



Corporate Governance Practices and Performance of Deposit Taking Sacco's in Nairobi City County Kenya

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ABSTRACT

Good performance of SACCOs is a key ingredient for its continuous existence and sustainability. The financial intermediation function carried out by SACCOs is dependent on how well they perform. Over the years, there have been various concerns by policy makers and academician over the SACCOs' dismal performance in Kenya. Despite the various corporate governance initiatives and measures implemented by important organizations such as the Centre for Company Governance, the issue of firm corporate governance remains unresolved, despite the involvement of the Capital Markets Authority and SASRA. The aim of this research is to determine how the performance of deposit taking SACCOs in Nairobi is influenced by corporate governance. The research focused on how stakeholder involvement, board composition, organizational structure, and control environment affect Nairobi-based deposit-taking SACCOs' performance. The study's base was stakeholder, agency, stewardship, and resource dependence theory. The study employed a descriptive design. A census approach was used whereby all the deposit taking SACCOs in Nairobi were included in the study. The target population was 47 CEOs, 47 Sacco officers, 47 heads of finance and 47 heads of credit department. Data was gathered using structured questionnaire. In this research, to evaluate the construct and content validity, the researcher did a pilot test. Both descriptive and multiple regression analysis were used to examine the data. The findings showed that corporate governance factors (board composition, organization structure, control environment and stakeholder involvement) had a correlation coefficient (R) of 0.691 with an R squared of 0.477. From the ANOVA table corporate governance had a significant effect on performance of DT Saccos ($F=28.513$; $p= 0.000$). From the regression, corporate governance (board composition, organization structure, control environment and stakeholder involvement) had a positive effect on performance of DT Saccos. This study concludes that corporate governance (board composition, organization structure, control environment and stakeholder involvement) has a positive effect on performance of DT Saccos in Nairobi, Kenya. The study recommends that management of DT Saccos improve their corporate governance for increased performance levels. There is need for similar research based on other factors influencing performance, other measures of the variables, other Saccos & institutions as well as adopting secondary data.

Key Words: Corporate Governance, Practices, Performance, Nairobi, Kenya

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1.0 Introduction

1.1 Background of the Study

The significance of Savings and Credit Cooperative Society has increased greatly in the modern era. They comprise of individual members join to Savings and Credit Cooperative Society comprises of mobilize resources and avail loans to themselves as a mean of empowering their members (Mbugua & Kinyua, 2020). The members of the cooperative govern themselves work together to control and jointly own an enterprise to meet their shared cultural and economic requirements. Currently, the SACCOs are managed in accordance with set standards which include democratic management, democratic membership, member economic engagement, self-determination, and liberty.

Corporate governance comprises of checks and balances that forms a framework that allows organizations set their goals and build suitable policies to achieve those goals and monitor organizational performance (Solomon, 2020). According to Khafid, Baroroh and Firmasyah (2018) good corporate governance enables companies to uphold sustainability over a relatively longer period while retaining interest of stakeholders. Considering the current study's context, corporate governance includes the procedures and framework put in place for cooperative control and direction, as well as the administration of business between managers, shareholders, board members, and other stakeholders while upholding and promoting openness. Deposit Taking Saccos (DT-SACCOs) in most cases suffer various issues that risk their long-term existence and operational efficiency. These include liquidity, interest, operational and credit (Biwott & Macharia, 2018). In a study conducted in Zambia and Tanzania, the findings indicated that these barriers prevent the SACCOs from achieving their full potential (Mwila, 2020). While conducting study in Rwanda, it was observed that DT-SACCOs have been in the press for mismanagement events and that most of them have been liquidated.

