

**THE EFFECT OF THE ADOPTION OF CORPORATE GOVERNANCE  
PRACTICES ON THE FINANCIAL PERFORMANCE OF SACCOS IN THE  
PUBLIC SECTOR IN NAIROBI NORTH DISTRICT.**

**BY**

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**DECLARATION**

This project is my original work and has not been presented for an award of a degree, diploma or certificate at any University or College.

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## ABSTRACT

SACCOs have been providing financial services to their members with little or no competition from other players in the financial market. However, the entry of other players in the financial market, targeting the same clientele that had been traditionally considered as the territory of SACCOs and introducing services and products especially tailor-made to out-compete SACCO products, coupled with the liberalization of the cooperative movement and the financial market at large, all have strained the performance of the SACCOs. In light of this, many SACCOs have implemented corporate governance measures and practices in an effort to improve their performance and make them more relevant in their business and better able to compete in the financial markets in which they operate. This study sought to analyze the effect of the adoption of these corporate governance practices on the financial performance of SACCOs. The research was based on public sector SACCOs in Nairobi North District, Kenya. The target population was the 44 SACCOs registered with the district cooperatives officer in Nairobi North District under the public sector. A sample of 39 respondents drawn from 13 SACCOs out of the 44 SACCOs registered in the public sector in Nairobi North District was taken for the study. Data was collected using a structured questionnaire and interview methods. The responses from cross-functional sample group was analyzed using descriptive statistical techniques in form of frequency distribution tables, percentages, pareto, and computer packages. The expected output was to establish whether the adoption of corporate governance practices has any relationship with the financial performance SACCOs, and therefore come up with recommendations that will help in the enforcement of these practices by the SACCO societies regulatory authority.

## LIST OF ABBREVIATIONS

<b>AGM</b>	-Annual General Meeting
<b>CG</b>	- Corporate governance
<b>DCO</b>	- District Cooperatives officer
<b>FOSA</b>	- Front Office Savings Account
<b>ICA</b>	- International Cooperative Alliance
<b>ICPAK</b>	- Institute of Certified Public Accountants of Kenya
<b>ICPSK</b>	- Institute of Certified Public Secretaries of Kenya
<b>ICT</b>	- Information communication technology
<b>KNBS</b>	- Kenya National Bureau of Statistics
<b>MFI</b> s	- Micro Finance Institutions
<b>OECD</b>	- Organization for Economic Co-operation and Development
<b>SACCO</b>	- Savings and Credit Cooperative
<b>SASRA</b>	-Sacco Societies Regulatory Authority
<b>T &amp; D</b>	-Transparency and Disclosure
<b>WOCCU</b>	- World Council of Credit Unions

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## OPERATIONAL DEFINATION OF TERMS

**Annual General Meeting** – this is a meeting of all the shareholders or delegates convened every year to deliberate on major policy matters affecting the SACCO.

**Board of Directors** – this is a group of people elected by the shareholders and entrusted with the responsibility of managing the SACCO on their behalf.

**Cooperative** - an association of persons who have agreed to work together in order to achieve common goals

**Corporate Governance** - processes by which organizations are directed, controlled and held accountable

**Financial performance** – this is the performance of a firm measured using the financial statements

**Public sector SACCOs** -SACCOs formed by government and parastatal employees.

**Performance** – This is an action of achievement, considered in relation to how successful it is.

**Sacco** - a cooperative society formed by persons who come together to save their money in a common pool with a view to getting loans at low interest rates

**Shareholders** – these are owners or investors of a SACCO who share a common bond, e.g. employment.

**Share Capital** - In a Sacco, this refers to the members' deposits and the non-refundable share contribution.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background to the study.

Cooperatives have existed since 1844 in England at Rochdale where the first cooperative society was formed, spreading later to other parts of the world like Canada and USA. The first SACCO was formed in 1849 in Rhineland (Lasserve, 1959). According to ICA, “a co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise”.

Cooperative societies are formed, not with an aim of making profit but to provide for the socio-economic welfare of its members (Mubibo, 2005). According to WOCCU, “the primary mission of a SACCO is to conveniently and affordably serve its membership alongside making profits for its shareholders”. The beauty of SACCOs is that shareholders are also members and profit generated is returned to members in form of dividends, lower interest rates for loans as well as lower service fees.

According to Ojiambo (2008) the cooperative movement in Kenya has undergone a huge growth and transformation from the pre-colonial era, the colonial era and the post colonial era. There has been a new and growing trend among SACCOs in Kenya to venture into other activities which were previously undertaken by other financial institutions like banks, insurance companies, mortgage firms, pension funds, among others. It is now a common feature to find SACCOs offering banking (FOSA) services, mortgage loans, life assurance and property insurance, asset financing, among other services, all of which were not offered by the traditional SACCO (Mutura, 2005). All these services are being offered in an effort to expand the revenue base of the SACCOs and enable them gain a competitive edge in the financial market.

The phenomenal growth in the SACCOs has not been without its challenges. The country has seen a large number of the once successful coffee cooperative societies

collapse or being split up; almost all the cotton cooperatives in the country have collapsed while many SACCOs continue to grapple with management problems coupled with a fall in their membership (Ojiambo, 2008). Leadership wrangles and formation of caretaker committees to oversee the management of the societies have plagued these institutions thereby hampering their ability to compete in the rapidly changing market. According to Odhiambo (2006), despite the government's recognition of the importance of cooperatives, they still continue to suffer from financial constraints, members' apathy, wrangles, poor management, low capitalisation, e.t.c. In light of these monumental challenges, many SACCOs have instituted corporate governance measures and practices aimed at making their organizations better managed and hence able to gain a competitive edge in the financial markets in which they operate and ultimately grow in profitability and consequently maximize shareholders' wealth.

Issues of corporate governance have been raised with regard to the manner in which countries and public corporations are managed. While emphasis has been on public corporations for a number of years now, attention has shifted to the cooperative movement where a number of studies are now being undertaken to determine the cause of apparent decline in the performance of SACCOs (Ojiambo, 2008). Corporate governance has been cited as one of the main issues affecting the performance of SACCOs. There have been arguments that corporate governance does not apply to SACCOs as they are not corporations. Turnbull (1997) states that corporate governance includes all types of firms whether or not they are incorporated under civil law. Firms can therefore exist as common or civil law companies, partnerships, joint venture, limited liability partnerships, cooperatives, mutual associations, building societies, friendly societies and trading trusts (Ojiambo, 2008). With this description of firms as all institutions engaged in the production and sale of goods and services, then both public and private organizations are included. This therefore increases the scope of corporate governance to all economic activities of a country.

Corporate governance can be defined as a set of principles concerning the governing of companies and how these principles are disclosed or communicated externally. It is therefore an institutional attempt to create a structured dialogue between companies and

their shareholders and with the aim of ensuring that the organizational goals are understood and the critical factors necessary for their achievement (Parum, 2005). In a similar manner, Yener (2001) sees corporate governance as a set of relationships and networks between a company's management, its board of directors, its shareholders and the stakeholders. In broader terms therefore, corporate governance refers to the processes by which organizations are directed, controlled and held accountable. It therefore encompasses issues concerning authority, accountability, stewardship, leadership, direction and control as exercised in corporations or cooperative societies for that matter. The system by which business corporations are directed and controlled is referred to as corporate governance (Hodgetts et al. 2006). Robbins et al (2005) defines corporate governance as a system used to govern a corporation so that the interests of the corporate owners are protected.

The subject of corporate governance, especially in SACCOs has gained considerable attention due to the huge amounts of deposits held by these enterprises from their members, the liberalization of the world economy as well as the competition in the financial markets in which they operate. According to the KNBS Statistical abstract (2010), SACCOs had accumulated share capital amounting to Ksh.171, 856 million as at 2009. It is in light of this that SACCOs are required to be managed prudently so that the interests of the shareholders are protected. The management boards of SACCOs are required to govern these enterprises in a manner that ensures that their growth and sustainability is achieved. Competition and internal pressure from members demanding sophisticated products and services means SACCOs must be managed in a more professional manner in tandem with trends in the market.

Over the last five years or so, the managements of most SACCOs have instituted corporate governance practices with a view to coping with the growing challenges of globalization and liberalization as well as restore the confidence of its membership (Ojiambo 2008). Due to the importance that the government lays on cooperatives, the public officers ethics Act (2003) states that all cooperative committee members are required to declare their wealth annually. The government through the ministry of cooperative development and marketing has established a governance and ethics

department to ensure good corporate governance principles to improve accountability and transparency. Due to the need for change of management style from process oriented management to results based management, employees and management are required to execute performance contracts. The management committees are also expected to implement the public procurement procedures Act in every purchase transaction.

A study done by Ojiambo(2008) among selected SACCOs in Nairobi found that a majority of them had well established governance systems and structures that should enable them deliver effective and efficient services to their members. The question has been whether the implementation of these corporate governance measures has actually brought any effect on the performance of the SACCOs. It was in view of this that this study sought to determine the effect of the adoption of corporate governance practices on the financial performance of SACCOs, with an emphasis on the public sector SACCOs in Nairobi North district.

## **1.2 Statement of the problem**

While the recent high profile corporate governance failures in both developed and developing countries have brought the subject of corporate governance to media attention, the issue has always been central to finance and economics (Chia et al, 2008). Most studies done on corporate governance in organizations point to the conclusion that corporations that embrace good corporate governance practices perform better than those that do not (Miring'u 2008). However, much of the research in the area has been done on companies. The few researches done on SACCOs have only concentrated on the specific practices and measures of corporate governance adopted, e .g, Ojiambo (2008), Ademba ( 2006) and Muriithi (2004). There is conspicuous lack of evidence on research done on the effect adopting corporate governance measures and practices on the performance of SACCOs. A study done by Ojiambo (2008) found that most SACCOs have instituted corporate governance practices in an effort to gain a competitive edge in the market and remain relevant and viable in their business in the ever changing global economy. According to Miring'u (2008), research needs to be carried out to determine whether the adoption of corporate governance practices had any effect on the

performance of other organizations other than commercial state corporations. Similarly, Ojiambo (2008) pointed that further research needs to be done to examine the effect of adopting corporate governance measures and practices on the performance of SACCOs. This study therefore sought to investigate the effect of the adoption of corporate governance practices on the financial performance of public sector SACCOs in Nairobi North District.

### **1.3 Research objectives**

#### **1.3.1 General Objective**

The general objective of the study was to determine the effect of the adoption of corporate governance practices on the financial performance of government based SACCOs in Nairobi North District.

