.73. A moderate extent was further noted on need for professional diversification in decision making influences the board size, large board size is essential in checking the CEO's excesses and large board sizes make the internal corporate governance mechanisms work better having 3.04, 3.50 and 3.20 respective mean. As shown, the responses' sample means ranged between 3.04 and 4.02 approximating to a 3.50 value on rating scale used by the researcher. The results thus confirmed that board size was crucial during board formation. Additionally, the aggregate scores of SD and mean of 0.6226 and 3.50 respectively show the importance of board size in improving performance. These findings contradict those of Black (2002) who found out that increase in the board sizes led to reduced performance. However, the findings are in line with those of Waithaka, (2014) who revealed that characteristics of the board played a great role on how the banks performed including expertise and experience.

4.4.3 Board Diversity

Information on how deposit taking Saccos' performance in Kenya was influenced board diversity was sought. A five point Likert Scale was utilized in achieving this. Results presentation is as below:

Table 4.6: Board Diversity and Performance

Board Diversity	**Mean**	**Std Dev**
There are foreign nationals on the board	2.55	0.5552
The Sacco has board diversity based on gender equality	3.41	0.4724
The Sacco has board diversity based on age	4.09	0.9055
The Sacco has board diversity based on academic disciplines	2.71	0.3484
During board composition, members' track record is considered	3.73	0.6189
The Sacco has appropriate policy frameworks on board diversity	3.84	0.7820
Average Score	**3.38**	**0.6137**

Source; Research Findings 2020

Results showed that the participants were in agreement to a large extent the Sacco has board diversity based on age, appropriate policy frameworks on board diversity and During board composition, members' track record is considered having means of 4.09, 3.84 and 3.78

respectively. A moderate extent was indicated on the Sacco has board diversity based on gender equality with a mean of 3.41. However, a small extent was noted on there are foreign nationals on the board and the Sacco has board diversity based on academic disciplines with 2.55 and 2.71 mean respectively. The aggregate mean score of board diversity was 3.38 with a 0.6137 SD which implies a moderate extent of adoption of the practices. This therefore implied that the respondents concurred on the role played by board diversity as an aspect of corporate governance. Further, the low variability shows that the sample mean is a stable estimator and valid for further analysis. The findings agree with those of Robinson and Dechant (2017) who found out diversity of the board more so gender diversity was crucial in fostering the growth of the organizations by promoting creativity, innovativeness and problem solving. This resulted in improvement in performance of the organizations.

4.4.4 Board Composition

Information on how deposit taking Saccos' performance in Kenya was influenced board composition was sought. A five point Likert Scale was utilized in achieving this. Table 4. 7 presents the findings.

Table 4.7: Board Composition and Performance

Board Composition	Mean	Std Dev
The integrity of board members is considered during board composition	4.10	0.8834
The board directors have diverse skills, experience and knowledge which enhances their competencies.	3.84	0.7456
The board of the Sacco adopts special committees to oversee its duties and assess performance.	3.70	0.7006
The board constantly reviews its objectives, visions and mission which act to ensure continued performance.	3.93	0.7565
The responsibilities and duties of the board are well defined and set out which facilitates orderliness and accountability.	3.44	0.5992
There is a comprehensive selection criterion for board members.	3.70	0.7093
Average Score	**3.78**	**0.7324**

Source; Research Findings 2020

As shown, a large extent was indicated on the integrity of board members is considered during board composition, the board directors have diverse skills, experience and knowledge which enhances their competencies, the board of the Sacco adopts special committees to oversee its duties and assess performance, the board constantly reviews its objectives, visions and mission which act to ensure continued performance and there is a comprehensive selection criteria for board members with means of 4.10, 3.84, 3.70, 3.93 and 3.70 respectively. However, on responsibilities and duties of the board are well defined and set out which facilitates orderliness and accountability a moderate extent was illustrated with a 3.44 mean. These findings imply that the respondents agreed that board composition was of essence in their respective firms. On aggregate, the SD and mean score were 0.7324 and 3.78 that confirm that these practices were adopted largely in the Deposit Taking Saccos. The finding is in line with those of Ngugi (2007) who revealed that diversity of the board translated increased the financial returns.