1.1.1 Organizational Performance

According to the OECD (2017), an organization's performance may include its ability to accomplish its objectives through effective management and good governance. The pace and effectiveness of an organization's operations may also be referred to as performance. A firm's attempt to monitor its performance offers assurance and helps organizations guard against potential obstacles to their mission's accomplishment. Since the differing perspectives thinking theoretically and practical evaluation of a successful organization, there is no universally accepted method for measuring an organization's performance (Mensah & Maponga, 2017). Any organization must perform performance evaluations since they serve as a gauge of their development and ability to meet their financial responsibilities. A firm is an organic grouping of productive resources, including money, land, and labor, that are brought together with the express purpose of achieving a particular objective (Ismi, 2018). Product quality, employee contentment, creativity in new goods, and reaction time can all be used to gauge an organization's performance. In this regard, performance measurement is gaining popularity globally including developing countries. It is increasingly gaining acceptance both in public and private entities (Maina & Ndwiga, 2018). This study was on the performance of organization with respect to corporate governance practices of DT-SACCOs. A successful organization performance can be attributed to corporate governance which depended largely on the external environment based on the complexity and dynamism.



1.1.2 Corporate Governance

Corporate governance, according to Hargovan and Harris (2018), is the process of aligning the interests of investors, workers, and stakeholders to optimize financial resources. Similar to this, Kenani and Bett (2018) define corporate governance as a group of practices created to organize and manage an organization's affairs in a way that promotes accountability and transparency. According to Karuma (2017), good corporate governance practices guarantee that companies are run effectively and that investors receive a fair return on their investments. Corporate governance is premised on various pillars which include fairness, transparency, responsibility, and accountability. It is through the pillars that we interrogate their impact on performance. Through Fairness, shareholder's rights are safeguarded, transparency ensures timely and accurate dissemination of information and responsibility (Waweru, & Prot, 2018). Responsibility ensures leaders are well capable and fully represent their organizations. The significance of CG has been underscored in the due to emerging developments in several organizations. Institutions operate on a chain of governance which is a representative of groups influencing the firms either as owners or management.

1.1.3 Deposit Taking Saccos

Deposit taking Saccos according to Anyanga and Rotich (2017) are financial organizations founded and run with the goal of promoting the financial wellness of their members. Sacco introductions began in the early 1960s and have significantly risen ever since. The total had further grown to about 7 million subscribers by the end of 2016 (CMA, 2017), demonstrating a pronounced surge in Saccos' popularity with the populace. With 177 DT-SACCOs the Sacco Societies Regulatory Authority (SASRA) grant licenses by 2017 has been tasked with regulating these SACCOs. Most of the cooperatives in Kenya were agricultural, as was the country. But throughout time, cooperatives have expanded to achieve goals in a variety of sectors, including, among others, marketing, transportation finance, fishing, housing, banking, storage, and agro-processing. Cooperative sector the most active and robust cooperative sector on the entire African continent is currently in Kenya, according to WCCU (2015). The subsector is responsible for little under 62% of reserves, 65% of loans, and 63% of assets. Service providers for the front and back offices make up the SACCO movement in Kenya. The Ministry of Industry, Trade, and Cooperatives oversees non-deposit taking SACCOs while SASRA oversees deposit taking SACCOs. In Kenya, the number of SACCOs has significantly increased in recent years. This increase in population has resulted in an increase in membership, saved money, and credit services. This has helped the economy as a whole advance both directly and indirectly.

1.2 Research Problem

Corporate governance procedures are essential in determining how well firms succeed. Effective corporate governance ensures transparency, accountability, and responsible decision-making, which can contribute to improved financial performance and long-term sustainability (Fenwick et al, 2019). In an ideal situation, strong corporate governance practices create an environment of trust, fairness, and integrity within an organization. The performance of SACCOs, which take deposits, is one area where evidence of corporate governance issues can be seen. SACCOs are entities that collect deposits from their members and offer lending services.

In some instances, weak corporate governance practices within SACCOs have led to significant issues, including financial mismanagement, fraud, and poor performance. Approximately 40% of

SACCOs faced financial difficulties as a result of governance-related issues, according to a report by Bwisa (2018). These problems included inadequate board oversight, lack of transparency in financial reporting, and conflicts of interest among board members. Consequently, these SACCOs faced challenges in attracting new members, retaining existing ones, and accessing external funding sources.

1.3 Objectives of the Study

The general objective of this research was to investigate the effect of corporate governance on performance of DT-SACCOs in Nairobi, Kenya.