#### **1.3.2 Specific Objectives**

- a) To ascertain the influence of the composition of board members on financial performance;
- b) To examine whether the size of the board affects financial performance of SACCOs;
- c) To investigate the relationship between transparency and disclosure and financial performance of SACCOs;
- d) To examine whether or not the separation of the posts of CEO and Board Chair is of any value in the promotion of firm financial performance;

### **1.4 Research Questions**

The study will be guided by the following research questions;

- a) What is the relationship between board composition and financial performance of the SACCO?

- b) What is the effect of board size on the financial performance of the SACCO?
- c) What is the relationship between financial performance and CEO duality?
- d) What is the effect of transparency and disclosure on financial performance of the SACCO?

### 1.5 Significance of the study

The results of this study will be of great importance to several parties including;

**The managements of different SACCOs** - the findings will help them to recognize and appreciate the importance of adopting corporate governance practices in the management of their organizations in order to improve their performance as well as their relative position in the market in terms of competitiveness.

**SACCO Members** will be able to assess the relative progress of their SACCOs in the implementation of corporate governance practices, which will make them better informed members hence empower them in playing a better role in checking the performance of the management.

**Government** - the findings of the study will serve as a pointer to the government to institute more stringent rules and policies on SACCOs which will compel them to implement corporate governance practices in the management of their affairs.

**Researchers** - the study findings will add to the knowledge pool for other researchers interested in the same area of study as well as other related areas of study.

### 1.6 Scope of the study

The study was carried out among the 44 public sector SACCOs in Nairobi North district, one of the districts in Nairobi area. Most public sector SACCOs have been operating for quite some time and hence have adopted corporate governance practices. Nairobi North district was chosen on the basis of the large number of SACCOs, which may provide the

required data. Additionally, the geographical area covered by the district is relatively small but the concentration of the SACCOs in the district is quite high.

### **1.7 Assumptions of the study**

For the purposes of this study, the following assumptions were made:

- a) That the respondents will give all the information requested in the questionnaire with honesty
- b) That the population sample taken will be representative of the whole population intended by the study
- c) That the results obtained from the study will be representative of all the government based SACCOs in Nairobi North district.
- d) The intervening variables (macro-economic factors) will remain constant.

### **1.8 Study Limitations**

Sampling strategy may have been influenced by a number of things like time availability and financial constraints.

The data collection tools adopted i.e. questionnaires and interview may not have given accurate information.

The sample size was influenced by time and financial constraints.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 INTRODUCTION

In this section, previous studies related to the link of corporate governance and performance are reviewed in line with the research problem and objectives. The historical development of cooperatives, the concept of corporate governance, the governance structure of cooperatives as well as the prominence of corporate governance are discussed. Also in discussion is the importance of corporate governance, pillars of good corporate governance, the international credit union governance principles and the theories of corporate governance. The section also deals with the performance indicators for measuring performance, various governance practices as well as a critical review of major issues and lastly a summary and gaps to be filled by the study.

#### 2.1 Historical Development of Cooperatives

According to Maina (2008), cooperative movements are known to have existed in countries like England, Canada and USA. In England they are known to have existed since 1844 at Rochdale. They later spread to Canada (1901) and USA (1908). Lasserre (1959) asserts that the first SACCO was founded in 1849 in Rhineland. In Philippines members would save, borrow and repay the principal plus interest using rice (Right 2000).

In Kenya, traditional cooperatives existed all over the Kenyan communities under different names. Among the Kikuyu community, it was called “Ngwataniro” or group work in which members of the group assisted each other in turn in cultivation and construction. The Luos had group work called “Saga” in which members of the group would plough or harvest individual gardens of their members in turns (Ouma 1990). Similarly among the Kisii, there was the “Risanga” and “Ngwatano” among the Kambas, while the Kalenjins had “Kokweti”, just to mention but a few.

These informal cooperatives can be traced in different communities in every country of the world, for example the Luhya had what they called “Bulala”. Work performed under this association was not paid for except for food or drink which was provided after the work was complete. In some cases work would be paid for through material consideration such as foodstuff, which resembled barter system of trade. This still exists except that the present day payment is monetary in nature. Before colonization, Africans knew that unity was strength and that was why they cleared bushes together, lived together in homesteads, defended themselves against enemies and external aggression and looked after livestock together. The old people knew that the young ones would look after them when they became too old to work among other things (Ouma, 1987).

In Kenya SACCO movements began in 1946 when due to great economic problems and social changes which affected the whole nation especially the working class they felt that they should form cooperative associations (Ouma, 1990). They mobilized savings and pooled resources together for the purpose of granting credit facilities to themselves. Currently there are 12,407 cooperative societies and unions where SACCO societies are the highest at 5,628 with a membership of 6.1 million and accumulated share capital of Ksh.171, 856 Million (KNBS, Statistical abstract 2010).

## **2.2 The Concept of Corporate Governance**

The proper governance of companies will become as crucial to the world economy as the proper governance of countries.” Clearly stated by James D. Wolfensohn, former President of the World Bank (Gatamah, 2004 September). Corporate governance has emerged as a major policy concern for many developing countries following the financial crisis in Asia, Russia, and Latin America. The collapse of Enron suggests that even the highly industrialized countries such as the U.S. are not immune to the disastrous effects of bad corporate governance. Studies have shown that low corporate governance standards raise the cost of capital, lower the operating performance of industry, and impede the flow of investment (Agrawal and Knoeber; Daily and Dalton; Himmelberg, Hubbard, and Love). Following the corporate scandals of Enron, WorldCom, and Tyco, more and more countries have embarked on corporate governance reforms to better protect the interests of investors.

In Africa, significant study has been done on corporate governance, the King's Committee Report and Code of Practice for Corporate Governance in South Africa published in 1994 continues to stimulate corporate governance in Africa (Rossouw, 2000). Training, technical and awareness raising support has also been extended by the World Bank and the Commonwealth Secretariat to various African countries such as Botswana, Senegal, Tunisia, Mali, Mauritania, Cameroon, Gambia, Mozambique, Mauritius, Sierra Leone and Zambia to help them put in place appropriate mechanisms to promote good corporate governance (Private Sector Initiative for Corporate Governance, 2009). East African Regional conferences were held in Kampala, Uganda, in June 1998 and September 1999 to create awareness and promote regional co-operation in matters of corporate governance. At the June 1998 Conference, it was resolved that each member state of East Africa be encouraged to develop both a framework and a code of best practice, to promote national corporate governance (Private Sector Initiative for Corporate Governance, 2009). Efforts are also under way to harmonize corporate governance in the East African region under the auspices of the East African Cooperation, and through the establishment of a regional apex body to promote corporate governance. In Kenya, the Private Sector Initiative for Corporate Governance continues to liaise with Uganda and Tanzania towards the establishment of a Regional Center of Excellence in Corporate Governance. On October 8, 1999, the Corporate Sector at a seminar organized by the Private Sector Initiative for Corporate Governance formally adopted a national code of best practice for Corporate Governance to guide corporate governance in Kenya, and mandated the Private Sector Initiative to establish the Corporate Sector Foundation (Private Sector Initiative for Corporate Governance, 2009). Although corporate governance is now rather popular, in 1990 it was a murmur, therefore, within this context, that cutting-edge work in the area of corporate governance was only underway in Kenya in 1998.

According to Ferrell et al (2008), Corporate Governance is the formal system of accountability, oversight, and control aimed at removing the opportunity of employees to make unethical decisions; where accountability is how closely workplace decisions are aligned with a firm's strategic direction and its compliance with ethical and legal

considerations, oversight provides a system of checks and balances that limit employees and managers' opportunities to deviate from policies and strategies and that prevent unethical and illegal activities, while control is the process of auditing and improving organizational decisions and actions (O.C, Fraedrich, & Ferrell, 2008). A more inclusive approach to corporate governance has been preferred, one that creates governance systems that consider stakeholders welfare in tandem with corporate needs and interests thus promoting the development of long-term relationships. The Capital Markets Authority identifies this in their definition of corporate governance for the purpose of their guidelines. "The process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholders long-term value while taking into account the interest of other stakeholders" (Capital Markets Authority, 2002).

Therefore, at the core of Corporate Governance is the manner in which the power of a corporation is exercised in the running of the corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and satisfaction of other stakeholders in the context of its corporate mission. It is concerned with creating a balance between economic and social goals and between individual and communal goals while encouraging efficient use of resources, accountability in the use of power and stewardship and as far as possible to align the interests of individuals, corporations and society (Private Sector Initiative for Corporate Governance, 2009). Integrity is highly emphasized in good corporate governance. It creates a compliance and ethics culture so that employees feel that integrity is at the core of competitiveness while providing mechanisms for identifying risks and for planning for recovery when mistakes or problems occur (O.C, Fraedrich, & Ferrell, 2008).

According to Mudibo (2005), the inability of corporations in meeting the requirements of good corporate governance results in corporate governance irregularities. Good Corporate Governance seeks to promote responsive and accountable corporations, legitimate corporations that are managed with integrity, probity and transparency and the recognition and protection of stakeholder rights. These ideals are necessary for any country in order to attract investors- both local and foreign and assuring efficient

management and security of their investments in a transparent and accountable process. It also promotes competitive and efficient companies and business enterprises by enhancing the accountability and performance of those entrusted to manage corporations. It is imperative to note that with efficient companies or business enterprises, the country is able to create employment and wealth. The lack of investment in companies leads to stagnation and collapse. If business enterprises do not prosper, employment declines, tax revenue falls and invariably economic growth hindered. The country needs well-governed and managed business enterprises that can attract investments, create jobs and wealth and remain viable, sustainable and competitive in the global market place. Good corporate governance, therefore, becomes a prerequisite for national economic development.

The financial crises of Enron, WorldCom and Parmalat have heated up the discussion about the adequacy of good governance of various institutions and companies. In corporate governance a lot of issues are borne by the separation of ownership and control (Chia al, 2008).

Corporate governance in the academic literature seems to have been first used by Richard Eells (1960) to denote "the structure and functioning of the corporate policy". But how to manage companies and the question for the best structure to achieve an optimal allocation of resources is as old as the history of companies. Nevertheless, the term corporate governance is inescapably connected with (listed) corporations, as here the separation of ownership and control and the therefore arising agency conflicts are obvious. Therefore it is instructive for the further work to begin with a brief historical origin of the corporation.

The Private Sector Corporate Governance Trust (1999) defines corporate governance as the manner in which, the power of a corporate entity is exercised in the stewardship of the entity's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and satisfying other stakeholders. According to the OECD, "Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the

structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.

