

**CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF
SAVING AND CREDIT CO-OPERATIVES IN MERU COUNTY, KENYA**

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D53/OL/CTY/26219/2015**

**A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE
AWARD OF MASTER OF BUSINESS ADMINISTRATION DEGREE
(FINANCE), KENYATTA UNIVERSITY**

AUGUST, 2020

DECLARATION

I declare that this project is my original work and has never been presented in any other university for any other award. No part of this project should be produced without authority of the author or/and Kenyatta university

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

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DEDICATION

I dedicate this project to my mother for her support love and encouragement. To my family that had to bear with my busy schedule of class, job and family affairs.

May God bless you all.

ACKNOWLEDGEMENT

I appreciate the life, strength and will that God has given me during this study. I also thank my supervisor Dr. Jeremiah Koori who guided me all along the process. I appreciate the guidance, direction and support he accorded me from the inception to completion of this study. I thank my family for their support and wonderful ideas throughout this process. I also appreciate my friends and colleagues in job and college who share this journey with me and encouraged me in the adventure of academics and have been my anchor.

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OPERATIONAL DEFINITION OF TERMS

Board Accountability: Reflects on the responsibilities to offer an explanation for the firm's conduct.

Board Commitment: Refers to the involvement of board members in the involvement and engagement in board meetings and in the companies or organisations activities.

Board Independence: Board Independence refers to the nature when the board has not personal interest or is influenced by either internal or external forces that may hinder the decision or roles of an individual member or the board.

Board structure: It is the arrangement of the higher/upper management level in an organisation. Board structure comprises the member volumes, data availability and the committee patterns.

Corporate governance: It is procedures, or mechanism by which a firm is managed and operated entailing the effective balance of various stakeholders' interest.

Financial performance: It reflects n a measure on the effectiveness of an organization to efficiently utilise its assets from its primary mode of business in generating revenues as measured through NPM, ROA, and return on shareholder's equity.

Performance: this comprises on the evaluation of how effective corporations performs on its key parameters, normally financial, market and the performance of shareholders.

ABBREVIATIONS AND ACRONYMS

CEO:	Chief Executive Officer
GDP:	Gross Domestic Product
IPA:	Importance Performance Analysis
ISDA:	International Swaps and Derivatives Association
MTB:	Market to Book Value
NACOSTI:	National Commission for Science, Technology and Innovation
NGO:	Non-governmental Organisations
NPM:	Net Profit Margin
ROA:	Return on Assets
ROE:	Return on Equity
SACCOs:	Saving and Credit Co-operatives
USA:	United States of America
WOCCU:	World Council of Credit Unions

ABSTRACT

Saving and credit Co-operatives are more preferred in developing economies since they contribute to the promotion of total human development, improve the living standards of its members, promote personal-development and self-reliance, assist in creating initiatives, mobilisation of member savings and offering credit to members at affordable rates. However, in spite of the inherent advantages, their existence is inhibited by a number of challenges such as inadequate member commitment and participation, poor governance, misappropriation of movement resources, limited products and services, inadequate human capital, low skills and expertise on the side of the management team, low innovations and poor marketing strategies that cast doubts on their survival. The purpose of conducting the study was to establish the influence of corporate governance on financial performance of saving and credit co-operatives in the County of Meru. Specifically, the study sought to determine the influence of board independence, board accountability, board commitment and board structure on financial performance of saving and credit co-operatives in Meru County. In this study the agency theory, stakeholder theory and the shareholder theory were used to anchor the study variables. The research design adopted in the study was descriptive research design. The population for the study was the management staff of all the 132 SACCOs in the County. 98 sample size was chosen from the study population by utilising the stratified random sampling technique; one respondent in each SACCO was picked. Both primary and secondary data was utilised in the study. Primary data was collected through a semi structured questionnaire while a secondary data collection sheet was utilised to collect secondary data. Quantitative data collected from the structured form questions were analysed via descriptive statistics including frequencies, mean scores and standard deviations. The results were presented through tables and charts. Qualitative data derived from the open-ended questions were analysed through conceptual analysis and presented in prose form. The study also factored in ethical issues relating to the study. The study concluded that corporate governance was a significant factor in determining performance of the performance of the SACCOs in Meru County. The study concluded that the boards were significantly independent, accountable, committed and well structured. The study further concluded that board accountability, integrity, professionalism, transparency and efficiency promoted financial performance of SACCOs. The study concluded that the board members among the SACCOs in Meru County have not embraced gender balance in their board composition and leadership. The study recommends that the SACCOs need to ensure that the boards are accountable, committed, independent professional and qualified for peak performance. The study recommends that leaner and clearly structured board of management among the SACCOs due to their efficiency and effectiveness in decision making, management, communication, coordination, monitoring and in operation cost. The study recommends further that the board members among the SACCOs in Meru County should have the necessary knowledge, skills, experience and ideas to improve the performance of the firms.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Among the major issues affecting the performance of Saving and Credit Co-operatives (SACCOs) in the modern business environment is mismanagement and poor investment decisions on the side of the management leading to poor performance (Chan, Watson & Woodliff, 2014). This poor performance has also been attributed to among other factors poor coordination of SACCO activities, inadequate financial resources, unfavourable government policies, inadequate government support insufficient level of technology and weak leadership and governance (Kiama, 2014; Otieno, Mugo, Njeje, & Kimathi, 2015; Esokomi & Mutua, 2018). Due to the weak leadership, corporate governance has traditionally been a major challenge affecting the growth prospect of SACCOs. Additionally, some SACCOs have faced bankruptcy and liquidation after failing to honour their contractual obligations leading to collapse and sinking with members' money (Jizi, Salama, Dixon & Stratling, 2014).

SACCOs are more preferred in developing economies since they contribute to the promotion of total human development, improve the living standards of its members, promote personal-development and self-reliance, assist in creating initiatives, mobilisation of member savings and offering credit to members at affordable rates (Otieno, Mugo, Njeje, & Kimathi, 2015). However, in spite of the inherent advantages of their friendly society nature, especially in a capitalist environment there are issues that raise doubts about the survival of SACCOs. For instance, the benefit derived from the SACCO is proportionate to the economic power of each member. Secondly, SACCO members are involved in other economic activities which are not disclosed to other members and therefore, their contribution to the SACCO may be limited to the benefit they derive from the SACCO. These issues call for establishment of corporate governance structures that would ensure equitable realisation of the intended benefit for each member (Crowther& Seifi, 2018).