Specific objectives of the study were:

- i) To examine how board composition, influence the performance of Deposit Taking SACCOs in Nairobi, Kenya.
- ii) To establish how organization structure affects performance of Deposit Taking SACCOs in Nairobi, Kenya.
- iii) To determine the influence of control environment on performance of Deposit Taking SACCOs in Nairobi, Kenya.
- iv) To examine how the performance of DT-SACCOs in Nairobi is influenced by stakeholder involvement.

2.0 Literature Review

2.1 Theoretical Framework

2.1.1 Agency Theory

It was propounded by Jensen and Meckling (1976) and describes how business owners in this case principals and the managers in this case agents related. It implies that managers might prioritize their self-interest over priorities of the principals, resulting in potential agency problems. Aggarwal et al, (2019) reinstates that businesses represent their stockholders. When shareholders invest in corporate ownership, they are entrusting the corporation's directors and officers are entrusted with the management of its resources. Officers' and stockholders' short- and long-term interests might diverge dramatically in larger firms.

One of the main reasons for this phenomenon is the focus on immediate profits and the lack of transparency among regulators, leaders, and investors. the competing interests of shareholders, directors, and officers can influence officers' and directors' decisions and actions, potentially causing them to disregard the shareholders' interests. Corporate governance rules seek to construct a framework resembling the agent-principal relationship, with the goal of balancing the interests of shareholders and officers and directors (Keping, 2018). These policies aim to encourage norms and behaviors that reduce the negative impacts of competing commercial interests. Furthermore, agency theory emphasizes the responsibilities of executives and directors to the organization.

2.1.2 Stakeholder Theory

According to this idea, developed by Freeman Freeman (2010), a firm's achievements depend on meeting its financial targets and taking care of the interests of its stakeholders. These stakeholders can encompass various groups or individuals connected to the organization, influencing or being impacted by its operations. The goal of stakeholder theory is to identify the best interests based on the diverse stakeholder groups. It advocates for an approach to organizational management that is



realistic, efficient, effective, and ethical in a complex and uncertain world. Managers must acknowledge and address the interests of all genuine stakeholders while making decisions and running the business, according to stakeholder theory. They should take proactive measures to avert future disputes between different groups and handle concerns through open communication and debate.

Managers are also urged to establish cordial relationships with other entities, both public and private, in order to avoid risks associated with an unstable environment. Individuals or groups who have an impact on or are influenced by a company's activities are considered stakeholders. The goal of stakeholder theory is to discover the best interests of these many stakeholder groups. It promotes realistic, efficient, successful, and ethical company management in complex and unexpected circumstances. Managers are responsible for identifying and monitoring all legitimate stakeholders. When making choices and carrying out their responsibilities, they should adhere to the needs of all members. Furthermore, managers should take proactive steps to avoid future conflicts between diverse groups and resolve difficulties through open communication and debate. Managers must also maintain amicable connections with other organizations, both public and private, in order to limit risks associated with an unpredictable environment. This approach, known as Friendly Corporation, helps promote stability and resilience in the face of challenges.

2.1.3 Stewardship Theory

It was founded by Donaldson and Davis (1989). The theory argues that as stewards, managers prioritize the organization's goals and values over their own self-interest. They behave in ways that enhance the organization's performance and reputation. Dasalegn (2020) defines a steward as someone who protects and provides for the needs of others. The management of the company makes decisions on behalf of the owners or shareholders and protects their interests. The major goal of stewardship-oriented enterprises is to build and sustain a profitable firm that serves the interests of its shareholders. In such businesses, the positions of CEO and Chairman are frequently united under a single leader, and the majority of board members are typically internal candidates. This structure allows for an intimate understanding of how the organization operates and a strong commitment to achieving its objectives.

The fulfillment of shareholders' interests is a definite goal in the stewardship governance paradigm. Having one leader in charge streamlines communication between the company's demands and the shareholders, eliminating uncertainty about leadership during challenging times. A CEO in the stewardship model must be reliable and willing to prioritize the company's interests over personal ones. Furthermore, corporate law mandates that the board of a corporation must act collectively in the wish of shareholders.

2.1.4 Resource dependency Theory

Pfeffer and Salancik (2003) proposed this theory, which states that organizations are dependent on resources in their environment and must strategy in order to gain and keep these resources. The resource dependence theory is where the resource dependency theory got its start. According to the notion, organizations depend on the outside world in varied degrees, especially concerning the resources required for their functioning. Organizations face uncertainty in acquiring resources due to their reliance on the external environment (Grewal and Dharwadkar, 2002).