In Anglo-Saxon countries like the US and UK, good corporate governance involves firms pursuing the interests of shareholders. In other countries like Japan, Germany and France corporate governance involves pursuing the interests of all stakeholders. The Centre for Corporate Governance in Kenya (2005) broadly defined corporate governance as the process by which corporate entities are directed, controlled and held accountable. The Economist Intelligence Unit Limited (2002) defines corporate governance as a system by which business corporations are directed and controlled.

The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders, and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this it also provide the structure through which the company's objectives are set, and the means of attaining those objectives and monitoring performance.

### **2.3 Governance structure of Cooperatives**

At their core credit unions are fundamentally different from other financial institutions. For-profit financial institutions have one primary goal: to maximize the owners' gain. As a result of this drive to increase profits, traditional corporate governance principles serve to ensure that profitability is achieved for the shareholders, not the actual users of the bank's financial services. Like for-profit corporations, credit unions seek to generate profits in order to directly benefit the owners. However, unlike private commercial banks and other for-profit institutions, the members serve as both the owners of the credit union and the recipients of the credit union services. Therefore when credit unions maximize their profits, it results in the form of lower interest rates on loans, lower service fees and higher dividends for the members. In addition to this unique aspect, credit unions are democratic institutions, where a single member receives a single vote, regardless of financial stake in the organization.

According to Mudibo (2005), the principle – agent relationships exist in Co-operatives. Member-owners are also its clients who are made up of groups with different interests. Some are net savers and others net borrowers. Each member has one vote regardless of the amount of wealth invested by the member while most Co-operatives' electorate do not have high levels of business or financial acumen. These among other concerns demand the need for good governance.

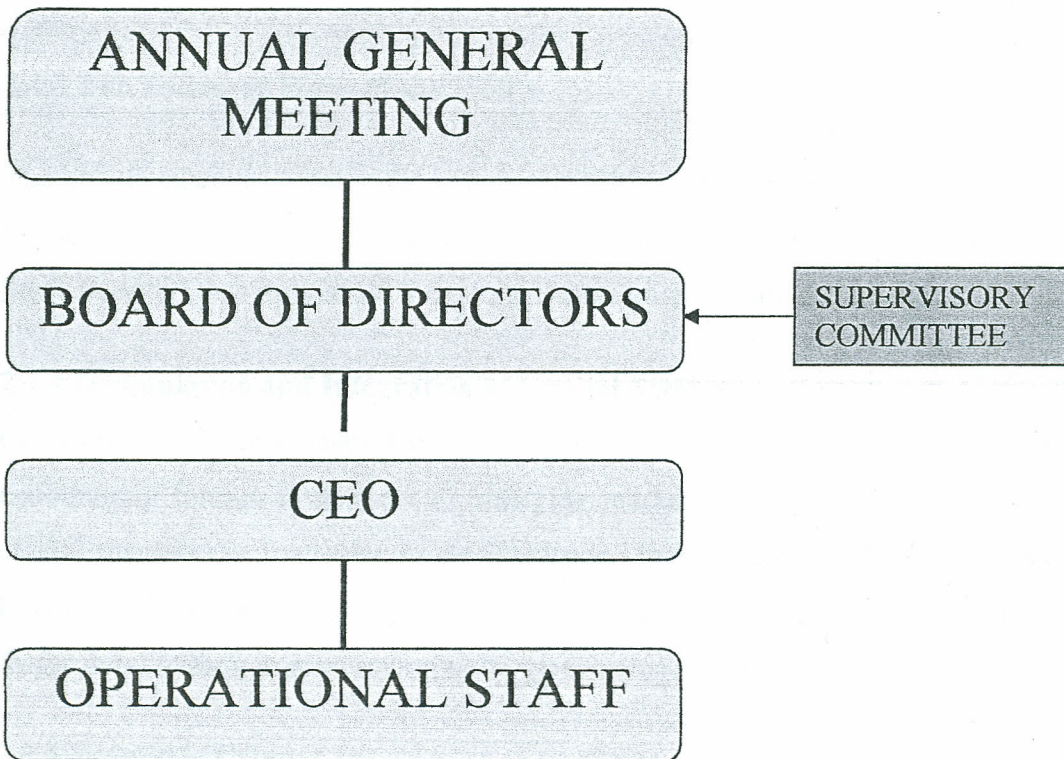
The Co-operatives Governance structure comprises of the Annual General Meeting, Board members, Supervisory Committee, CEO, Managers and the other operational staff. However the principal-agent nature of the relationship requires separation of ownership and decision making between the Board members and Management. It is for this reason that good corporate governance practices must be nurtured and encouraged to evolve best practices.

The supreme decision making body in a SACCO is the Annual General Meeting (AGM). “The annual general meeting of a co-operative society as established by the Co-operative Societies Act shall be the supreme organ of a Sacco society (The Sacco Societies Act No.14 of 2008). This meeting is the backbone of the internal governance system and is the highest decision making body in the credit union (Niederkoehr and Ikeda ,2005).

According to the Cooperative Societies Act,” The functions of the annual general meeting of a society are — to consider and confirm the minutes of the last annual general meeting and of any other intervening general meeting; to consider the auditor’s report, the reports of the committee of management and any report made by the Registrar or his representative; to approve the financial statements; to consider and resolve the manner in which any available net surplus shall be distributed or invested subject to the provisions of this Act and the by-laws; to consider and adopt any amendments to the by-laws; to elect or remove members of the committee of management; to appoint, where necessary, the auditors of the society; to consider and determine the maximum amount the society may borrow; and to transact any other general business of the society of which due notice has been given to members.” The board and the supervisory committee report to the members during the AGM.

Below the board is the CEO, who supervises the daily operations of the SACCO in terms of implementing the policies set out by the board. The CEO works with the line managers commonly referred to as the operational staff, who fall under his/her direct supervision.

**Fig.1: Organizational structure of SACCOs**



*Source: Researcher 2011*

## **2.4 Prominence of Corporate Governance**

Becht et al. (2002) identified five reasons why corporate governance became so prominent in the past two decades:

### **2.4.1 The World-Wide Privatization Wave**

Privatization has been an important phenomenon not only in Western Europe and Asia but especially in former communist countries. Inevitably, the privatization wave has raised the issue of how the newly privatized corporations should be owned and controlled.

## **2.4.2 Pension Fund Reforms and Growth of Private Savings**

The growth in defined contribution pension plans has channeled an increasing fraction of household savings through mutual and pension funds and has created a constituency of investors that is large and powerful enough to be able to influence corporate governance. These funds are playing an increasingly active role in global corporate governance.

## **2.4.3 The Takeover Wave of the 1980's**

The hostile takeover wave in the U.S. in the 1980s and in Europe in the 1990s, in addition to the recent merger wave (e.g. AOL-Time Warner, DaimlerChrysler, or AcelorMittal Steel recently), has influenced the public debate on corporate governance.

## **2.4.4 Deregulation and Integration of Capital Markets**

Corporate governance rules have been promoted in part as a way of protecting and encouraging foreign investment in emerging markets. The greater integration of world capital markets (in particular in the European Union following the introduction of the Euro) and the growth in equity capital throughout the 1990s have also been a significant factor in rekindling interest in corporate governance issues.

## **2.4.5 Economic Crises**

The East Asia economic crises 1998 highlighted the weak corporate governance practices in emerging countries and led to a reassessment of the Asian model characterized by centralized and hierarchical industrial groups controlled by management and large investors.

## **2.5 Importance of Corporate Governance**

In today's world, shareholders are demanding more say and better transparency and disclosure of information from their directors. The quality of governance at all levels is increasingly becoming the most important factor for the success of corporations. The occurrence of major scandals leading to the collapse of big corporations with disastrous social and economic consequences has made the wider society to start questioning the

running and management of corporations. With the globalization of the economies and privatization of public enterprises, corporate governance is increasingly taking centre stage in the board room.

The Society has greater expectation that corporate organizations and especially those in the private sector will take a more leading role in growing and developing the economy. Good corporate governance aims at achieving; increased profitability and efficiency of business enterprises; enhanced ability to create wealth for shareholders; increased employment opportunities with better terms of workers; enhanced separation of ownership from control; viability in corporations for investment in a competitive global market; enhanced legitimacy, responsibility and responsiveness of the business enterprise and transparency, accountability and probity of business enterprises, Mudibo (2005).

Mudibo further posits that, good corporate governance practices facilitate achievement of the following in the Co-operative Societies: strategic thinking and strategy setting; balance of power and control; efficiency and effectiveness; transparency and probity; productivity and responsiveness; responsibility and respectiveness; creativity and innovativeness and competitiveness and sustainability.

## **2.6 Pillars of Good Corporate Governance**

Good governance is based upon the attitudes, ethics and values of the society regarding accountability, democracy, sense of right or wrong, attitude towards accumulation of wealth through hard work and maintenance of essential order and security, efficiency and effective use of resources for production of goods and services(Gatamah et al,2000)

New Zealand Management (2007) states that there are four generally accepted pillars on which good governance is grounded upon. First, there must be an efficient body responsible for corporate governance, which should be separate and independent from management, and responsible for promoting accountability, efficiency and effectiveness, probity and integrity and responsibility. Secondly, transparent and open leadership with accurate and timely disclosure of information relating to all economic and other activities of the corporation. Thirdly, there must be an all inclusive approach to governance that

recognizes and protects the rights of members and all stakeholders both internal and external. Lastly the institution must be governed and managed with accordance with the mandate granted to it by its founders and society.

## **2.7 International Credit Union Governance Principles (WOCCU, 2005)**

The International Credit Union Governance Principles are ideals to be achieved and are intended to apply to credit unions, not second tier organizations, and according to WOCCU, credit unions are free to adapt the Principles as necessary to directly address local conditions. To assist with relationship management and corporate structure, WOCCU has developed principles for the three-part system of governance.

First, external governance addresses the issues that credit unions face as participants in the financial marketplace. All financial institutions, regardless of structure, are expected to operate in a transparent manner, comply with regulatory and prudential standards and be held accountable to the public.

Second, internal governance defines the responsibilities and accountability of the general assembly (annual general meeting), the board of directors, management and the staff. These responsibilities include achieving an appropriate governing structure of the credit union, preserving the continuity of future credit union operations, creating balance within the organization and remaining accountable for their actions.

The third principle, individual governance, ensures that the credit union obtains directors and management who are able to fulfill the two previous obligations of external and internal governance through integrity, competence and commitment. By adhering to the principles of this three-part model of external, internal and individual governance, credit unions can better achieve their ultimate goal of bringing affordable, quality financial services to people around the world.