The problem of corporate governance is rooted in the separation of shareholders' ownership and managements' control. The Company's act dictates that there should be separation of ownership and control of all public limited companies. However,

even in private limited companies and social organisations such as SACCOs find themselves separating the ownership and management due to a number of reasons. For instance the SACCOs members may be too many to run a single organisation (Munyasia, 2018). Additionally, the members may lack the requisite skills to run the organisation while others may have other engagements with busy schedules which makes it hard for them to create time to participate in association activities (Ebrahim, Battilana & Mair, 2014).

With the separation, board of directors assumes the role of the agent of the members and their principal task is to monitor management's performance. This separation of ownership and management create opportunities for managers to behave in manner helping them achieve their own interests owing to the owner's inability to properly monitor management activities(Samra, 2016). However, as postulated by Yermack (2017), the adopted corporate governance structures put in place by the management tend to promote and enhance firm performance.

It has been alluded that good governance structures enables the company to better respond to both internal and external shocks. This argument supported the postulation of Armstrong, Blouin, Jagolinzer and Larcker, (2015) who noted that corporate governance, more often than not, affects organizational performance. Consequently, there is an active debate in in the financial sector both locally and internationally o the role of corporate governance on firm performance. Waweru (2014) while attempting to establish the determinants of quality corporate governance in Sub-Saharan Africa, concluded that putting in place appropriate corporate governance structures may shields the firm from vulnerability to future financial distress. Moreover, according to Esokomiand Mutua(2018) good governance practices are regarded as important in reducing risk for investors, attracting investment capital, and improving the performance of organizations.

1.1.1 Corporate Governance

Although there is no single universal definition of corporate governance, the term is predominantly used to refer to structures and systems that helps the firm achieve maximum economic performance compatible with preservation and maintenance of democratic decision-making principles. Penny (2017) alluded that itis concerned with

the way in which all the stakeholders in the organisation, including the shareholders, suppliers and customers, attempt to ensure that managers and other insiders take measures or adopt mechanisms that safeguard the interests of all stakeholders. On the other hand, Cahery, Sautner and Starks (2016) used the term corporate governance to describe the way in which a company is managed, monitored, and management held accountable for their actions.

However, Mason and Simmons (2014) observed that corporate governance is more than just board processes and procedures. Instead, it involves the full set of relationships between a company's management team, its board, shareholders and other interested parties such as employees and the community at large. On their part, Amran, Lee and Devi (2014) viewed corporate governance as the process and structure of accountability, decision making and behaviour of the organisation leadership as well as the control systems in place. The governance structure specifies the distribution of rights and responsibilities among different stakeholders in the firm such as the board of directors, managers, shareholders and other stakeholders, and also spells out the rules and procedures of making decision on corporate affairs. In addition, it provides the framework through which the company objectives are set, and the means of attaining those objectives and monitoring performance.

Literature supports that much of the contemporary interest in corporate governance is concerned with mitigation of the conflicts of interests between stakeholders (Kiama, 2014; Penny, 2017; Crowther & Seifi, 2018). Sacco Societies Regulatory Authority (SASRA) (2015) advanced that corporate governance in a Sacco refers to the structure through which the objectives of the Sacco Society are set out and the means of attaining those objectives and monitoring performance are determined. It was further observed that proper corporate governance is expected to operate in accordance to general principles of cooperatives which includes include rights and equitable treatment of shareholders, interests of other stakeholders, role and responsibilities of the board, integrity and ethical behaviour, disclosure and transparency.

There are different parties involved implementing corporate governance who include board of directors, CEO, managers, political regime, regulatory authority and judiciary as observed by Cahery, Sautner and Starks (2016). However, the board of

directors has the greatest responsibility in the implementation of corporate governance structures. The board is expected to offer direction, authority and oversight to management in the execution of their duties to strike a balance between the management benefits and other stakeholders' benefits. For this reason the board of directors must be independent, accountable, committed and structured in manner that is transparent and representative of the various interest groups in the SACCO.

Independence of the board of directors is necessary for them to objectively monitor the activities of the management, acting as agents of the shareholders to ensure that their actions are in line with shareholders interest and in accordance with the spirit of the agency relationship. In addition the manner in which the board is constituted has also been shown to influence the performance of a firm. Fung (2014) suggested that corporate transparency which is perceived as the extent to which outsiders can observe and scrutinize management actions. To achieve this, the board should put in place regulations, values, policies and procedures to safeguard information, open decision making and operate openly with employees, shareholders and other stakeholders. Gagalyuk (2017) stated that board accountability is observed from three perspectives of accuracy, clarity and adequate disclosures to the interested parties.

On the other hand, Rao and Tilt (2016) opined that board structure has a significant bearing on organisation performance. To this end, they proposed that the board of directors should have both executive and non-executive directors to protect the firm against external threats. Additionally, the board should have an optimum number of members such that it is not so lean nor so large. Moreover, the board should have an optimum mix of the required skills and competencies, optimum gender mix, age distribution, occupation, geographical coverage, ethnicity, academic qualifications as well as individual experience.

1.1.2 Financial Performance

Organisational performance is a measure of organisation results within a specified operational period often referred to as an accounting period. It's basically a measure of overall financial or otherwise health of an institution over a given period of time. Performance is generally viewed from two perspectives: financial and non-financial (Eccles, Ioannou & Serafeim, 2014). Non-financial measures focus on Non-financial

elements of the firm such as efficiency and effectiveness of the management in achieving organisational goals. These measures are often adopted by non-trading organisations such as Non-governmental organisations, trade unions, government entities and other social organisations such as schools and church. No financial measures include customer satisfaction, efficiency effectiveness and employee commitment (Revelli & Viviani, 2015). Other measures include organizational values, full disclosures, transparency and, board composition.