4.5 Organization Performance

This section aimed at determining DTSs' performance in Nairobi City County. A five point Likert Scale was utilized in achieving this. Presentation of findings is done in Table 4.8. Additionally, financial performance was also sought from secondary sources including the financial statements and reports of the Saccos.

Table 4.8: Performance of Deposit Taking Saccos

Measure of performance	Mean	Std Dev
Product quality	3.75	0.9993
Employee satisfaction	3.62	0.9731
New products	3.71	0.8027
Satisfaction of members	4.10	1.3219
Continuous organization improvement	3.90	0.9674
Financial viability	3.43	0.6081
Long term continuity	3.74	0.5007
Speed of response	3.32	0.9651
Average Score	**3.70**	**0.8923**

Source; Research Findings 2020

As shown, the respondents indicated a large extent on Satisfaction of members, Continuous organization improvement, Product quality, Employee satisfaction and New Products Long term continuity with means of 4.10, 3.90,3.75, 3.62, 3.71 and 3.74 respectively. However, on

Financial viability and Speed of response a moderate extent was indicated with means of 3.43 and 3.32. Data from the secondary sources further showed that over the period of study, the DTSs' performance was measured using market share, members shares and output had increased moderately at an average of 15% within a five-year span.

4.6 Inferential Analysis

4.6.1 Correlation Analysis

A correlation is a single number that describes the degree of relationship between two variables. In this study correlation will be used to assess a possible two-way linear association between two continuous variables of the study. Correlation is measured by a statistic called the correlation coefficient, which represents the strength of the putative linear association between the variables in question. The findings of the correlation analysis are indicated in the table below:

Table 4.9: Correlation Analysis

		Performance	**Board independence**	**Board Size**	**Board Diversity**	**Board composition**
Board independence	Pearson Correlation	0.333**	1			
	Sig. (2-tailed)	0.0024				
Board Size	Pearson Correlation	0.462	0.145	1		
	Sig. (2-tailed)	0.231	0.173			
Board Diversity	Pearson Correlation	0.358**	0.163	0.07	1	
	Sig. (2-tailed)	0.000	0.126	0.51	0.892	
Board composition	Pearson Correlation	0.642**	0.135	0.0948	0.1015	1
	Sig. (2-tailed)	0.000	0.1283	0.1216	0.1082	
	N	82	82	82	82	82

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).
Source; Research Findings 2020

As shown by Table 4.9, all the correlation coefficients were non-negative which implies that there the linear correlation between the pairs of variables is positive. The correlation coefficient for performance and board composition was found to be 0.642 indicating that the linear relationship between performance and board composition is strongly positive. On the other hand, the correlation coefficient for board independence and performance was found to be 0.333 confirming that the linear relationship between performance and board independence is moderately positive. Similarly, the correlation coefficient for board size and board diversity were 0.462 and 0.358 respectively also showing a moderate positive linear relationship with performance.

These statistical findings have the implications that an increase in any of the four studied aspects of corporate governance would have the associated effect of increasing performance of the DTSs. Wepukhulu, (2016) who studied how Kenyan Commercial banks' performance and corporate governance related obtained the same positive relationship. In a similar manner, a study conducted by Grace, et al., (2018) on Kenyan financial institutions' performance and corporate governance also found a positive correlation between the research variables. However, it was indicated by the p-value that all variables with the exception of board size had related significantly at 99% level of confidence ($p<0.01$). Hence, board size when alone could not significantly affect the performance of the Deposit Taking Saccos.

4.6.2 Regression Analysis

This model summary shows the R squared, the adjusted R squared and the standard error of estimate. R-squared is a statistical measure of how close the data are to the fitted regression line. It is also known as the coefficient of determination, or the coefficient of multiple determinations for multiple regressions. It was utilized in establishing the existing relationship between the study variables. Table 4.10 shows the results obtained.

Table 4.10: Model Summary

R	R Square	Adjusted R Square	The Estimate Std. Error
.523a	0.492	0.457	0.0025

a. Predictors: (Constant), Board composition, Board Diversity, Board Size Board independence and Performance

Source; Field data 2020

The regression results follow that the adjusted multiple determination coefficient is 0.457 indicating that 45.7% variation on performance of the DTSs is explained by the CG factors investigated by the study. Variance Analysis was further conducted to check on the Model's significance. The results obtained are in Table 4.11.