## 2.8 Theories of Corporate Governance

There are basically three theories on corporate governance; that is the agency theory, stewardship theory and the stakeholder theory. However, this study will be based on the stakeholder theory of corporate governance.

### 2.8.1 Stakeholder Theory

The stakeholder theory argues that managers should make decisions so as to take account of the interests of all stakeholders in a firm (including not only financial claimants, but also employees, customers, communities, governmental officials. Because the advocates of stakeholder theory refuse to specify how to make the necessary tradeoffs among these competing interests they leave managers with a theory that makes it impossible for them to make purposeful decisions. With no way to keep score, stakeholder theory makes managers unaccountable for their actions. It seems clear that such a theory can be attractive to the self interest of managers and directors.

Creating value in terms of corporate performance takes more than acceptance of value maximization as the organizational objective. As a statement of corporate purpose or vision, value maximization is not likely to tap into the energy and enthusiasm of employees and managers to create value. Seen in this light, change in long-term market value becomes the scorecard that managers, directors, and others use to assess success or failure of the organization. The choice of value maximization as the corporate scorecard must be complemented by a corporate vision, strategy and tactics that unite participants in the organization in its struggle for dominance in its competitive arena. Therefore a firm cannot maximize value if it ignores the interest of its stakeholders. Enlightened value maximization utilizes much of the structure of stakeholder theory but accepts maximization of the long run value of the firm as the criterion for making the requisite tradeoffs among its stakeholders. Managers, directors, strategists, and management scientists can benefit from enlightened stakeholder theory.

## 2.9 Performance Indicators

Performance indicators are at the heart of a performing monitoring system (Miring'u, 2009). They define the data to be collected to measure progress and enable actual results achieved over time to be compared with the planned results (Xu and Wang, 1997). There are various measures of performance to determine financial and non – financial performance. The researcher intends to use Return on Equity (RoE) performance indicator to determine the financial performance of the SACCOs. Financial measures of performance analyse the financial statements of a business enterprise. There are three statutory financial statements, i.e, the income statement, the balance sheet and the cash flow statement. Financial statement analysis seeks to evaluate management's performance in several areas including profitability, risk and efficiency.

### 2.9.1 Return on Equity (RoE)

RoE or “return on net worth” (RONW) is the most significant profitability measure to investors. To the investor, the measure reports the returns on dollar invested to permit comparisons across firms. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. The ROE is useful for comparing the profitability of a company to that of other firms in the same industry. ROE encompasses the three pillars of corporate management; profitability, asset management, and financial leverage. To the management, the ratio is vital because it can be dissected to reveal sources of financial performance. If the ratio is higher than the industry average, this may indicate poor management of working capital. If the ratio is too low, this may not be bad if the current assets are very liquid (cash and securities) (Xu and Wang', 1997). RoE is calculated by dividing total profit after tax and interest payments by total equity.

$$\text{Return on Equity (RoE)} = \frac{\text{Net profit after tax}}{\text{Equity share capital}} \times 100 \%$$

## **2.10 Governance practices**

Measures of good governance structure include CEO duality, composition and size of the board, transparency and disclosure, board member's professional membership and audit committee among others that the researcher may not examine in this study.

### **2.10.1 Board Composition**

This is the ratio of outside directors to the total number of directors, i.e, the number of outside directors divided by the total number of directors. It also encompasses the professional qualifications and education levels of the board members.

### **2.10.2 Board Size**

This is the number of board members serving in the board of the SACCO.

### **2.10.3 CEO Duality**

This refers to whether the CEO equally doubles as the board chairman or the two roles are performed by different professionals. It is a dummy variable which takes the value 1 if the CEO doubles as the board chairman and 2 if there are different people occupying the two positions of CEO and board chairman.

### **2.10.4 Transparency and Disclosure**

This is the timely and adequate disclosure of the operating and financial performance of the firm and its corporate governance practices related to its ownership, board, and management structures and processes.

## **2.11 PAST STUDIES DONE ON CORPORATE GOVERNANCE**

### **2.11.1 Corporate governance and firm performance**

As already pointed out, most of the studies done in the area of corporate governance and firm performance in the past have dwelt predominantly on companies, parastatals and profit oriented business entities generally, while ignoring the cooperatives and especially SACCOs, which are key players in the financial system of our country as well as the entire world. Previous studies on corporate governance and performance of firms, e.g. Bebchuk & Cohen (2004), Bebchuk et al (2002) have shown that well governed firms have higher performance

The main characteristics of corporate governance identified in these studies include board size, board composition and whether the CEO is the board chairman. The question is whether corporate governance has any impact on the financial performance of SACCOs.

### **2.11.2 Board size and firm performance**

The question that has always remained in the minds of scholars and managements of businesses enterprises is whether corporate governance really affects firm performance. According to Miring'u (2009), there is a view that larger boards are better for corporate performance because they have a wide range of expertise to help make better decisions, and are harder for a powerful CEO to dominate.

In recent times however, emphasis has been on smaller boards. Jensen (1993) and Lipton & Lorsch (1992) articulate that large boards are less effective and easier for a CEO to control, the reason being that when the board grows too large, it becomes difficult to coordinate and poses problems. Smaller boards are also said to reduce the possibility of free riding by individual directors and increases their participation in the decision – making process. Smaller boards have been supported by several empirical researches, for example, Yermack (1996) postulates that for large US industrial corporations, the market value firms with smaller boards are highly managed.

Conversely, Eisenberg et al (1998) finds negative correlation between board size and profitability when using sample of small and medium size Finnish firms. Mark and Yuanto (2003), while studying firms in Singapore and Malaysia found that firm valuation is highest when a board has five directors, a number considered relatively small in those markets. Sanda et al (2003) in a Nigerian study found that firm performance is positively related with small, as opposed to large firms:

### **2.11.3 Board composition and firm performance**

Likewise, according to Miring'u (2009), although the issue of whether directors should be employees of or affiliated with the firm (inside directors) or outside directors has been well researched, no clear conclusion has been reached.

Fama (1980) affirms that although on one hand inside directors are more familiar with the firm's activities and that they can act as monitors to top management especially if they perceive the opportunity to advance into positions held by incompetent executives, outside directors may on the other hand act as 'professional referees' to ensure that competition among insiders stimulates actions consistent with shareholder value maximization. Klein (1998) found little association between firm performance and overall board composition. However, by going into the inner workings of the board via board committee composition, he was able to find significant ties between firm performance and how boards are structured. First, a positive relation was found between the percentage of inside directors on finance and investment committees and accounting and stock market performance measures. Next, firms significantly increasing inside director representation on these two committees experienced significantly higher contemporaneous stock returns and return on investments than firms decreasing the percentage of inside directors on these committees. These findings were consistent with Fama and Jensen's assertion that inside directors provide valuable information to boards about the firms' long-term investment decisions.

John & Senbet (1998) established that boards of directors are more independent as the proportion of their outside directors increases. Kihara (2006) however notes that unlike

inside directors, outside directors are better able to challenge the CEO. This could probably be the rationale behind the requirement that a board consists of a minimum of three outside directors.

Several empirical studies done on outside directors support the beneficial monitoring and advisory functions of firm shareholders, Brickley et al, (1994). Rosenstein and Wyatt (1990) showed that the market rewards firms for appointing outside directors. Brickley et al (1994) found a positive relationship between the proportion of outside directors and stock market reactions *poison pill adoptions*.

However, Forsberg (1989) found no relationship between the proportion of outside directors and various performance measures. Hermalin and Weisbach (1991) found no significant relationship between board composition and firm performance. Yermack (1996) also showed that the percentage of outside directors does not significantly affect firm performance. Agrawal and Knoeber (1996) suggest that boards expanded for political reasons often result in too many outsiders on the board, which does not help in performance. Considerable attention has been given to the role of boards in monitoring managers and in removing non-performing CEOs. Jensen (1993) voices his concern that a lack of independent leadership makes it difficult for boards to respond to failure in top management.

#### **2.11.4 CEO Duality and firm performance**

In the period 1999-2003, hundreds of firms converted from dual CEO leadership structure to non dual CEO structure, while a smaller number of firms converted in the opposite direction (Chia, et al, 2008). The recent trend is partly due to several high profile cases where powerful dual CEOs were found to abuse their tremendous power at the expenses of the company and shareholders.

However, empirical evidence is scant and inconclusive on whether non-dual, as versus dual, CEO leadership structure is associated with better firm performance. Theoretical studies provide no consensus as to whether firms with split titles (CEO and chairman of the board) outperform firms with combined titles. Fama and Jensen (1983) and Jensen

(1993) suggest that CEO duality may hinder board's ability to monitor management and thereby increase the agency cost. As a result, splitting the titles of CEO and Chairman of the Board will improve firm performance. In contrast, Stoeberl and Sherony (1985) and Anderson and Anthony (1986) argue that CEO duality provides clear-cut leadership in strategy formulation and implementation and will therefore lead to better firm performance. Splitting titles may create information sharing costs, conflicts between CEO and non-CEO chairman and inefficiency: It will be costly to communicate firm-specific information to others in a timely manner; decision making process and execution may both be less efficient when there are two versus one key leader; it may be more difficult to assign blame for bad company performance. Whether combining or separating the leadership is beneficial to the firm is then an empirical question. However, the empirical evidence is mixed and inconclusive. Pi and Timme (1993) find that there is negative relationship between CEO duality and accounting performance measures in banking industry. Baliga, Moyer, and R. Rao (1996) found no evidence of performance changes surrounding changes in the duality status. Another study they conducted in 2001 suggested that: (1) the market is indifferent to changes in a firm's duality status; (2) there is little evidence of operating performance changes around changes in duality status; and (3) there is only weak evidence that duality status affects long-term performance, after controlling for other factors that might impact that performance. Daily and Dalton (1997) find that there is no significant difference in performance between dual CEO and non-dual CEO firms. Dahya and Travlos (2000) document a positive association between CEO duality and firm performance. Dahya (2005) show that splitting the titles of CEO and Chair of the Board among U.K companies is not associated with performance improvement. Faleye (2007) find that CEO duality is positively related to organizational complexity, CEO reputation and managerial ownership. His results suggest that firms do consider the costs and benefits of alternative leadership structure.

Both theoretical and empirical studies are inconclusive as to which might be better: vesting both CEO and Chair of the Board positions into one person, or splitting the titles. However, in many countries including the U.S., regulators and investors have become more and more strongly recommending separation of CEO and chairman duties.