Financial performance is a subjective measure of how effectively and efficiently a firm has used the assets at its disposal to generate revenue from its business activities. Financial measures include firm value, profitability return on assets, return on shareholders' equity liquidity level and so on. These financial indicators measure the result of a firm's policies and operations in monetary terms through operating income, earnings before interest and tax and net asset value. This performance could be evaluated from a short-term or long-term horizon.

According to Friede, Busch and Bassen (2015) among the factors that influence the performance of SACCOs include the asset base, liabilities, loan book performance, corporate governance, and the quality of staff and regulations in the industry. In this study performance of SACCOs was measured through profitability (Net profit margin), Return on shareholders' equity and return on assets.

1.1.3 Saving and Credit Co-Operatives in Meru County

SACCOs bring together individuals who have shared economic and social concerns who join forces to address them jointly as opposed to individually. These institutions' are member owned whose core business is to encourage thrift and easy access to credit to their members in addition to creating a bargaining power for their produce (Mathuva & Kiweu, 2016). SACCOs are member owned and are created of the basis of equity and solidarity, mutual goals, corrective responsibility, democracy and equality.

As noted by Marwa and Aziakpono (2015), SACCO members are brought together by the need to achieve economic and cultural goals which would have been harder to address individually through shared values such as collective responsibility for each

other, sincerity and honesty. Traditionally SACCOs were formed with the primary goal of pooling resources together; eliminate middle-men, and achieving a common interest. On the other hand, Wanyama (2016) observed that the main objective of the original SACCOs was to encourage savings from the members and eventually provide them with credit facilities.

The emergence of the SACCOs may be traced back in European countries especially Britain and France in the 19th Century. The force behind the development of cooperative movements was to form a common front on which workers could defend and promote their interests and that of their families due to the industrial revolution taking place in the region (Mumanyi, 2014). Thereafter, the movement's spread to rural town in Europe which later developed in to agricultural cooperatives and savings and credit cooperatives which aimed at enhancing the economic status of the members. In addition, the cooperative movements helped farmers organize their own supply systems for agricultural inputs and market their products instead of depending on middlemen (Groeneveld, 2014).

In Kenya, SACCOs were started in 1908 in Lumbwa, Kipkelion area but the native Africans were not allowed to form until around 1944 when they were allowed to do so. In present day, SACCOs are created through the Cooperative Societies Act (Cap. 490) and form the leading sources of credit for socio-economic development (Karagu & Okibo, 2014). They are broadly grouped into two categories based on their core business. These classifications are the non-financial as well as the financial cooperative movements. SACCOs in the Non-financial arena are predominantly involved in finding a common market for the members' products which are mainly agricultural produce such as milk, tea, and coffee.

Other not in the agricultural sector are involved in artefacts, sculptures and handicrafts. SACCOs in the financial field are mainly involved in mobilisation of savings from members with a promise of paying interest on deposits in addition to annual dividends on capital contributed by the members. Another strand of financial Saccos has concentrated on the housing sector where members are able to acquire property and develop them with the hope of realising greater value in future (Mumanyi, 2014).

Kenya has the second highest number of SACCOs in Africa representing 22.7% of all the SACCOs in Africa after Ethiopia with 34.1%. Tanzania comes third with approximately 22.2% of all the SACCOs (Feather & Meme, 2019). The movement account for over 45% cent of Kenya's GDP with the bulk generated from the agricultural sector. Meru County has over 132 registered cooperatives according to the County Government of Meru. Majority of these cooperatives are in the Agricultural sector and the transport sector. However, there are others in the trade sector and service industry.

1.2 Statement of the Problem

Globally, the emergence and disappearance of SACCOs has been an alarming trend. According to Feather and Meme (2019) one in five SACCOs formed cease operations or remain dormant within the first four years of inception. Additionally, the trend in the loans given by SACCOs has taken a downward trajectory since 2008. Other than the death rate of SACCOs and the decline in the number and amount of loans advanced SACCOs have also faced challenges associated with inadequate member commitment and participation, poor governance, misappropriation of movement resources, limited products and services, in adequate human capital, low skills and expertise on the side of the management team, low innovations and poor marketing strategies (Ebrahim, Battilana & Mair, 2014; Crowther & Seifi, 2018; Munyasia, 2018). Combined these factors have led to poor performance of SACCOs in Kenya.

Consequently, concerns have been raised on the remedy to the challenges affecting the SACCOs. Suggestions have been made that most of the factors affecting organisational performance could be eliminated if proper policies and procedures were put in place to ensure that there is transparency, accountability and optimal utilization of organisational resources (Cahery, Sautner & Starks, 2016; Yermack, 2017). These suggestions point to the role of corporate governance on organisation performance. Several studies have been conducted to show the link between the two constructs. Kinyua (2013) studied the relationship between financial performance and size of deposit taking savings and credit cooperative societies in Kenya while Mwanja, Marangu, Wanjere, Kuria and Thuo (2014) sought to establish how

corporate governance affects the performance of SACCOs based on a case of SACCOs in Kakamega County.

On their part Otieno, Mugo, Njeje and Kimathi (2015) aimed at determining the effect that corporate governance has financial performance of SACCOS in Kenya, Odek and Anyira (2017) analysed the effect of corporate governance practices on financial performance of savings and credit corporative societies: A case study of kite SACCO in Kisumu City County. Additionally, Muiru, Kyongo and Onchomba (2018) conducted a study on corporate governance and performance of savings and credit co-operative societies in selected private Universities in Nairobi County while Kanyi, Kimani and Kariuki (2018) conducted a study on corporate governance and financial performance of SACCOS in the County of Embu.

Although numerous studies exist attempting to show the relationship that exists between corporate governance and performance of SACCOs, it was established that these studies were carried out in different contexts such as Nairobi County, Kakamega county Embu County and Kenya as a whole. This study focused on Meru County which has been ignored by the previous scholarship. The study also established that different studies have used different operationalization for the constructs of corporate governance and performance. The study therefore establishes that there are gaps existing in literature which necessitates the current study.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of the study was to establish the influence of corporate governance on financial performance of saving and credit co-operatives in Meru County, Kenya.