An ANOVA test is a way to find out if a research results are significant. In other words, they help a reseachers to figure out if they need to reject the null hypothesis or fail to reject alternate hypothesis.

Table 4.11: Model ANOVA

	Squares Sum	Df	Mean Square	F	Sig.
Regression	62.674	1	15.668	31.053	.000a
Residual	106.466	81	0.491		
Total	169.14	82			

Source; Research Findings 2020

The model above contains the explanatory variables representing corporate governance in the DTSs was found to be valid ($F_{(1, 82)}$ =31.053, P < .001) as shown by Table 4.11. This is an indication of the model's good fit since as it indicates the significant effect of board independence, board size, diversity and composition as DTSs performance predictors. Individual variables' regression coefficients are indicated in Table 4.12.

Table 4.12 gives the coefficients of each variable and the extent to which it influences the dependent variable and which in this case is performance. The Table also includes the significance level of each variable in the study.

Table 4.12: Model Coefficients

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		Std. Error	Beta		
(Constant)	0.563	0.236		2.392	0.018
Board Independence	0.251	0.066	0.275	3.826	0.000
Board Size	-0.211	0.071	0.227	-2.978	0.003
Board Diversity	0.186	0.067	0.213	2.764	0.007
Board composition	0.201	0.076	0.216	2.654	0.009

Source; Research Findings 2020

The beta values for determining the statistical mode below were provided by the findings displayed in Table 4.12

Performance = 0.563 + 0.251Board independence -0.211Board Size + 0.186 Board Diversity + 0.201Board composition

The study aimed at finding out how Nairobi City County deposits Saccos' performance was influenced by board independence. The study established that board Independence positively and significantly related with the performance of the deposit taking Saccos (β = 0.251, P =0.000). Hence, a 0.215 factor increment in DTSs performance results from a unit increment in board independence. This is because they will be able to make independent, efficient and firm decisions without any external influences. Similar findings were obtained by Ombaba,

(2018) who investigated CG practices among SACCOs guided by the credit risk theory. According to the agency theory, a well-functioning board are a key functionality of organization in overseeing conduct and productivity of managers hence impact on organizational performance of the DTSs. Yet this tends to oppose Vasile (2013) who revealed that internal corporate governance negatively affected Romanian banks' performance.

Similarly, the study sought to establish how Nairobi County deposit taking Saccos' performance is related to board size. It was found out that board Size had a negative significant relationship with the deposit taking Saccos' performance ($\beta = 0.211$, $P = 0.003$). Hence, a 0.211 factor decline in DTSs performance is as a result of a unit increase in the board size. The negative effect could be largely due to issues of decision-making and poor communication undermine the large boards' effectiveness. similarly, there is a tendency of larger boards tend being less committed, candid and engaged as compared to the smaller boards with extra expenses being incurred on the remunerations of the board. This is supported by Duc and Thuy (2013) who analyzed CG practices among Vietnamese firms and discovered that board size had a negatively impacted how the firms performed. Whereas Otieno et al (2015) who studied the effect brought about by corporate governance and established a positive correlation between the research variables. While Waithaka, (2014) similarly discovered that board characteristics played a great role on how banks performed including expertise and experience. This compares with Stakeholder Theory that argues that stakeholders are thus theorized to promote the success of the organization which may not always be the actual situation.

The study also aimed at determining how Nairobi County deposit taking Saccos' performance was impacted by board diversity. The study found out that board Diversity had a significant positive relation with the deposit taking Saccos' performance ($\beta = 0.186$, $P = 0.007$). Hence, a unit increment in the board's diverse nature leads to increase in the DTSs performance by a factor of 0.186. This is due to the increased range of ideas, experiences and inputs brought about by the diverse board members. This is supported by Robinson and Dechant (2017) who argue that diversity of the board more so gender diversity was crucial in fostering the growth of the organizations by promoting creativity, innovativeness and problem solving. This concurs with Ogega, (2014) who did a study aimed at determination of how performance of commercial banks was related to CG practices. On the contrary, Love and Rachinsky (2013) in a research investigating how CG and performance related, it showed significant but economically irrelevant relationship between diversity and performance. Whereas

Stewardship Theory argues that stewards constitute a crucial component of performance of entities.