Chia et al (2008), in their study “CEO Duality and firm performance-An endogenous issue”, found significant differences in firm characteristics between dual and non-dual CEO firms. However, they found no evidence that CEO duality has a significant effect on firm performance. They found the existence of endogeneity in CEO duality, indicating that the corporate leadership structure is endogenously and optimally determined, given firm characteristic and ownership structure. Their evidence casted doubt on the notion that firms changing from dual to non-dual leadership structure would improve performance. Miring’u (2009) while studying corporate governance in commercial state corporations in Kenya found that most of them displayed a relatively positive significance to performance in relation to Return on Equity.

What measures should therefore be put in place to mitigate against costs associated with the agency theory? Miring’u (2009) documents that to induce managers to behave efficiently and to reduce agency problem, incentive contracts, which tie manager’s compensation to measures of corporate performance have been proposed. This is accomplished through performance related bonuses, stock grants and stock options. However, executive incentive pay has been criticized as being manipulated or controlled by the executives themselves. Jensen and Murphy (1990) examined the relationship between pay and performance by CEOs in the USA. They advanced the argument that the conflict of interest between the shareholders and CEO represents a classic case of principal – agency problem. Agency theory predicts that compensation policy will be designed to give managers incentives to select and execute actions that increase shareholder’s wealth. They find that in small firms, CEO pay is more sensitive to performance (due to more option - more ownership). However for large firms, pay – performance sensitivity is low. This low sensitivity is linked to several hypotheses, such as, may be CEOs do not matter much, or “their actions may be easily monitored” or “political forces in the contracting process may be limiting the pay”

### **2.11.5 Transparency and Disclosure and Firm Performance**

Full disclosure and transparency (T&D) of financial information are vital components of the CG framework (OECD, 1999) and are regarded as an important indicator of CG

quality. Indeed, Beeks and Brown (2005) find that firms with higher CG quality make more informative disclosures. Transparency is integral to corporate governance, higher transparency reduces the information asymmetry between a firm's management and financial stakeholder's (equity and bondholders), mitigating the agency problem in corporate governance (Sandeep et al, 2002). Sadka (2004) provides both theoretical and empirical evidence that the public sharing of financial and analyst reports (market transparency) has enhanced factor productivity and economic growth in 30 countries.

Understandable, relevant, transparent, reliable, timely, and full disclosure of the results of economic activities and the structure and processes used in its organizational units entrusted to operate in shareholders' interests, gives the stakeholders a true and fair view of the firm and the quality of the CG standards it follows. In this sense, good T&D mechanisms are set in place to essentially protect the rights of the minority shareholders and creditors and other outsiders who do not have first hand knowledge about the firm and its prospects, from extraction of private benefits by insiders based on their superior information. This, in turn, is expected to minimize the informational asymmetry in the firm and the probability of fraud, also enhancing its easier detection, leading to lower cost of capital and hence higher firm value. A related informational advantage of good T&D practices is that it increases investor awareness and trust which will reduce the uncertainty of the returns to the capital suppliers which, again, is expected to reduce the firm's cost of external capital and hence increase its value ( Berglof and Pajuste, 2005). A third advantage is that compliance with good T&D practices mitigates the political costs of non-compliance and hence reduces the risk of higher taxes, litigation and too much regulation. Transparency, disclosure and trust, which constitute the integral part of corporate governance, can provide pressure for improved financial performance. Financial performance, present and prospective is a benchmark for investment. The Mckinsey Quarterly surveys suggest that institutional investors will pay as much as 28% more for the shares of well governed companies in emerging markets (Mark, 2000). According to the corporate governance survey 2002, carried out by the Kuala Lumpur stock exchange and accounting firm Price Water House Coopers (PWC), the majority of

investors in Malaysia are prepared to pay 20% premium for companies with superior corporate governance practices.

Greater information provision (disclosure) on the company's capital and control structures – can be an important means to achieve public trust on business leaders. High quality and relevant information is crucial for exercise of governance powers. Full disclosure seeks to avoid financial statements fraud (Beasley, 1996; Beasley et al, 2000). Prior studies have concentrated on disclosure of items such as management earnings forecasts (Johnson et al, 2001; Lev and Penman 1990) or interim earnings (Leftwich and Zimmerman 1981), or have examined a very general disclosure index of financial and/or non - financial items (Chow and Wong – Borren, 1987). The CIFAR Index (i.e. a disclosure index created by the Center for Intentional Financial Analysis and Research (CIFAR) rates annual reports on the inclusion or omission of about 90 (rather traditional and mandatory financial) items from the following categories; general information, income statements, balance sheet, funds flow statement, accounting standards, stock data and special items (Laporta et al, 1998).

## **2.12 Critical review of major issues**

The major issues here are the board composition, board size, transparency and disclosure and CEO duality. Sometimes when the organisation has least interference from outsiders (appointment of outside directors) they seem to perform better since those in management have a sense of ownership at heart. Hence the board ought to compose of more inside directors than outside directors.

However, John and Senbet (1998) argue that boards of directors are more independent as the proportion of their outside directors increases. Kihara (2006) also notes that unlike inside directors, outside directors are better able to challenge the CEO. It is perhaps in recognition of the role of outside directors that a minimum of three directors is required on the board. The study sought to find out which of these arguments is the case with the government based SACCOs in Nairobi North District.

### 2.13 Summary and gaps to be filled

Much of the literature quoted in the study relates to research work done on firms operating in developed western countries. There is quite little literature relating to corporate governance on the African continent and especially in Kenya. Worse still, information relating to corporate governance of the Kenyan SACCOs is quite scanty. Most of the information on corporate governance and SACCOs is found in newspaper articles, magazines and journals and annual reports and accounts published by the SACCOs.

Those who have researched in the area of corporate governance in Kenya like Naibo (2006) who researched on Corporate governance structures and practices in insurance underwriting sector in Kenya, Ademba (2006) on Corporate governance system in SACCOs' front office savings entities (FOSAs), Muriithi (2004) who studied the relationship between corporate governance mechanisms and performance of firms quoted on the NSE, Ojiambo (2008) who did an analysis of the corporate governance practices of selected Kenyan SACCOs and Miring'u (2009) studying the analysis of corporate governance on the performance of commercial state corporations in Kenya have not fully exhausted the area of corporate governance.

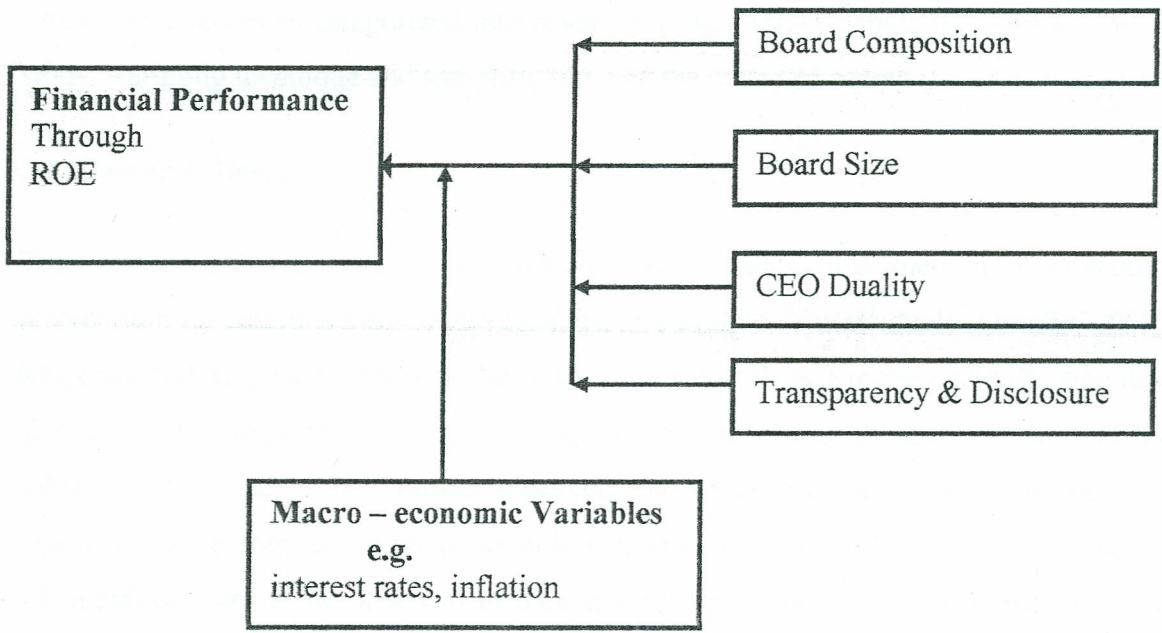
The said sources have still left out quite a number of areas unresearched on, leaving a gap to be filled in terms of conducting more researches on the area of corporate governance and its effect on the performance of various firms in Kenya, which has of late gained considerable attention. It is on this basis that the researcher intended to conduct a research so as to investigate and report on the effect of corporate governance practices on the financial performance of the government based SACCOs in Nairobi North District, Kenya.

Fig. 2: Variable relationship in the conceptual framework

## 2.14 CONCEPTUAL FRAMEWORK

Independent variables

Dependent Variable



Source: Researcher 2010

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.0. INTRODUCTION

This chapter describes the research methodology that was used in carrying out the study. The chapter has been categorized into research design, target population, location of the study, sampling technique and sampling size and the expected output.

#### 3.1. Research Design

This study employed descriptive research design, which is a method of collecting information by administering a questionnaire to a sample of individuals (Orodho, 2003). Mugenda and Mugenda (1999) define descriptive research as a process of collecting data in order to test hypothesis or to answer questions concerning the current status of the subject in the study. They further observed that descriptive research determines and reports things as they are, such as possible behavior, attitudes, values and characteristics when subjects are to be observed in their natural set up without manipulation of their environment. Besides collecting data, it also involves measurement, classification, analysis and comparison and data interpretation. The researcher will adopt this design because the formulated questions will ensure that the data collected are relevant to the questions raised. The Questionnaires will be administered through 'drop and pick' method to the sampled population of 39 employees selected from 13 public sector SACCOs in Nairobi North District. The data was coded, analysed and later interpreted to find out the relationship of the variables.

#### 3.2. Target Population

The target population of this study was the 44 operational government based SACCOs in Nairobi North district as registered with the district cooperatives officer as at 31<sup>st</sup> July 2010. The sample frame of the study was made up of one top level manager, one middle

level manager and one ordinary employee each from the sampled 13 government based SACCOs operating in Nairobi North District.