1.3.2 Specific Objectives

The study focused on the following specific objectives;

- i. To determine the influence of board independence on financial performance of saving and credit co-operatives in Meru County, Kenya;
- ii. To evaluate the influence of board accountability on financial performance of saving and credit co-operatives in Meru County, Kenya;

- iii. To analyse the influence of board commitment on financial performance of saving and credit co-operatives in Meru County, Kenya;
- iv. To investigate the influence of board structure on financial performance of saving and credit co-operatives in Meru County Kenya

1.4 Research Questions

- i. What is the influence of board independence on financial performance of saving and credit co-operatives in Meru County, Kenya?
- ii. To what extent does board accountability influence financial performance of saving and credit co-operatives in Meru County, Kenya?
- iii. In what ways does board commitment influence financial performance of saving and credit co-operatives in Meru County, Kenya?
- iv. How does board structure influence financial performance of saving and credit co-operatives in Meru County, Kenya?

1.5 Significance of the Study

Findings of this study would be of significance to SACCOs management in Meru county and Kenya at large. The study results will help the management to understand the relationship that exist between corporate governance and financial performance of their SACCOs especially the role played by the board of directors in enhancing corporate governance. Thus the management and the shareholders will put in enabling policies and procedures to help put in place a board of directors that is independent, accountable, well structures and that is committed. This in turn will foster SACCO performance.

The study findings will also be of significance to the County Government of Meru, other county governments in Kenya and the national government of Kenya. With the realisation of the critical role played by SACCOs in the development of the economy the government at both levels would benefit from this study by developing legislations that would ensure SACCO boards are constituted in a manner that would ensure public resources are safeguarded and their interests protected. Consequently, the observed trends of collapsed SACCOs would be reversed which would eventually lead to economic growth and development.

The study results would further offer significant contribution to scholars who would wish to research in the area of corporate governance. The findings would provide adequate literature that may be used as reference materials aimed at generating research gaps. Academicians would find the findings of the study as relevant instructional materials on the study construct.

1.6 Scope of the Study

The study aimed at establishing the influence of corporate governance on financial performance of saving and credit co-operatives in Meru County. The variables considered were operationalized through board independence, board accountability, board commitment and board structure. The study addressed itself on the financial aspect of performance only. The study therefore focused on these variables only and other. The study also focused on the SACCOs in Meru County only. This region was selected because it is rich in agricultural and there are numerous SACCOs that have been established. The region was also selected because the county government embarked on a programme to sensitize the public on the role of SACCOs in improving their wellbeing.

The target respondents were the managers in the selected SACCOs. The respondents were selected because they are actively involved in the running of the SACCO and would therefore provide accurate information on the governance of SACCOs. Data used in this study was collected for a span of five years ranging from 2014 and extending to 2018. The period was selected since the county registered the majority of the SACCOs during this period.

1.7. Limitations of the Study

The study focused on establishing the influence of corporate governance on financial performance of SACCOs in Meru. Conclusions reached about the study variables were therefore limited to Meru County only and any other county that share similar dimensions. The findings may therefore fail to be generalised to all SACCOs in Kenya.

Secondly, the study utilized primary data for the construct of corporate governance that was collected from the respondents as well as secondary data for the construct of

financial performance which was collected using data collection sheet. The study found that among the challenges facing SACCOs is lack of qualified personnel with relevant skills. The researcher therefore encountered scenarios where some SACCOs had not prepared their financial statements for the said period or they had not properly prepared in accordance to accepted International accounting standards.

The study results were based on data collected for a period of five years from 2014 to 2018. The results therefore related to this period only and therefore showed significant difference with results for periods before 2014 and therefore were not used to make inferences on the variables for such period. Besides, since the period is short the study results were not relied on to make long-term predictions about the relationship between the variables.

1.8 Organization of the Study

The study was planned into five chapters. Chapter one discusses background to the study, statement of the problem, objective of the study, research questions, significance of the study, scope of the study, limitations of the study and finally organization of the study. Chapter two covers theoretical and empirical literature of the study topic, summary of the literature review, research gaps and the conceptual framework. Chapter three deals with the study research design, target population, data collection and analysis and ethical consideration. Chapter four presents research findings and discussions while chapter five deals with summary of findings, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covers the previous work done by other scholars in the same field of study. The chapter specifically focused on the key theoretical framework that will be used to anchor the study, review of related empirical literature. The chapter also provided the summary of the reviewed literature and the research gaps as well as the conceptual framework.

2.2 Theoretical Review

This study was anchored on three theories that supported the study variables. The specific theories covered are; Agency Theory, Stakeholder Theory and the Shareholder Theory.

2.2.1 Agency Theory

Agency theory, proposed by Stephen Ross and Barry Mitnick, in 1973, examines potential conflicts of interest between principals and agents. In a public corporation, this is much more probable to be an issue than a personal one. This issue occurs when stockholders employ executives to operate their business. The Theory of the Agency clarifies how best the connection between officials and directors can be used to govern a corporation in order to achieve its objectives. Corporate governance is based on the concept of agencies, which is the inter-agent and partnership. Corporate governance definitions regarded the connection between the shareholder and the business as 'Agency Theory' for instance the Manager-agents acting on behalf of shareholder-principles in supervising management's self-centered actions (Bosse and Phillips 2016).

In a corporate relationship, the stakeholders have plainly categorised obligations: Principals are select and set up governors including the executives and evaluators to guarantee viable administration framework is executed. Specialists are in charge of the everyday running of the corporations (Rashid 2015). According to Zenner, (2014), a relationship between the principal and the agent is always prone to clashes in a corporation due to financial incentives experienced by the agents which usually differ from those experienced by the directors. All organizations are subject to office

problems in compliance with (Karuti 2014) and to some extent generate activity provisions for managing them. These include setting up policies such as: checks on operators ' performance, monitoring of specialists ' operations, budgetary impetus to urge operators to behave in the light of a legitimate concern for principals, and sharing of hazard capabilities from control capabilities.

However, the theory of the agency has its constraints since the dependence on the board of directors by stakeholders has been shown to be unhealthy and the amount of independence of certain boards of directors can be challenged. Hillman & Dalziel (2013) noted that while there is a common perception that the board is independent, this is often fake as noted by (Rashid 2015) who found that over 85% of Fortune 500 industrial companies had Chairmen who had also served as the corporations CEO. This theory was used in this study to anchor Board structure since it enhances the understanding of the relationships between agents and principals of corporations so that the interests and performance expectations of shareholders are offered every opportunity to be realized by the CEO.