Additionally, the study also sought to investigate how Nairobi County deposit taking Saccos' organizational performance was influenced by board composition. It was found out that the relationship between the deposit taking Saccos' performance and board composition was significantly positive ($\beta = 0.201$, $P = 0.009$). Hence board composition's unit increase will result in increase in DTSs performance by a factor of 0.201. This is due to the increased range of ideas, experiences and inputs brought about by the diverse board members. This is because the constituents and members of the board highly determine the efficiency of the board and the overall resulting performance. This compares to Bonsa (2015) who studied the impact of CG on returns of Insurers in Ethiopia and showed that board composition aspects improve financial performance of Insurers' proxy by ROA. In a similar manner, Luyima (2015) revealed that board composition accounted for a great portion of the financial performance. The findings are supported theoretically by the Balance Scorecard Model which posits that corporate governance forms a crucial determinant of both the financial and non-financial aspect of performance of a firm. However, Karina, (2016) who investigated the effects of board composition established an insignificant effect on ROA.

4.7 Qualitative Data Analysis

The study aimed at collecting qualitative data from the respondents, which was important in achieving a comprehensive view of corporate governance practices at the DTSs and the resulting effect on financial performance. This was achieved by having open-ended questions in the questionnaires which gave the respondents a chance to express themselves fully. On corporate governance factors affecting the DTSs' financial performance, the respondents affirmed the following board characteristics, board size, board diversity as well as board independence. These practices were indicated to not only determine the functionality of the corporate governance but also ensure its viability and relevancy.

Board independence was noted to be important in ensuring that the decisions made by the board were not in any way interfered or biased which my alter the efficiency. Board characteristics were indicated to be critical in ensuring that the board attains the deliverables. The respondents also unanimously agreed on the role played by board diversity in promoting inclusivity of board members from different backgrounds and gender. Further on board size, the respondents indicated that the size of the board was largely determined by firm size, firm age, leverage ratio and profitability. As such the board size should be proportional to the firm capabilities and the intended objectives. These practices were postulated to monitor the performance in terms of cost and benefit analysis as well as assessment of financial sustainability.

The study also sought to determine other CG practices that were adopted by the firms other than those investigated by the study. The respondents revealed the following additional practices: CEO duality, Director ownership, Committee structure, Frequency of meetings and Board reporting. On the overall CG practices' effect on performance, a large extent of influence was noted this was through promoting accountability, transparency, financial sustainability and continuity. In this regard, lack of appropriate CG mechanism was argued to result in mismanagement of funds, misappropriation of resources, firm insolvency and firm losses. In addition, the respondents suggested various ways in which the performance of the DTSs may be improved such as enhancing the CG practices, frequent monitoring and evaluation of the board, conducting performance reviews and having appropriate risk management measures.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary discussion on corporate governance practices Kenyan deposit taking Saccos' performance. Conclusion and recommendation based on study findings are also presented. It concludes with giving suggestions for further research are discussed at the end of the chapter.

5.2 Summary

This study aimed at determining how Kenya deposit taking Saccos' performance is influenced by corporate governance practices. The target population comprised staff at the managerial level employed at the head offices of Nairobi City County's licensed deposit taking Saccos who were selected using census sampling. Both secondary and primary data were used. Semi-structured questionnaires were utilized in obtaining primary data. Descriptive statistics were used to provide summary measures of data observed and included frequencies, percentages, mean, coefficient of variation and standard deviation. Correlation and multiple regression analysis were used in conducting inferential statistics that was used for generalizations and making conclusions. Summary of key findings is presented below;

The study's specific objectives were to establish the effect of board composition, board diversity, board size and board independence on organizational performance. Based on the responses given by respondents, there were various CG practices undertaken in the DTSs. Descriptive statistics analysis comprising variation sample coefficient, standard and sample deviation, mean similarly established that in measuring corporate governance in the Deposit Taking Saccos, there was practice of activities significant level used. However, majority of these practices had only moderate adoption extents implying that they were still room for improvement of the practices.