### **3.3 Study Location**

The study was carried out within Nairobi North district, one of the districts in Nairobi Province. The location was chosen by the researcher because it has the highest concentration of government based SACCOs and even other types cooperatives in Nairobi. Additionally, the district has a smaller geographical coverage hence making it easier for the researcher to get the required information on the SACCOs without travelling for long distances.

### **3.4 Sampling Technique**

A sampling frame of a list of all the public sector SACCOs in Nairobi North district was drawn. Probability random sampling was used. According to Saunders, et al (2003), probability samples, the chance of each case being selected from the population is known and is usually equal for all cases. Stratified random sampling technique was used to pick a sample of 3 respondents from each SACCO in the relevant population of interest. Each SACCO was considered as a subgroup or stratum. In each SACCO, stratified random sample was used in sampling the respondents. From the above target population of 132 employees from the 44 SACCOs, a sample of 30% was taken as shown in table 1.

### **3.5 Sample Size**

The researcher selected a sample of 39 respondents from 13 government based SACCOs out of the 44 government based SACCOs registered with the district cooperatives officer in Nairobi North district. From each sampled SACCO, the researcher randomly selected 1 senior level manager, 1 middle level manager and 1 ordinary employee, totaling 3 respondents. The respondents were chosen through probability random sampling while the sample SACCOs were selected using stratified random sampling.

**Table 1: Sampling Criterion**

<b>CRITERION/STRATA</b>	<b>NUMBER</b>	<b>SAMPLE (30%)</b>
<b>SACCOs in Parastatals</b>	16	5
<b>SACCOs in Ministries</b>	28	8
<b>Total</b>	<b>44</b>	<b>13</b>

*Source: Researcher 2011*

### **3.6 Data Collection Instruments**

Primary data was collected using the questionnaire method. A set of questions, both open-ended and closed-ended were developed for every variable. According to Robson, (2002) questionnaire method is good for descriptive research design because it works best with standardized questions that are confident will be interpreted the same way by all respondents. The close ended questions were accompanied by a list of all possible alternatives from which the respondents selected the answers that best described their situation, while the open ended allowed them freedom of response.

### **3.7 Ethical issues**

As data collection instruments were developed, the researcher ensured that the research procedures will not cause any harm or emotional distress to the respondents. The researcher also ensured that the respondents' human rights were observed and not infringed upon. As a result, in carrying out the study, the researcher endeavoured to obtain consent from the respondent before distribution of the questionnaires. The respondents were assured of confidentiality of the information they provided beforehand. In order to protect himself, the researcher obtained consent from the ministry of education in order to be allowed to collect data. Additionally, honesty and integrity were observed and maintained through out the study period.

### 3.8 Data Collection Procedure

Data collection procedures are the processes that are utilized in obtaining data from the respondents. In use of questionnaires, these were distributed to the sampled SACCO top level and medium level managers as well as the ordinary employees, who were given a timeframe in which to fill in the questionnaires. The questionnaires were then retrieved for analysis. The researcher utilized the services of enumerators to collect the required data. Additional secondary data and information was also obtained from reports, documents and past studies carried on cooperative societies.

### 3.9 Data Analysis

The primary data obtained using the questionnaire was analyzed using descriptive statistics. This enabled the researcher to meaningfully describe a distribution of scores or measurements using a few indices or statistics. The closed ended questions were coded for analysis using statistical instruments. These included frequency distribution tables, percentages, pie charts, bar charts, pareto and related diagrams, computer packages especially the statistical packages for social scientists (SPSS) and excel software to help draw conclusions and make recommendations from the research findings.

### 3.10 Expected Output

When all the above had been accurately done, the expected output was to establish whether corporate governance practices really have any effect on the performance of SACCOs in the public sector in Nairobi North District, and therefore come up with recommendations that help in the enforcement of these practices by the SACCO regulatory authorities.

### 3.11 The Model

In order to capture the relationship between financial performance (dependent variable) and the independent variables, the following model is suggested;

$$P_F = f(C, S, D, T, E) \dots\dots\dots (1)$$

Where,

PF = financial performance of the Sacco, which is measured using ROE

C = board composition

S = board size

D = CEO duality

T = Transparency and disclosure

E = Error term

Equation (1) can be specified as a regression model as follows;

$$P_F = a_0 + a_1C + a_2S + a_3D + a_4T + E \dots \dots \dots (2)$$

The coefficients  $a_0$  to  $a_4$  can be estimated in order to determine the direction and magnitude of the independent variables on the dependent variable, as follows:

$$ROE = 1.68771 - 0.0337596C - 0.5407169S + 0.079200D + 0.0098279T \dots \dots \dots (3)$$

## CHAPTER FOUR

### DATA ANALYSIS, DISCUSSION AND PRESENTATION OF FINDINGS

#### 4.0 Introduction

The chapter contains summaries of data findings and their interpretations. The analysis has been computed from 13 public sector Saccos.

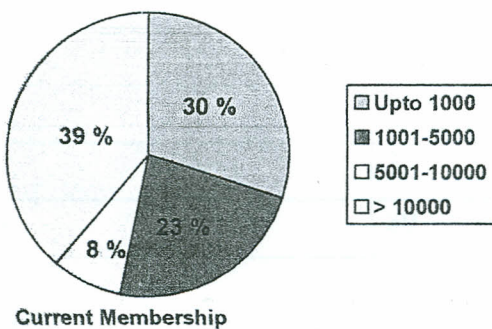
#### 4.1 Response rate

The researcher distributed questionnaires to the 13 public sector Saccos and the response rate was 100% which was favourable for the study.

#### 4.2 Corporation Profile

The corporation profile considered in this study included the current membership of the Sacco and the length of operation of the Sacco. The length of operation and membership of the Sacco has a significant bearing on the structures and operations of effective corporate practices because those which are long established and with large membership would be seeking to sustain their long standing reputation (Naibo, 2006).

Fig 4.1 Current membership



From Fig 4.1 above, 39 % of the sampled SACCOS had a high membership of above 10,000 members while those with membership of upto 1000 consisted of 30 %. Those with a membership of 1001-5000 constituted 23% while 8 % of the SACCOS had members between 5001 - 10000. SACCOS with a large membership is more complex and difficult to govern than those with few members.

**Table 4.1 Length of operation of the SACCO**

<b>Length of operation</b>	<b>Frequency</b>	<b>Percentage</b>
3-5 years	3	8
> 10 Years	36	92
<b>Total</b>	<b>39</b>	<b>100</b>

From the table 4.1 above, 36 Saccos representing 92% of the sampled Saccos had existed for more than 10 years while only 3 Saccos (8%) had operated for a period of between 3-5 years. Organisations that have existed for a long time are able to put the proper governance systems in place in order to consolidate their position in their markets.

### **4.3 Corporate governance practices**

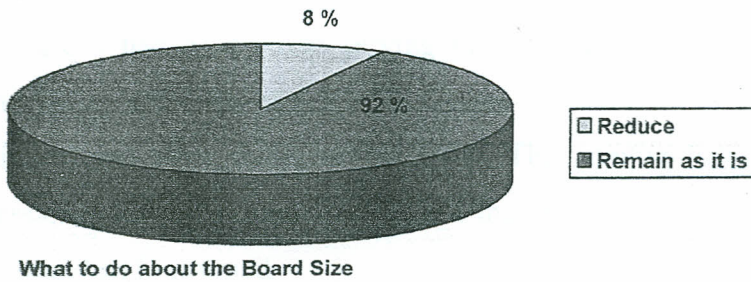
The researcher examined the various corporate governance practices implemented by the various Saccos and found the following results.

**Table 4.2 Size of board**

<b>Number of board members</b>	<b>Frequency</b>	<b>Percentage</b>
7	3	8
8	3	8
9	21	54
12	9	23
14	3	8
<b>Total</b>	<b>39</b>	<b>100</b>

The above table 4.2 indicates that 21 Saccos (54 %) of the sampled Saccos had a board consisting of 9 members, 3 (8 %) had 7 and 8 members while 9 (23%) had 12 members with 3 (8%) having 14 members.

**Fig 4.2 What to do with the size of board**



From Fig 4.2 above, out of the sampled 39 respondents, 3 (8%) recommended that the board be reduced in order to improve its efficiency while 36(92%) felt that the board should remain as it was.

In terms of the proportion of executive as compared to the non-executive board members, the researcher found that 27 Saccos (69%) had less executive as compared to the non-executive members, 3(8 %) had their executive board members being equal to the non-executive members while 9(23%) reported that their boards had more executive as compared to the non-executive members.

**Table 4.3 Board Sub Committees formed by the Saccos**

Sub committee	Frequency	Percentage
Executive	30	77
Credit	39	100
Education	39	100
Supervisory	39	100
Audit	24	62
Finance	18	46

From table 4.3 above, all the sampled Saccos had formed the credit, education and supervisory committees, 30 (77%) had formed the executive committee while 24 (62%) and 18 (46%) had formed the audit and finance committees respectively. This implies that majority of the Saccos formed various technical sub committees so as to improve their efficiency and performance.

The researcher was also interested in the professional qualifications of board members and found out that, out of the sampled Saccos, 3 (8%) of the respondents reported that their Saccos had economists serving in the boards, 15 (39%) being legal officers, 18 (46%) being audit specialists and finance specialists while 30 (77%) were accounts specialists and other business specialists. This implies that most Saccos have various professional serving in their boards and therefore the decisions made by the boards are quite sound and informed.

**Table 4.4 Academic qualifications of board members**

Qualification Level	Frequency	Percentage
O' Level	21	54
A' Level	6	15
Diploma	24	62
Bachelor's Degree	36	92
Masters Degree	15	39

According to table 4.4 above, an overwhelming majority of board members (92 %) had bachelors degrees, 62% had diplomas while the least number earned A' level certificates. This shows that majority of the Saccos were being managed by board members who had attained high levels of education, hence being informed and exposed to make sound management decisions.

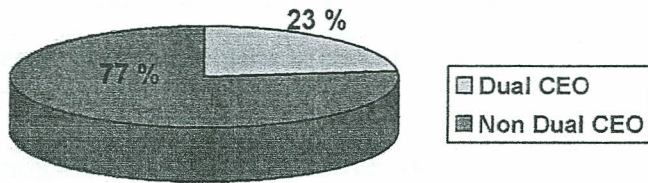
The researcher equally examined the membership of board members to professional bodies and found out that 30 Saccos (77%) had board members who belonged to ICPAK with 6 (15%) belonging to ICPSK. This is to imply that majority of the Saccos are being managed by board members who understand the proper way of keeping books of accounts and the prudential reporting standards and requirements.