The concept further suggests that an organization's dependence on external resources may limit managerial discretion and interfere with the achievement of organizational goals, thereby posing

a potential threat to the organization's survival. In such situations, management is encouraged to proactively handle external dependency to leverage it to their advantage and mitigate potential costs. The maximization of power is the definition of an organization's success. According to this viewpoint, a company can control growing dependence by executing effective plans and responding to or avoiding external demands. The core idea behind this viewpoint is that managing dependency and unpredictability is what leads to improved financial performance. When making strategic decisions, it is essential to consider the most effective ways to proactively influence and subsequently control the organizational environment for the company's advantage.

2.2 Empirical Review

2.2.1 Corporate governance and Organizational Performance

The organizational management era for the private and public era started at the beginning of the global economic crisis in 2007–2008. Organizations have realized and acknowledged that, since they operate in highly dynamic environments, there is a need to integrate corporate governance in their strategies (Pandey et al, 2023). In order to promote cooperation between the principals and agents of a company, corporate governance is a successful kind of government. It has been determined that excellent corporate governance procedures continue to be a requirement for luring both domestic and foreign investors to a nation (Almagtome et al, 2020). As a result, in recent decades, scholars from a wide range of fields and disciplines have been interested in business governance. Most of the empirical studies on corporate governance that is currently accessible demonstrates that it increases output, transparency, and the creation of organizational capital. The researchers also concur that, taking into consideration how various cultures and circumstances affect how businesses run, effective corporate governance procedures and organizational performance are related. Studies have indicated positive connection between corporate governance and organizational performance. Ciftci et al (2019) did a study, the findings indicated a positive between corporate governance and the organizational performance in firms listed in Istanbul Stock exchange.

2.2.2 Board Composition and Organizational Performance

Chesire (2021) explored DT-SACCOs, as well as corporate governance procedures. The purpose was ascertaining how corporate governance norms affected the efficiency of Kenyan SACCOs that accept deposits. The study's precise goals were to determine how the independence, size, diversity, and composition of the board affected DT-SACCOs' performance. A descriptive cross-sectional survey technique was used. The 105 managers who worked there were the unit of observation, and the targeted 35 licensed deposit taking SACCOs was the research technique of analysis. To acquire primary data, we used semi-structured questionnaires. The frequencies, percentages, averages, and standard deviation of the observed data were calculated using descriptive statistics. Inferential statistics utilized Correlation and multiple regression evaluation.

Every variable was found to have a positive linear association by the correlation analysis. According to a regression analysis, the independent factors have a very strong positive link with DT-SACCOs performance in terms of how corporate governance measures as a whole affect performance. The study concludes that keeping a board that is well-functioning, balanced, and diverse is a crucial element in predicting organizational performance. As a result, businesses with strong boards typically outperform those with weak corporate governance.



The report makes the suggestion that the businesses make sure their corporate boards are properly chosen to meet the requirements of that particular business. The study also advises developing a gender code or policy based on stewardship theory because it is consistent with cooperative principles. Mwendia (2018) studied corporate governance methods and financial outcomes of DT-SACCOs in Nairobi County.

2.2.3 Organization Structure and organizational Performance

The lines of authority and communication between the various administrative offices and officials, as well as the data and information traveling through these lines, are two features of the structure (Joseph & Gaba, 2020). When an organization's structure reflects changes in its environment, performance can be at its best. Therefore, Kenyan listed firms must be set up in a way that best manages the risks that the industry presents. According to the classic definition of organizational structure, the structure is how a company is set up into workgroup relationships that bind them all together.

Eze et al (2017) evaluated how organizational performance is affected by structure in 2021. Quantitative design and a single process were adopted. The study targeted bank clients and Covenant Micro Finance Bank. 303 consumers and 51 Covenant Micro Finance Bank's workers formed the sample. According to the study's assumptions, there is no connection between organizational profit and formalization, organizational centralization and customer satisfaction or organizational centralization and profit. The opinions of several management researchers included in the secondary data that was gathered. The study suggests that firms adopt a decentralized structure and lessen formalization in the workplace laid on the primary and secondary data it has gathered.