2.2.2 Stakeholder Theory

Stakeholder theory as first described by Freeman (1984), suggests that shareholders are merely one of many stakeholders in a company. According to stakeholder theory, the stakeholder ecosystem, involves anyone invested and involved in, or affected by, the company: employees, environmentalists near the company's plants, vendors, governmental agencies, and more. Freeman's theory suggests that a company's real success lies in satisfying all its stakeholders, not just those who might profit from its stock. According to Abdullah, (2014), there are two main stakeholder governance theories: the exploitation of the executive power model and the model of stakeholder.

Current Anglo-American corporate governance arrangements confer extreme authority on managers who might misuse it for self- interests at the at the cost of shareholders and the entire community. Supporters of such a perspective contend, to the point that the current institutional restrictions on administrative behavior, such as non-official executives, the review procedure, the risk of taking over, are just lacking in order to forestall corporate force manipulating directors. As stated by Vallascas, Mollah and Keasey (2017) shareholders that are guaranteed by fluid resource markets

are not interested in anything except the most significant misuse. For example, motivation tools offer alternatives are means by which supervisors can legitimize their irregular excessive.

The mismanagement of office power is mostly linked to the concept of overcompensation of officials since it has escalated much faster than the normal income and there has become exceptionally powerless relationship between remuneration and execution of administration (Agyemang-Mintah 2016).

The only limitation on managerial pay appears to be the modesty of the managers and the big businesses are not efficient in setting up purported autonomous remuneration committees. Brown & Caylor (2014) observed that this model's proponents do not think that the corporate governance reform's primary lines such as shareholder participation in significant choices, more data on corporate affairs and non-executive directors, are appropriate surveillance mechanisms. Rather, they suggest legislative changes in corporate governance, whereby hostile takeovers cannot be carried out, as share ownership no longer gives the right to appoint executive directors. The fundamental goal of company authority in this form is managerial liberty with accountability to enable executive management to create the long-term company while keeping them rigorously accountable to all company stakeholders.

Corporate governance's objective is to maximize the corporation's entire wealth creation. Specifically, Damodaran (2007) described a stakeholder as any group or person that may or may be influenced by the accomplishment of the company's goals to generalize the concept of stockholder as the only group to which management needs to respond. Freeman proposed that the stakeholders of a company are those groups that the organisation would cease to exist without their assistance. These organizations would include clients, staff, vendors, political action groups, environmental groups, local communities, media, financial institutions, government organizations, and more. This theory was used in the research as it offers instrumental methods that are primarily aimed at enhancing effectiveness, improving company performance and eventually improving earnings. Stakeholder theory allows companies to make more cash with instrumental methods.

2.2.3 Stewardship Theory

Stewardship Theory, developed by Donaldson and Davis (1991 & 1993) is a new perception to understand the prevailing ownership-management relationships of the company. Under the stewardship theory, business executives safeguard the owners' or shareholders' interests and make choices on their behalf. Their only aim is to build and sustain a successful organisation in order for shareholders to thrive. Companies that adopt stewardship position the duties of the CEO and the Chairman under one executive, with mostly in-house members comprising a board. This enables intimate understanding of the operation of the organization and a profound dedication to achievement.

Davis, Schoorman & Donaldson (1997) observed that stewardship theory has psychological and sociological origins. Steward theory positions that through strong performance, a steward protects and maximizes the wealth of shareholders. Stewards are business directors and executives working for shareholders, protecting shareholders and making earnings. When organisational achievement is achieved, the stewards are happy and driven. It emphasizes the role of staff or managers to behave more autonomously in order to maximize the yields of shareholders. Stewardship theory will be used in this study as it will help the SACCOS' executives to safeguard the welfares of the shareholders and decide on their behalf. Their main objective is to create and maintain a successful organization so the shareholders prosper. The employees take ownership of their jobs and work at them diligently. The stewardships theory was used in this study to support performance of SACCOS in Meru County.

2.3 Empirical Literature Review

This section reviews previous literature done by other scholars relating to the study variables. Existing literature related to Board independence, Board accountability, Board commitment and Board structure will be reviewed.

2.3.1 Board Independence and Performance

Vrenken (2014) examined the impact of board independence on firm performance in United States America. The study targeted specifically the leading US firms for the years beginning 2007-2010. The study adopted a survey research design and used regression analysis to establish the relationships between board independence and

performance. The study results showed a negative relationship between board independence and firm performance. With Tobin's Q and Return on Assets as measurements of firm performance while the current study measures performance through Net profit margin, Return on shareholder equity and Return on assets.

Oludele, (2016) investigated the relationship between board independence and the financial performance of listed manufacturing companies in Nigeria was investigated in this study. The study target population comprised 74 companies in Nigerian manufacturing sector. The study adopted purposive sampling to sample 34 companies which represented the study population. Primary and secondary data were used in the research. Secondary data were obtained from the chosen companies ' published financial statements while primary data were obtained from the 170 participants from the chosen 34 firms using the questionnaire. The results of the research indicated that the board independence and economic results of listed manufacturing firms in Nigeria have an important favourable linear connection.

Rashid (2018) conducted a study in Bangladesh to examine the influence of board independence on the economic performance among listed firms. The study collected data from 135 listed firms on Dhaka Stock Exchange. The study used accounting and market performance measures. This study findings revealed that board independence had no positive effect on firm economic performance. Further, the findings showed that, board size had a positive significant effect on firm performance.

Sanda, Garba and Mikailu (2011) examined the relationship between board independence and firm financial performance in Nigeria. The study used data obtained from the Nigerian Stock Exchange for the period 1996 through 2004. The study adopted descriptive research design, data was analysed using descriptive statistics and regression analysis. The results of the research showed high concentration of share ownership in Nigeria, and this structure tended to create board structures with close family affiliations in which the chief executive officers (CEOs) were active members of audit committees. While board members ' family affiliation was discovered to promote company development, further, chief executives ' audit committee membership hurt firm efficiency. Furthermore, the research discovered that overseas chief managers did better than their local counterparts.