**Table 4.5 Board composition in terms of Age, Gender and Ethnicity**

Composition	Frequency	Percentage
Age	27	69
Gender	24	62
Ethnicity	27	69

The results represented in table 4.5 above depict that 27 (69%) of the Saccos have their board members representing various age groups and divergent ethnic backgrounds, while 24 (62 %) are well represented in terms of gender. This is important for a board because the board will have divergent views from various backgrounds and hence avoid dominance by a particular group.

**Fig 4.3 CEO Duality**



According to Fig 4.3 above, 9 Saccos (23 %) had their CEOs doubling as the board chairmen while 30 (77 %) had separated the roles of the CEO from that of the board chairman, with both roles being performed by different persons.

**Fig 4.4 Implementation of performance contracting**

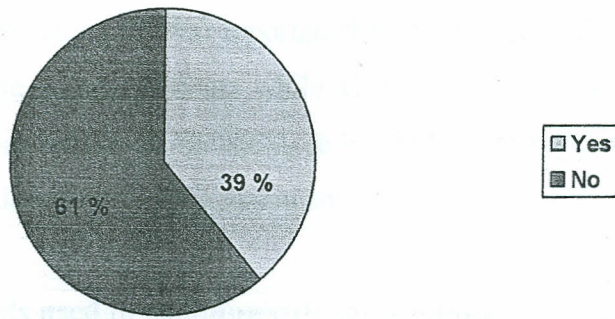


Fig 4.4 above shows that 39 % of the respondents reported that their Saccos had implemented performance contracting while majority of the Saccos (61 %) had not implemented performance contracting.

**Table 4.6 Parties involved in performance contracting**

Party	Frequency	Percentage
Between Board and Shareholders	6	40
Between Board and Management	15	100

As indicated in table 4.6 above, out of the 39% of Saccos which had implemented performance contracting, all of them had implemented the contract between the board and management while only 40% had implemented performance contracts between the board and shareholders. This means that most of the boards were less willing to commit themselves to the scrutiny of shareholders and were only keen to have the management enter into performance contracts.

**Table 4.7 Availability of standardized code of conduct for management and Board**

Management	Response	Frequency	%	Board	Response	Frequency	%
	Yes	30	77		Yes	27	69
	No	9	23		No	12	31
	Total	39	100		Total		100

Table 4.7 above shows that 30 respondents (77%) reported that their Saccos had a standardized code of regulations for the management while 9 (23%) did not have it. Similarly, 27 respondents (69%) reported that their Saccos had a standardized code of regulations for the board members while 12 (31%) did not have the same. This again shows that the boards of most Saccos were less willing to regulate their conduct but more interested in regulating that of the management.

**Table 4.8 Methods used to communicate information**

Method of Communication	Frequency	Percentage
Members request	36	92
AGM	27	69
News Media	6	15
Website	9	23
Newsletters	12	31

According to table 4.8 above, 92% of the Saccos communicated information to their members upon request, 69% used the AGM to pass information to their members while only 15 % and 23 % used various news media and the website to communicate the required information.

**Fig 4.5 Adequacy of information given by the Sacco**

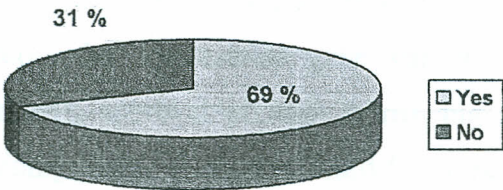


Fig 4.5 above shows that 27 respondents (69%) felt that the information given by their Saccos was adequate to enable them make informed decisions while 12(31%) felt

otherwise. This means that a majority of the Saccos gave adequate information to enable members to make well informed decisions.

### 4.3 Perceived reasons as to why information given is not adequate

The respondents who stated that the information given by their Saccos was inadequate to enable members make informed decisions gave various reasons to support their assertions, like; information should be given as a policy and not on request, manual systems were in use, limited channels of communication and the organization not giving negative information.

**Table 4.9 Financial performance**

<b>Trend</b>	<b>Frequency</b>	<b>Percentage</b>
<b>SACCOs with consistent increase in ROE</b>	5	39
<b>SACCOs with consistent decrease in ROE</b>	2	13
<b>SACCOs with erratic ROE</b>	6	46
<b>Total</b>	13	100

The table 4.9 above indicates that 39% of the sampled Saccos showed a consistent increase in ROE and EPS with 13% showing a continuous decrease in the same financial indicators.

### 4.5 What needs to be done to improve the performance of the Sacco

When asked what they thought needed to be done to improve the performance of their Saccos, the respondents gave various suggestions, including, recruitment of more members, approval of more borrowing powers by the commissioner of cooperatives, avoiding laxity, issuing of loans based/pegged on other income sources and not only on salary, strict adherence to prudent financial management, embracing ICT in Sacco operations, creation of more value added products board should concentrate on policy matters and leave the day to day management of Saccos to the management staff.

## 4.6 REGRESSION RESULTS AND DISCUSSION

Table 4.10 displays the regression results of the relationship between ROE and the governance practices.

**Table 4.10 ROE and Governance Variables**

---

Roe	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
bosize	-.5407169	.6173058	-0.88	0.016	-1.750614	.6691803
bocomp	-.0337596	.8215235	-0.04	0.044	-1.643916	1.576397
transp	.0098279	.4945878	0.02	0.037	-.9595465	.9792022
_cons	1.687771	.7484129	2.26	0.024	.2209086	3.154633

---

Estimated covariances = 1      Number of obs = 13

Estimated autocorrelations = 0      Number of groups = 2

Estimated coefficients = 4      Obs per group: min = 5

Avg = 6.5

Max = 8

Wald chi2 (3) = 1.23

Log likelihood = -27.5956      Prob > chi2 = 0.7468

Out of the minimum of 5 and the maximum of 8 the mean of board size of the firm is 6.5. The mean suggests that on the average, the sampled SACCOs have board membership of about 6 directors. However, a standard error of 2.26 suggests that while some SACCOs have relatively large board sizes, others have relatively small board sizes.

With board composition, the Table 4.10 shows that an average of about 82% of the board is non-executive. The study reveals that most of the boards are deemed independent and it concurs with John & Senbet (1998) who argue that, boards of directors are more independent as the proportion of their non-executive directors increases.

**CHAPTER FIVE**  
**SUMMARY OF MAJOR FINDINGS, CONCLUSIONS AND**  
**RECOMMENDATIONS**

**5.0 INTRODUCTION**

This research was aimed at determining the effect of the implementation of corporate governance practices on the financial performance of Saccos. The study was carried out based on its objectives. The population sample of 13 public sector Saccos was taken for the study. Data relating to the objectives of study was collected and analysed and the findings are presented in chapter four.

This chapter therefore presents a summary of the major findings of the study conclusions and recommendations.

**5.1 Summary of Major Findings**

The following are the results of major findings of the study.

**5.1.1 Board size**

The study found out that 70% of the Saccos had the right number of board members, that is, between 5 and 9 as recommended by WOCCU. However, some (31%) still had large boards consisting of more than 9 members, where some even had 14 members. Saccos which exhibited a consistent increase in the financial performance indicators had a small board. This is in agreement with Jensen (1993), Limpson & Lorch (1992), Yermack (1996), Yuanto (2003) and Sanda et al (2003). However, some Saccos which exhibited inconsistency in their financial performance indicators still had small boards, which makes it difficult to determine with finality whether board size affects the financial performance of Saccos.

**5.1.2 Board composition**

The researcher found out that quite a number of Saccos (39%) had an even number of board members which makes it difficult to make a decision in case there is a tie that needs to be broken, especially considering that Saccos are democratic entities where major decisions are made by way of voting.

Majority of the Saccos (77%) had a higher proportion of non-executive board members as compared to executive members, while only 23% had a higher number of executive board members as compared to the executive members. A higher number of non-

executive board members ensures a check on the powers of the executive board members and prevents them from domineering in the decisions of the board.

Similarly, most of the Saccos reflected the right composition of board members in terms of age (69%), gender (62%) and ethnicity (69%). The WOCCU recommends that management boards of credit unions should reflect the age, gender and geographical coverage of the members.

Most of the Saccos had board members belonging to professional bodies with 77% belonging to ICPAK and 15% to ICPSK. This means that majority of the Saccos are being managed by board members who understand the proper way of keeping books of accounts as well as the prudential reporting standards and requirements.

### **5.1.3 CEO Duality**

In terms of CEO duality, the researcher found out that 77% of the Saccos had their CEO and board chairman roles being performed by different persons (non-dual CEO) while only 23% had a dual CEO structure.

### **5.1.4 Transparency and disclosure**

The researcher found out that only 39% of the Saccos had implemented performance contracting, compared to 61% which had not. Performance contracting provides an effective tool for performance evaluation. However, out of the Saccos which had implemented performance contracting, all of them had implemented performance contracts between the board and management, while only 40% had implemented performance contracts between the board and the shareholders, implying that most of the boards were less willing to be evaluated by the shareholders but they needed to evaluate the performance of the management.

The researcher also found out that 77% of the Saccos had in place a standardized code of regulations for the management while 23% didn't have any. However a less number of Saccos had a standardized code of regulations for the board while 31% didn't have the same. This again shows that the board was keen to regulate the conduct of the management but the board was itself less willing to be regulated.

## 5.2 Answers to research questions

The research findings indicate that implementation of corporate governance practices by Saccos positively affects (improves) their financial performance as it makes their governance transparent, goal oriented and focused towards the interests of all the stakeholders. It was clear from the research that Saccos which had put in place measures of transparency and disclosure including implementation of performance contracting and standardized code of regulation especially between all the parties exhibited a consistent increase in ROE and EPS, hence a positive effect on their financial performance.

## 5.3 Conclusions

The first conclusion that can be drawn as relates to the first objective is that the Saccos which composed of more non - executive as compared to executive board members were performing better than those with more executive relative to the non-executive members. The researcher found out that majority of the Saccos had more executive compared to the non-executive members. Similarly, most Saccos had an odd number of board members. The WOCCU recommends that boards be composed of an odd number and should constitute of more non-executive members as compared to the executive members. This is due to the fact that when the board is composed of more non-executive directors as compared to the executive directors, the board will better play its monitoring role on the CEO since it will be more independent than when it composes of relatively more executive members. This is in agreement with the findings of Jensen (1993) who voices his concern that a lack of independent leadership makes it difficult for boards to respond to failure in top management.