2.2.4 Control Environment and Organizational Performance

Omar and Yussuf (2021) analyzed control environment' impact on Zanzibar's public higher education institutions' financial success. The administration and accounting/finance departments of the government-run institutions of higher learning in Zanzibar were the study's intended audience. There were 62 employees in the sample. The sample population's responses to open-ended and closed-ended questionnaires collected data. Descriptive statistics were employed in addition to statistical data in the data analysis. Katusiime et al, (2018) examined how the performance of Kampala University is related to control environment. Secondary and primary data were both employed in the inquiry. Inferential statistics were applied to the data evaluation for this descriptive study. Because of the nature of the investigation and how efficiently it permitted the outcomes to fit the study's objectives, regression analysis was used. The results show that ethical behavior and personal integrity did not significantly affect the financial success of Kampala International University. It was discovered that control actions significantly impacted financial performance. We came to the conclusion that, as long as an organization has established clear regulations and procedures for its personnel to follow, personal ethics and integrity do not significantly improve financial success. Because control activities are a critical component of the control system and is done by workers in order for the company to function properly, they have a substantial impact on financial performance.

2.2.5 Stakeholder Involvement and Organizational Performance

Dzomonda (2020) explored the link between financial performance and stakeholder engagement. All FTSE/JSE listed companies made up the study's study area. A case study was used in

conjunction with a method of quantitative investigation in this study. The study used a longitudinal strategy and gathered panel data between 2011 and 2018. 32 companies that are part of the FTSE/JSE Responsible Investment Index made up the study's sample. For the time period under consideration, this led to 256 observations. In this analysis, annual financial records from JSE-listed companies were employed as secondary data. Tobin's Q was utilized to measure financial success as the dependent variable, and stakeholder involvement as the independent variable. Stakeholder participation data was gathered using the quantitative content analysis method. To examine the data, a panel regression analysis approach was utilized. The superior model was determined using the Hausman test. According to the data of Tobin's Q, there is a small but meaningfully beneficial association between stakeholder involvement and financial performance. This suggests that the involvement of stakeholders has no impact on the firm's market value.