2.3.2 Board Accountability and Performance

The framework for board accountability in corporate governance, Keay and Loughery (2015) sought to bridge the gap existing in the concept of accountability by investigating why accountability is important and offering an account of what accountability means in the corporate governance context, focusing on board accountability, in order to provide a framework for future research. The findings of the study, were helpful in to assessing the particular corporate governance mechanisms used to promote board accountability.

Brown, Buchholtz, Butts and Ward (2019) conducted a study in America to examine how heightened expectations of board responsibility and accountability affect the socio-cognitive decision-making of boards and their collective task performance. The study utilised data collected from the directors of 60 boards who served before and after the enactment of Sarbanes–Oxley. The study examined several socio-cognitive elements of board decision-making and the findings implicated that the board authority had a positive main effect on board task performance, while relative CEO power and affective conflict had curvilinear relationships with board task performance.

Chelangat (2013) aimed at establishing the influence of accountability on public governance NGO economic sustainability. The study employed descriptive research design and collected primary data using questionnaires. The study target population was the 550 public governance NGOs in Nairobi County dealing with public governance. Systematic sampling technique was used to identify 15 percent of the population as the respondents where every 6th organization was studied. Quantitative and qualitative data analysis methods as well as SPSS and multiple regression analysis were used for analysis. From the stud results, it was concluded that accountability on public governance had positive and significant effect on NGO financial sustainability.

2.3.3 Board Commitment and Performance

Sembiring, Sinulingga & Situmorang (2018) conducted a study in Indonesia to find out the perception of an organization member on the commitment of its management. The variables studied are the level of importance and the level of satisfaction of the

management performance. The sample for the study was taken proportionally from an organizational environment. The study utilised data collected by use of questionnaires and through conducting interviews directly with respondents. The study used Importance Performance Analysis (IPA) to measure perceptions and SPSS 22.00 syntax to measure the validity, reliability and analysis of research data. The results obtained from the study were useful in explaining the very dominant factors that affect the interests and satisfaction of organizational members on the performance of the board, so that it can contribute to the improvement of the vision and mission of the organization.

Salin, Ismail, Smith and Nawawi (2019) sought to examine the relationship between corporate governance and company performance and how a board's ethical commitment can influence this relationship in Malaysia. The study measured corporate performance basing return on equity (ROE), return on assets (ROA), net profit margin (NPM), market to book value (MTB) and TobinQ. The study used data collected from the biggest 500 Malaysian companies listed in the stock exchange for the period between 2013 and 2014. The findings of the study revealed that the board's ethical commitment was found to be significant in increasing the strength of the relationship between corporate governance and corporate performance.

Zhu Wang and Bart (2016) took a broad-based approach to examining how several prevailing board procedures (board meetings, external meetings and use of data) influenced boards' participation in strategic decision-making and how such participation shapes organisational efficiency. The research focused on 217 non-profit organizations in Canada and 156 non-profit organizations. The research results indicated that distinct procedures lead boards to distinct levels of strategic participation, depending on the kinds of organisations involved. Furthermore, the findings showed that boards engaged in strategic decision-making improve their organizations' efficiency

Chemakai (2018) conducted a study in Kakamega County to establish how board accountability influenced performance of Sacco's. The research adopted an explanatory survey research design. The population of the study consisted of 5 selected SACCOs within Kakamega urban area with a membership of 50,000.

Stratified random sampling was used to select 890 respondents comprising 800 shareholders, 45 board members, 40 top managers and 5 financial managers. Data was obtained from both primary and secondary sources. The data was collected by use of questionnaires, analysis was done using descriptive and inferential statistics. The study found that at 99% confidence level, the board accountability had positive and significant relationship with the performance of SACCOs at $r = 0.416$ and P value = 0.00.

2.3.4 Board structure and Performance

Oguda (2015) aimed at identifying the connection existing between board characteristics and firm performance of listed firms at the Nairobi Securities Exchange. Firm performance was measured using Return on Equity (ROE). Descriptive research design was adopted for the study and the collected data was analysed using a multiple linear regression model. The target population for the study comprised all the 61 firms whose stocks were trading at the Nairobi Securities Exchange and which had reported their financial results for the year 2014. The findings of the study showed a positive relationship between all the six variables and firm performance of companies listed at the NSE.

Mwaura (2017) conducted a study in Kenya to ascertain the relationship between board characteristics and profitability of commercial banks in Kenya. The study utilised analytical and cross-sectional research design on all commercial banks regulated by CBK. The study was a census survey covering all the 43 commercial banks in Kenya. The data was collected for the period starting 2012 – 2016. The study findings indicate that there is a significant positive relationship between the factors under study and financial performance of commercial banks: board expertise, board size, director independence, board diversity and it indicated that they influenced profitability of commercial banks.

Mandala, Kaijage, Aduda, Iraya (2017) investigated how board structure influenced performance of financial institutions in Kenya. The study used secondary data that was gathered from 2006 to 2015 for a ten-year period. The research embraced models of moderated and gradual regression as well as analysis of correlation to evaluate the impacts of the study factors. The findings of the research indicated that the board

structure had a substantial autonomous impact on the performance of financial institutions and that there was no important interference of CEO tenure in this situation, a substantial moderating impact of the features of companies on the relationship was observed while the joint effect of board structure, CEO tenure and the features of companies was.

Bebeji, Mohammed and Tanko (2015) analyzed the effects of board size and board composition on the performance of Nigerian banks. The target population for the study were five banks used as a sample for the period of nine years. The data collected was analysed using the multivariate regression analysis. The results showed that board size has significant negative impact on the performance of banks in Nigeria implying that an increase in Board size would lead to a decrease in ROE and ROA. The results also indicated that board composition had a significant positive effect on the performance of banks in Nigeria meaning that an increase in Board composition would lead to a decrease in ROE and ROA.