The second conclusion is based on the relationship between board size and financial performance of Saccos. The researcher found that majority of Saccos had small boards as compared to those with large boards. According to Miring'u (2009), there is a view that larger boards are better for corporate performance because they have a wide range of expertise to help make better decisions, and are harder for a powerful CEO to dominate. In recent times however, emphasis has been on smaller boards. Jensen (1993) and Lipton & Lorsch (1992) articulate that large boards are less effective and easier for a CEO to

control, the reason being that when the board grows too large, it becomes difficult to coordinate and poses problems. Smaller boards are also said to reduce the possibility of free riding by individual directors and increases their participation in the decision – making process.

Concerning CEO duality, the researcher found out that majority of the Saccos had separated the roles of CEO and board chair. Saccos which had exhibited a consistent increase in EPS and ROE had non-dual CEOs. This implies that Saccos with non- dual CEO structures had better firm performance as compared to those with a dual CEO structure. This was seen to be in agreement with Fama and Jensen (1983) and Jensen (1993) who suggested that CEO duality may hinder board's ability to monitor management and thereby increase the agency cost. As a result, splitting the titles of CEO and Chairman of the Board will improve firm performance. On the contrary however, Stoeberl and Sherony (1985) and Anderson and Anthony (1986) argue that CEO duality provides clear-cut leadership in strategy formulation and implementation and will therefore lead to better firm performance. Splitting titles may create information sharing costs, conflicts between CEO and non-CEO chairman and inefficiency: It will be costly to communicate firm-specific information to others in a timely manner; decision making process and execution may both be less efficient when there are two versus one key leader; it may be more difficult to assign blame for bad company performance. The researcher similarly found out that some Saccos which had exhibited an inconsistent and decreasing trend of EPS and ROE still had dual CEO structures, hence making it quite difficult to determine conclusively whether CEO duality affects firm financial performance.

Transparency and disclosure was found to be positively influencing the financial performance of Saccos because firms which had shown high levels of transparency and disclosure practices were found to have a consistent increase in ROE and EPS. Transparency and disclosure was measured in terms of implementation of performance contracting and availability of a standardized code of conduct for board members and management. Majority of the sampled Saccos had not implemented performance contracts in their

operations, but majority had a standardized code of conduct in place for the management and the board.

#### **5.4 Recommendations**

The researcher recommends to the government through SASRA to ensure that all Saccos implement performance contracting in their operations which is a better monitoring tool for the performance of both the board and management. This will ensure that the performance of these parties is well monitored and evaluated in line with the set objectives for better overall performance of the Sacco.

The researcher recommends to the managements and boards of Saccos to put in place a standardized code of conduct for management staff and the board, which will ensure that the interests of the Sacco supersede those of the individual members. Similarly, Saccos should embrace modern and more efficient and timely methods of communicating information to those who require it including the news media (both print and mass media) as well as use of the internet. This will ensure that those who need the information including the members and other stakeholders get it adequately and in good time so as to enable them make better informed and timely decisions.

The members of various Saccos are also advised to ensure that their Saccos have in place proper governance practices and that the boards and managements are fully accountable to them.

#### **5.5 Suggestions for further studies**

The researcher recommends that further studies be done to determine whether other financial institutions in Kenya like microfinance institutions and mortgage institutions have put in place corporate governance practices and if so, whether the adoption of the corporate governance practices had an effect on their performance. A similar study needs to be conducted among Saccos in other countries to establish whether the findings shall tally with those of this study.

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## APPENDIX 1: LETTER OF INTRODUCTION

**KENYATTA UNIVERSITY**

**SCHOOL OF BUSINESS**

To: All Respondents,

Dear Sir/Madam

**RE: THE EFFECT OF ADOPTION OF CORPORATE GOVERNANCE  
PRACTICES ON THE FINANCIAL PERFORMANCE OF YOUR SACCO**

I am a postgraduate student at Kenyatta University, pursuing Master of Business Administration degree in Finance. I am carrying out a survey for a study as referenced above, among selected government based SACCOs in Nairobi North District in partial fulfillment of the requirements for the award of the degree.

You have been selected to provide information on the performance in relation to the implementation of corporate governance practices in the SACCO. The information provided for this study will be treated with the confidentiality it deserves and used purely and exclusively for academic purposes. Thank you for your cooperation and participation towards making this academic work a success.

**MAANZO PHILIP MALUKI,**

**REG.NO.D53/CE/11491/2007**

**MBA STUDENT.**

## APPENDIX 2: LIST OF SACCOs FORMING THE STUDY POPULATION

1. CHAI HOUSING
2. HELB SACCO
3. KICC SACCO
4. IDB SACCO
5. BANKI KUU SACCO
6. POSTMAIL SACCO
7. STIMA SACCO
8. NACICO SACCO
9. MWITO SACCO
10. KISE SACCO
11. BUNGE SACCO
12. NYAYO CHAI SACCO
13. NEW CALET SACCO
14. NEW BIASHARA SACCO
15. KUMBUKUMBU SACCO
16. MAGEREZA SACCO
17. MWALIMU SACCO
18. EXAMS SACCO
19. WANANYUMBA SACCO
20. HARAMBEE SACCO
21. TELEPOST SACCO
22. NJIWA SACCO
23. NAIROBI TEACHERS HOUSING
24. P&T HOUSING
25. TRANSCOM SACCO
26. PARLIAMENTARIAN SACCO
27. JOGOO SACCO
28. ENERGY SACCO
29. SHIRIKA SACCO
30. KENVERSITY SACCO
31. ARTHI SACCO
32. UKANGUZI SACCO
33. KENYA RE SACCO
34. SOKO SACCO
35. SUPERFUND SACCO
36. TASISI SACCO
37. ASILI SACCO
38. CHAI SACCO
39. AFYA SACCO
40. NJIWA HOUSING
41. CHUNA SACCO
42. UKULIMA SACCO
43. UFUNDI SACCO
44. MHASIBU SACCO

## APPENDIX 3: QUESTIONNAIRE

### INTRODUCTION

Dear respondent, the purpose of this questionnaire is to get the actual scenario of your SACCO as pertains the topic addressed purely for academic purpose. Please read the statements and give the response that represents your most honest opinion. The information so given will be accorded the confidentiality it deserves and not used for any other purpose other than for this research. Your name should not appear on the questionnaire. Kindly respond to all the items.

### PART A: GENERAL INFORMATION

1. Name of your SACCO \_\_\_\_\_

2. What position do you hold in your SACCO? (Tick appropriately)

Senior Manager [ ]

Middle level manager [ ]

Non-Managerial staff [ ]

3. What is the current membership in your SACCO? (Tick appropriately)

Upto 1,000 [ ]

1,001 - 5,000 [ ]

5,001-10,000 [ ]

> 10,000 [ ]

4. For how long has your SACCO been operational?

<3 years [ ]

3-5 years [ ]

6-10 years [ ]

>10 years [ ]

**PART B: CORPORATE GOVERNANCE PRACTICES**

5. (a) How many members does the management board have? \_\_\_\_\_

6. What do you think should be done on the board size to improve the performance of the SACCO?

Increase [ ]

Decrease [ ]

Remain as it is [ ]

7. How many members of the management board are;

b) Executive members [ ]

c) Non-executive members [ ]

8. Which sub committees of the board has the SACCO established? (Tick the relevant)

Executive [ ]

Credit [ ]

Education [ ]

Supervisory [ ]

Audit [ ]

Finance [ ]

9. What is the composition of the board in terms profession? (Specify number)

Legal officers [ ]

Finance specialists [ ]

Accounts specialists [ ]

Economists [ ]

Audit Specialists [ ]

Other business specialists [ ]

10. (a) What is the board composition in terms of academic qualifications? (Specify how many per level)

a) O'Level [ ]

b) A' Level [ ]

c) Diploma [ ]

d) Bachelors Degree [ ]

e) Masters Degree [ ]

b) How many board members belong to: ICPAK [ ] ICPSK [ ]

11. In your own opinion, which of the following is true about the composition of your board?

The board reflects age differences of the members [ ]

The board reflects gender parity of the members [ ]

The board reflects the ethnic background of the members [ ]

12. (a) Does the CEO double as the board chairman ? Yes [ ] No [ ]

14. (a) Has the SACCO implemented performance contracting? YES [ ] NO [ ]

(b) If YES, which parties are involved in performance contracting? (Tick where appropriate)

Between the Board and the Shareholders [ ]

Between the Board and the Management [ ]

15. Does the SACCO have a standardized code of conduct for:

(a) Management? YES [ ] NO [ ]

(b) Board members YES [ ] NO [ ]

16. Kindly indicate the types of information given by your SACCO

Financial statements [ ]

Status of share contribution [ ]

Loan Status/balance [ ]

Dividends due [ ]

Loans available [ ]

17. How does the SACCO communicate this information to those who need it?

On members' request [ ]

Annual general meeting [ ]

News media [ ]

Website [ ]

Newsletters [ ]

18. Do you think the information is adequate and timely enough to enable one to make an informed decision? YES [ ] NO [ ]

If NO, give a reason for your answer \_\_\_\_\_

**PART C: FOR SENIOR MANAGERS ONLY.**

19. Kindly provide the following information about the SACCO for the last 3 years.

	2008	2009	2010
<b>Net Profit After Tax(Ksh.)</b>			
<b>Equity Share Capital(Ksh.)</b>			
<b>No. of Shares Outstanding</b>			

20. In your own opinion, do you think the corporate governance practices adopted are responsible for the above performance? YES [ ] NO [ ]

If NO, what could have led to the above performance? \_\_\_\_\_

21. What else do you think should be done to improve the performance of the SACCO?

☺ Thank you for taking your precious time to fill in this questionnaire. ☺

#### APPENDIX 4: BUDGET FOR THE STUDY

Activity	Amount
Preparation of proposal 25 days @ Shs. 1,000	25,000
Literature review	5,000
Proposal submission	5,000
Production of research instrument	15,000
Data collection: Transport	5,000
Lunch	10,000
Security	5,000
Research assistant	10,000
Data analysis	10,000
Final report writing 1 copy and binding	2,500
Photocopy and binding: 6 copies	2,000
Binding and submission 8 copies @ sh 250	2,000
Miscellaneous	<u>3,500</u>
<b>TOTAL</b>	<b><u>100,000</u></b>

**APPENDIX 5: WORK PLAN/RESEARCH SCHEDULE**

<b>Activity</b>	<b>June</b>	<b>July</b>	<b>August</b>	<b>September</b>	<b>October</b>
Preparation of proposal					
Literature review					
Proposal Development					
Proposal submission					
Finalizing research instrument					
Data collection					
Data analysis					
Draft report writing					
Final report writing					
Binding and submission					

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