Inferential statistics analysis involving both correlation and regression analysis established that board independence, size, diversity and composition positively affected the DTSs' performance. Specifically, the correlation coefficients were non-negative which meant that the linear correlation between the pairs of variables was positive. On the overall corporate governance measures, the regression analysis reported that the independent variables have a strong positive relationship on DTSs' performance. The model coefficients further revealed the performance was significantly influenced by all the variables. It implied that these variables' unit increase would result in a proportional change in the performance.

5.3 Conclusions

Various conclusions were drawn basing on the obtained findings. The study found out that board independence strongly influenced the Deposit Taking Saccos' performance. The study concludes that board independence affects the transparency, accountability and effectiveness of the decisions made by the board. The study also found out that Deposit Taking Saccos' performance was positively influenced by board size positively. It was thus concluded that board size affects the commitment, ownership and engagement of the board members.

The study also found out that board diversity influences on Deposit Taking Saccos' performance. The study thus concludes that board diversity affects the strategies/ideas that are formulated and implemented in the DTSs. Further, it was discovered that board composition has a strong influence on Deposit Taking Saccos' performance. Board composition is thus concluded to impact on quality, productivity, sustainability, adaptability and efficiency of the board and overall performance.

5.4 Recommendations for Policy and Practice

The study found out that board independence positively influenced the DTSs' performance. The study recommends that firms should ensure employees commitment to corporate governance characteristics through incorporation of different board activities, relevant information provision to shareholders by information disclosure particularly reports on finances and sharing information. This will ensure effective implementation of corporate governance measures and maximum gains on performance.

The study established that board size positively affects performance. It recommends that SACCOs embrace small or lean board size but qualified and professional because of their effectiveness and efficiency in operation cost, monitoring, coordination, communication, management and decision making. Additionally, the study recommends that the companies should conduct frequent monitoring and evaluation of the boards put in place so as to maximize their potentials.

The study further established that board diversity has a linear positive association with performance. The study thus recommends that policy makers and the government to put in place appropriate measures which will ensure effective corporate governance in not only the

Saccos but all other firms. The study also recommends development of a gender code or policy basing on stewardship theory since it is well aligned to co-operative principles predicated on community concern, inclusive economic participation and democracy. The framework ought to ensure equitable treatment of all board members, shareholders, both foreign and minority shareholders.

The study further found out that DTSs' performance level is significantly determined by board composition. The study recommends that non-executive directors number should be increased against total board members, this ensures better corporate governance principles compliance hence better performance. It was recommended that the firms should make sure their corporate boards are carefully select so as to meet the specifications of that particular company.

5.5 Suggestions for Further Research

To enable generalization of the research findings, future scholars could consider undertaking a similar research in a different sector or sectors to assess any response variation and enable adequate comparisons to be made. The study also limited to four constructs of corporate governance: board independence, board size, board diversity and board composition which is not exhaustive list of the available corporate governance measures. Further should investigate other variables like board effectiveness, contingence, board roles and the CEO duality. Further studies are also recommended on challenges or factors that impede effective implementation of CG practices in firms.

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APPENDICES

Appendix I: Letter of Introduction

Kenyatta University,

P.O BOX 43844-00100

Nairobi, Kenya.

1st February, 2020.

Dear Respondent,

RE: DATA COLLECTION

I am a student currently undertaken my masters studies in Business Administration (Strategic Management) at Kenyatta university. I am undertaking a research on **effect of corporate governance practices on performance of deposit taking savings and credit societies in Nairobi City County, Kenya.** This is to request you to participate in this study. I provide assurance that the confidentiality of obtained information will be maintained and only utilized for academic purposes.

Your accurate and frank responses are required to make this survey reliable and valid.

Thank you,

Zephaniah C. Chesire

D53/CTY/PT/25747/2013

Appendix II: Research Questionnaire

Kindy respond by ticking (√) or writing in the spaces provided.

PART A: BACKGROUND INFORMATION

1. Please indicate your gender

   Male [ ] Female [ ]

2. Please indicate your age bracket

   18 - 24 years [ ] 25 – 34 years [ ] 35 – 44 years [ ]

   45 – 54 years [ ] 55 years and above [ ]

3. Please indicate your highest education level

   PHD [ ] Master/postgraduate [ ] Undergraduate [ ] Diploma [ ] Secondary [ ]

   Other, specify……………………………………..