Kyereboah-Coleman and Biekpe (2006) conducted a research with aim of examining the impact of board size, board composition and CEO duality on performance measures namely ROA, Tobin's q and Growth in sales of non-financial listed firms on the Ghana Stock Exchange. The study data was collected from non-financial listed firms on the Ghana Stock Exchange for the period covering 1990 – 2001. Data analysis was conducted within the framework of panel data methodology. This study found relatively inconclusive results on these performance measures were obtained. The study however recommended that firms in Ghana should maintain smaller board sizes and adopt the two-tier board structure for effective performance.

2.4 Summary of the Reviewed Literature and the Research Gaps

The summary of the research gaps and the reviewed literature are as shown in Table 2.1

Table 2.1: Summary of the Reviewed Literature and the Research Gaps

Author and Year	Focus of the study	Findings	Research Gaps	Focus of current study
Sanda, Garba and Mikailu (2011)	Examined the relationship between board independence and firm financial performance in Nigeria	The key study findings showed that share ownership was highly concentrated in Nigeria, and this structure tended to engender board structures with close family affiliations in which the chief executive officers (CEOs) were active members of audit committees. Furthermore, the research discovered that overseas chief managers did better than their local counterparts.	The study was carried out in Nigeria. The findings cannot be generalizable in the since the study focused listed in the Nigerian Stock Exchange.	The study will carry out a survey on all the SACCOs in Meru County, Kenya.
Chelangat (2013)	The study aimed at establishing the influence of accountability on public governance NGO economic sustainability.	From the stud results, it was concluded that accountability on public governance had positive and significant effect on NGO financial sustainability.	The study utilised primary data. The study was focused on the accountability on public governance among the NGOs and therefore it is difficult to make inferences in the current study.	The current study will utilised both primary and secondary data. The study will focus on establishing the effects of board accountability among SACCOs in Meru County, Kenya.
Vrenken (2014)	An examination on the impact of board independence on firm performance in United States America	The study results showed a negative relationship between board independence and firm performance.	The study was conducted in the US and only targeted 5 firms, therefore the findings may not be generalizable.	The study will be conducted in Kenya on all SACCOS in Meru County.

			Further, the study used Tobin's Q and Return on assets to measure performance.	In this study, performance will be measured through Net profit margin, Return on shareholder equity and Return on assets.
Keay and Loughery (2015)	An investigation on why accountability is important and offering an account of what accountability means in the corporate governance context, focusing on board accountability, in order to provide a framework for future research.	The findings of the study, were helpful in to assessing the particular corporate governance mechanisms used to promote board accountability.	This study Sought to bridge the gap existing in the concept of accountability but failed to investigate the effects of board accountability on firm performance.	The study seeks to investigate the effects of board accountability on SACCOS in Meru County Kenya.
Bebeji, Mohammed and Tanko (2015)	Analysis on the effects of board size and board composition on the performance of Nigerian banks.	<p>The results showed that board size has significant negative impact on the performance of banks in Nigeria implying that an increase in Board size would lead to a decrease in ROE and ROA.</p> <p>The results also indicated that board composition had a significant positive effect on the performance of banks in Nigeria meaning that an increase in Board composition would lead to a decrease in ROE and ROA.</p>	<p>The study was focused on only five banks in Ghana and therefore the findings may not be generalizable in the current study.</p> <p>In addition this study measured performance through ROE and ROA</p>	<p>The study will be a survey of all the saccos in Meru county.</p> <p>Financial performance of the SACCOS will be measured through ROE, ROA and Net profit margin.</p>

Oludele, (2016)	An investigation on the relationship between board independence and the financial performance of listed manufacturing companies in Nigeria.	The study findings revealed that there is a significant positive linear relationship between board independence and financial performance of listed manufacturing companies in Nigeria.	The study was carried out in Nigeria and therefore its findings may not be generalised to a study carried out in Kenya. The study was also focused on manufacturing companies in Nigeria.	The study will be a survey of SACCOs in Meru County Kenya.
Mandala, Kaijage, Aduda, Iraya (2017)	An investigated how board structure influenced performance of financial institutions in Kenya.	T The findings of the research indicated that the board structure had a substantial autonomous impact on the performance of financial institutions and that there was no important interference of CEO tenure in this situation, a substantial moderating impact of the features of companies on the relationship was observed while the joint effect of board structure, CEO tenure and the features of companies was.	The study utilised secondary data which was collected for a ten-year period from 2006 to 2015. The study adopted Moderated and stepwise regression models as well as correlation analysis to assess the effects of the study variables.	Both primary and secondary data will be utilised in the study. Inferential analysis will be conducted to establish the influence of board structure on the financial performance of SACCOs in Meru County.
Mwaura (2017)	To ascertain the relationship between board characteristics and	The study findings indicate that there is a significant positive relationship between the factors	The study utilised analytical and cross-sectional research	The study will utilised a descriptive research design to investigate the

	profitability of commercial banks in Kenya	under study and financial performance of commercial banks: board expertise, board size, director independence, board diversity and it indicated that they influenced profitability of commercial banks.	design on all commercial banks regulated by CBK.	effects of Board structure on performance of SACCOs in MERU County, Kenya.
Sembiring, Sinulingga & Situmorang (2018)	To find out the perception of an organization member on the commitment of its management in Indonesia.	The findings of the study showed a positive relationship between all the six variables and firm performance of companies listed at the NSE.	The study used the level of importance and the level of satisfaction of the management performance as the study variables. In addition firm performance was measured using Return on Equity (ROE).	The study will use Board Independence Board accountability Board commitment Board structure as the study variables. Firm performance will be measured using Net Profit margin, Return on shareholder equity and Return on assets.
Rashid (2018)	Examined whether board independence influences firms' economic performance among listed firms in Bangladesh.	These study findings revealed that board independence and firm economic performance does not positively influence each other. This study also found that, board size has significant positive influence on both board independence and firm	This study used accounting and market performance measures. Further, the study was conducted in Bangladesh in USA and therefore the findings may not be	The study will use profitability performance measures (Net Profit margin, Return on shareholder equity and Return on assets).

		performance.	generalizable to the current study.	
Brown, Buchholtz, Butts and Ward (2019)	To examine how heightened expectations of board responsibility and accountability affect the socio-cognitive decision-making of boards and their collective task performance in America.	The findings implicated that the board authority had a positive main effect on board task performance, while relative CEO power and affective conflict had curvilinear relationships with board task performance.	This study was conducted in America and therefore its findings may not be inferred to a study conducted in Kenya.	The study seeks to establish the effects of board accountability on financial performance among SACCOs in Meru County Kenya.