2.3 Conceptual Framework

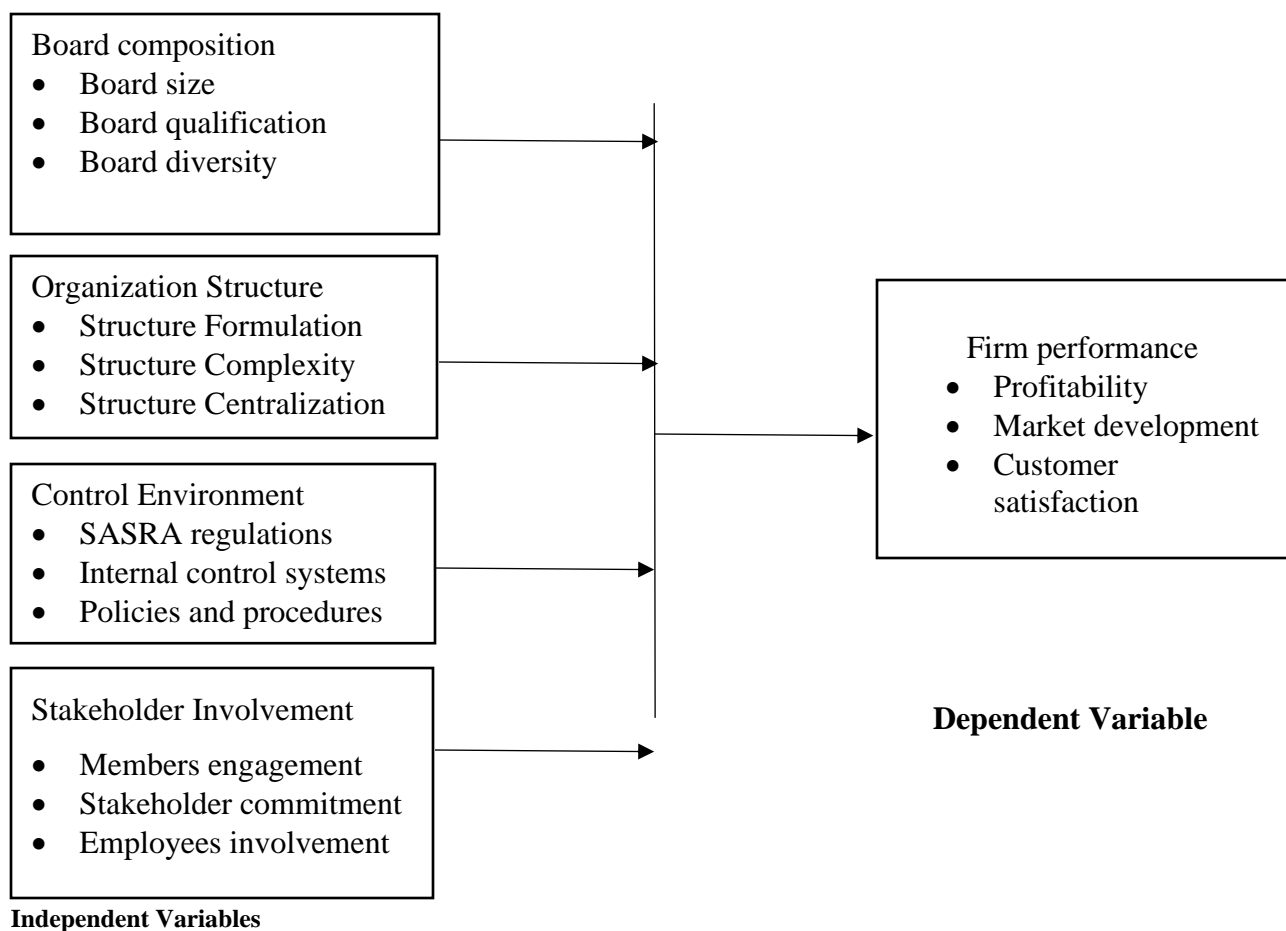


Figure 1: Conceptual Framework, Source: Author (2023)

3.0 Research Methodology

This study used a descriptive cross-sectional research approach because it identifies and records items in their actual settings and states (Wang & Cheng, 2020). Data is collected to characterize people, organizations, places, or occurrences at a specific time, a descriptive cross sectional study



design is utilized. Kesmodel (2018) argues that a descriptive design enables the researcher to get information from a sample of people by asking them questions or conducting interviews with them. Using a descriptive cross-sectional research approach, this study studied the corporate governance and DT-SACCOs' performance in Nairobi, Kenya.

Data was gathered using structured questionnaires. Since structured surveys provide both qualitative and quantitative data, their usage is justifiable. Furthermore, individuals who did not have time for interviews made time to respond to the questions posed. Furthermore, queries requiring response privacy to protect respondents' private could be well answered. There were five sections in the questionnaire: 1, 2, 3, 4, and 5. Section 1 included questions on respondents' demographic characteristics, whereas sections 2, 3, 4, and 5 ask about the research objectives.

SPPS Version 22 evaluated the data. The quantitative data was distilled using metrics of central tendency including frequencies, means and standard deviations. The outcomes of the content analysis method were examined in open-ended questions, and they were presented in a number of theme categories. Figures and tables presented the findings. To determine the link between the research variables, inferential statistics used multiple regression analysis.

4.0 Research Findings

Multiple regression was conducted to investigate the effect of corporate governance on performance of DT-SACCOs in Nairobi, Kenya. Specifically, it sought to examine how board composition, organization structure, control environment and stakeholder involvement on performance.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.691 ^a	.477	.462	4.01578

a. Predictors: (Constant), stakeholder involvement, organization structure, board composition, control environment

From the model summary, corporate governance factors (board composition, organization structure, control environment and stakeholder involvement) had a correlation coefficient (R) of 0.691 against performance of DT Saccos. This shows that the corporate governance variables had a strong linkage to performance of DT Saccos. The summary also shows an R squared of 0.477. Hence, combined, board composition, organization structure, control environment and stakeholder involvement contributed to 47.7% to the change in performance of DT Saccos. This show that there are other major factors influencing performance of DT Saccos other than corporate governance.