4. Please indicate your position in the organization …………………….

5. What is your work department?

   Finance [ ] Operations [ ] Human Resources [ ] Directors office [ ]

6. For what duration have your worked at this DTS?

   Below 1 year [ ] 2 -5 years [ ] 6-9years [ ] 10 years and above [ ]

PART B: CORPORATE GOVERNANCE PRACTICES IN DEPOSIT TAKING SACCOS IN NAIROBI CITY COUNTY, KENYA

i. Board Independence and performance of Deposit Taking Saccos

Please rate the extent the following pertaining to Board Independence of Deposit Taking Saccos.

Board Independence	**1**	**2**	**3**	**4**	**5**
7. Non-executive directors act independently and also controls stakeholders hence improving performance.					
8. The chairman acts independently which enhances his/her authority					
9. The organization’ board management is not dominated by major stakeholders and on the board of directors, it is represented by more than twice its representation					
10. The Sacco has an audit committee and an independent director it is chairs it for mitigating financial risks.					
11. The company has a committee in charge of remunerations headed by an independent director.					
12. Nominations within the organization are conducted independently.					
13. The Sacco outsources external auditors.					
14. Keen consultations are undertaken involving all board members prior to any decision being made.					
15. The Sacco has representatives of large creditors of the company					
16. The independent members are free for any attachments or commitments which may cloud their judgments during performing.					

ii. Board Size and performance of Deposit Taking Saccos

17. Please indicate the size of your board in the following years where 1= 10 members and above, 2= 1 to 9 members, 2= 1 to 7 members, 3= 1 to 5 members, 4 = 1 to 3 members, 5 = less than 3 members.

Year	**1**	**2**	**3**	**4**	**5**
2014					
2015					
2016					
2017					
2018					

18. What influences the board sizes chosen of the above years?

……………………………………………………………………………………………

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Please rate the extent the below pertaining to Board Size of DTS. Use 1 - 5 scale where 5 is to a very large, 4 is large extent, 3 is moderate extent, 2 is small extent and 1 is very small extent

Board Size	**1**	**2**	**3**	**4**	**5**
19. Need for professional diversification in decision making influences the board size					
20. Large board size is essential to check the excesses of the CEO					
21. Large board sizes make the internal corporate governance mechanisms work better					
22. Large board sizes reduce risk of failure					
23. Board sizes affects the length taken in making corporate decisions					

iii. Board Diversity and performance of Deposit Taking Saccos

Please rate the extent the following pertaining to Board Diversity of Deposit Taking Saccos. Use 1 - 5 scale where 5 is to a very large, 4 is large extent, 3 is moderate extent, 2 is small extent and 1 is very small extent.

Board Diversity	**1**	**2**	**3**	**4**	**5**
24. There are foreign nationals on the board					
25. Your Sacco has board diversity based on gender equality					
26. Your Sacco has board diversity based on age					
27. Your Sacco has board diversity based on academic disciplines					
28. During board composition, members' track record is considered					
29. Your Sacco has appropriate policy frameworks on board diversity					

iv. Board Composition and performance of Deposit Taking Saccos

Please rate the extent the following regarding Board Composition of Deposit Taking Saccos. Use 1 - 5 scale where 5 is to a very large, 4 is large extent, 3 is moderate extent, 2 is small extent and 1 is very small extent.

Board Composition	**1**	**2**	**3**	**4**	**5**
30. The integrity of board members is considered during board composition					
31. The board directors have diverse skills, experience and knowledge which enhances their competencies.					
32. The board of the Sacco adopts special committees to oversee its duties and assess performance.					
33. The board constantly reviews its objectives, visions and mission which act to ensure continued performance.					
34. The responsibilities and duties of the board are well defined and set out which facilitates orderliness and accountability.					
35. There is a comprehensive selection criterion for board members.					

36. Which other corporate governance practices influence DTS' performance in Nairobi City County, Kenya?

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SECTION C: EFFECT OF CORPORATE GOVERNANCE PRACTICES ON PERFORMANCE OF DEPOSIT TAKING SACCOS IN NAIROBI CITY COUNTY, KENYA

Please indicate the following pertaining to the effect of corporate governance on performance of deposit taking Saccos in Nairobi City County, Kenya.

Effect of Corporate governance practices	**1**	**2**	**3**	**4**	**5**
37. The board strategically aligns the organization as per the objectives of the firm.					
38. Complete polices evaluation is done by the board which acts to facilitate proper implementation practices.					
39. Duties performed by the board are well stipulated which ensures responsibilities.					
40. Development projects are overseen by the board as per the required regulations.					
41. The board undertakes frequent monitoring of the compliance of the managers to the set policies and organizational targets.					
42. The board has access to all the required resources and information which enable it to fully carry out their duties.					

43. In your own opinion what is the overall influence of corporate governance practices on performance of deposit taking Saccos in Nairobi City County, Kenya?

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SECTION D: PERFORMANCE OF DEPOSIT TAKING SACCOS IN NAIROBI CITY COUNTY, KENYA

Please indicate the following measures of performance of deposit taking Saccos in Nairobi City County, Kenya.

Measure of performance	**1**	**2**	**3**	**4**	**5**
44. Product quality					
45. Employee satisfaction					
46. New products					
47. Satisfaction of members					
48. Continuous organization improvement					
49. Financial viability					
50. Long term continuity					
51. Speed of response					

52. What measures ought to be undertaken so as to improve how deposit taking Saccos perform?

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End

Thank you for your participation

Appendix III: List of Deposit Taking Saccos in Nairobi County, Kenya

1. Afya SACCO
2. Wanaanga SACCO
3. Chai SACCO
4. Nacico SACCO
5. Comoco SACCO
6. Miliki SACCO
7. Magereza SACCO
8. Nation Staff SACCO
9. Waumini SACCO
10. Orthodox SACCO
11. Kenya Police SACCO
12. Sheria SACCO
13. Tembo SACCO
14. Hazina SACCO
15. Jamii SACCO
16. Nafaka SACCO
17. Kingdom SACCO
18. Ukulima SACCO
19. United Nations SACCO
20. Naku SACCO
21. Maisha Bora SACCO
22. Nasefu SACCO
23. Fundilima SACCO
24. Airports SACCO
25. Chuna SACCO
26. Wanandege SACCO
27. Kenpipe SACCO
28. Mwalimu National SACCO
29. Safaricom SACCO
30. Harambee SACCO
31. Stima SACCO
32. Kenya Bankers SACCO
33. Mwito SACCO
34. Asili SACCO
35. Kenversity SACCO

Source: SACCO Societies Regulatory Authority, (2019).

Appendix IV: Approval of Research Project Proposal

KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail:	dean-graduate@ku.ac.ke	P.O. Box 43844, 00100 NAIROBI, KENYA
Website:	www.ku.ac.ke	Tel. 020-8704150

Internal Memo

FROM:	Dean, Graduate School	DATE: 30th July, 2020
TO:	Mr. Zephaniah C. Chesire C/o Department of Business Administration	REF: D53/CTY/PT/25747/2013

SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL
===

This is to inform you that Graduate School Board, at its meeting on 1st **July, 2020,** approved your Research Project Proposal for the MBA Degree entitled, **"Corporate Governance Practices and Performance of Deposit Taking Savings and Credit Co-operative Societies in Nairobi City County, Kenya."**

You may now proceed with your Data collection, subject to clearance with the Director General, National Commission for Science, Technology & Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking and Progress Report Forms per semester. The Forms are available at the University's Website under Graduate School webpage downloads.

Thank you.

ELIJAH MUTUA
FOR: DEAN, GRADUATE SCHOOL

CC. Chairman, Department of Business Administration

Supervisors:

1. Dr. Godfrey Kinyua
   C/o Department of Business Administration
   Kenyatta University

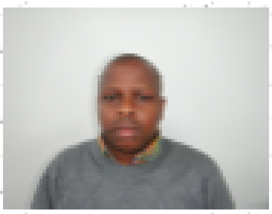
Appendix V: Nacosti Permit

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

Ref No: 882805 **Date of Issue: 22/September/2020**

RESEARCH LICENSE



This is to Certify that Mr.. ZEPHANIAH C CHESIRE of Kenyatta University, has been licensed to conduct research in Nairobi on the topic: Corporate Governance Practices and performance of deposit taking Savings and credit societies in Nairobi City County for the period ending : 22/September/2021.

License No: **NACOSTI/P/20/6814**

882805

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

Verification QR Code

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