Table 2: Analysis of Variance

Model	Sum Squares	df	Mean Square	F	Sig.
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1	Regression	792.263	4	198.066	28.513	.000 ^b
	Residual	1021.128	147	6.946		
	Total	1813.391	151			

a. Predictors: (Constant), stakeholder involvement, organization structure, board composition, control environment

b. Dependent Variable: Organizational performance

The ANOVA table shows a significant F-statistic of 28.513 (sig=0.000). Implying, the model is significant and so corporate governance variables significantly affected DT Saccos' performance.

Table 3: Regression coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-2.934	1.116		-2.629	0.010
	board composition	0.469	0.231	0.382	2.030	0.044
	organization structure	0.129	0.039	0.095	3.308	0.001
	control environment	0.234	0.053	0.172	4.415	0.000
	stakeholder involvement	0.373	0.128	0.308	2.914	0.004

a. Dependent Variable: Growth of SMEs

From the regression analysis,

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mu_i \text{ was fitted into.}$$

$$Y_i = -2.934 + 0.469X_1 + 0.129X_2 + 0.234X_3 + 0.373X_4$$

From the regression equation, the model had a constant of -2.934. This stipulates that where corporate governance (board composition, organization structure, control environment and stakeholder involvement) were held constant, the performance of DT Saccos would stand at -2.9. Further, board composition had a regression coefficient of 0.469 (p=0.044). Indicating that a unit change in board composition would lead to increased performance of DT Sacco by 0.469. This stipulates that board composition positively affected DT Saccos' performance. Chesire (2021) found similar results where board composition positively related with organizational performance. Omweno and Guyo (2019) also established a link between board composition and SACCO performance.

For, organization structure the regression coefficient was 0.129 (p=0.001). Showing that a unit increase in organization structure results to increased performance of DT Sacco by 0.129. This is an indication that organization structure positively affected DT Saccos' performance. The findings are similar to Gagai, Gichunge, and Kirimi (2021) who cited that organizational structure positively influenced organizational performance. However, they differed from those of Ali and



Raza (2018) who found that organizational structure did not significantly influence financial performance. In addition, control environment had a regression coefficient of 0.234 ($p=0.000$).

This indicates that a unit increase in control environment results to increase in the performance of DT Sacco by 0.234. Therefore, stakeholder involvement positively affected DT Saccos' performance. The results agree with Mbuva, Rambo and Oketch (2018) who reported a positive linkage between organizational structure and organizational performance. However, the findings differed with those of Katusiime et al, (2018) who found that control environment did not significantly improve financial success. Moreover, stakeholder involvement showed a regression coefficient of 0.373 ($p=0.004$). This stipulates that an increase in stakeholder involvement would lead to increased performance of DT Sacco by 0.373. Implying that stakeholder involvement positively affected DT Saccos' performance. The findings agree with Dzomonda (2020) who found a positive relationship.

5.0 Conclusion and Recommendations

5.1 Conclusion

From the findings, the study concludes that corporate governance positively affected DT Saccos' performance in Nairobi, Kenya. Further, board composition had a positive regression coefficient with performance of DT Saccos. This leads to the conclusion that board composition has a positive effect on performance of DT Saccos in Nairobi, Kenya. It depicts that improved board composition increase the DT Saccos' performance in Nairobi. The findings also showed that organization structure had a positive regression coefficient with performance of DT Saccos. This is an indication that improving the organization structure results to increased organizational performance. Hence, organization structure has a positive effect on performance of DT Saccos in Nairobi.

5.2 Recommendations

From the findings, corporate governance positively affected Nairobi based DT Saccos' performance. There is need for DT Saccos in Nairobi to improve their corporate governance practices for improved performance. This can be done by checking on the key elements of governance and ensuring that they are aligned to the performance objectives of the Saccos. Further, board composition positively affected Nairobi based DT Saccos' performance. Hence, improved board composition would improve the performance of these Saccos. There is need for the Saccos to ensure that there is optimal balance in the board in terms of independence, gender, education as well as experience. This would ensure that there is diversity in the board which would improve their decisions and hence improved performance of the organizations.

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