Source: Author and Literature Review (2019)

2.5 Conceptual Framework

The conceptual framework was developed basing on the reviewed literature and it is as shown in Figure 2.1.

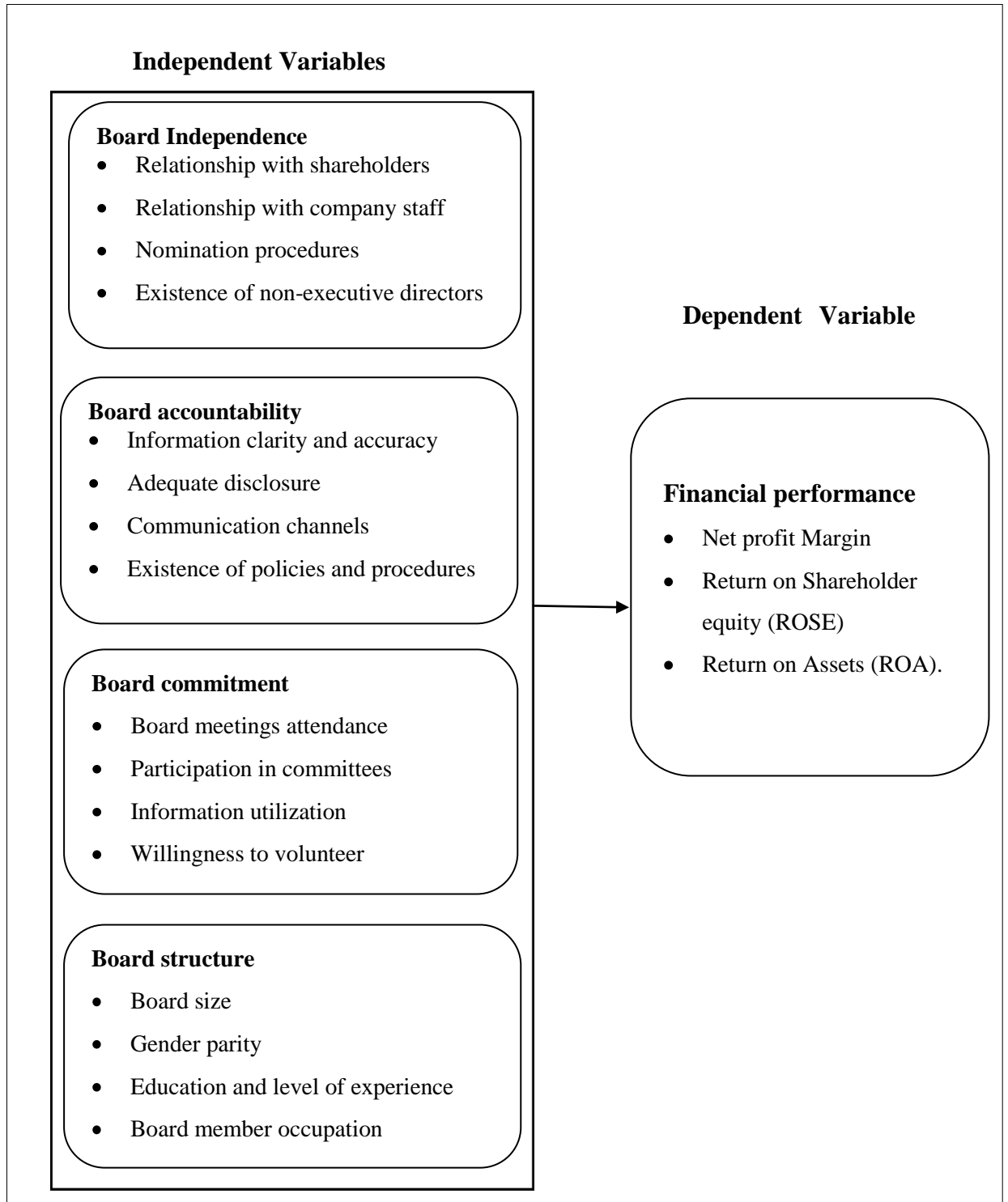


Figure 2.1: Conceptual Framework

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In this chapter describes the methods that the study with the aim of objectively establishing. The influence of corporate governance on the financial performance of SACCOS in Meru County. Specifically this chapter presents the research design to be used, the study target population, sample size and sampling procedure, data collection instrument, data collection procedures, validity and reliability as the research instruments tests as well as the ethical considerations.

3.2 Research Design

Research design is an inclusive strategy on order of operations that a researcher aims to follow with the aim of achieving the study objectives (Srivastava & Rego, 2011). This study adopted a descriptive research design. According to Engel and Schutt (2014) a descriptive research design as a systematic, empirical inquiry into which the researcher does not have a direct control of independent variable as their expression has already occurred or because they inherently cannot be manipulated. Both primary and secondary data obtained from through interviews as well as from the SACCOS financial statements were utilised in the study.

3.3 Target Population

A target population well-defined collection of individuals or objects known to have similar characteristics that the researcher used to obtain the study data to make conclusions (Cole, & Stuart 2010). According to Meru county government, there are 132 registered SACCOS in Meru County. The target population for this study therefore comprised of the top management level employees of the selected SACCOS in every sub county in Meru. Table 3.1 shows the target population for the study

Table 3.1: Target Population

Sub-county	No. of Saccos	Percentages
South Imenti	6	4.5
North Imenti	11	8.3
Tigania East	13	9.8
Tigania West	7	5.3
Igembe South	5	3.8
Buuri	12	9.1
Central Imenti	57	43.2
Igembe Central	11	8.3
Igembe North	10	7.6
Totals	132	100.0

Source: Meru County Government (2019)

3.4 Sampling Technique

A sample is a representation of a whole population from which the researcher can draw conclusions for the study (Etikan, Musa & Alkassim, 2016). According to Bryman and Bell (2015), sample size will be used to represent the population under study. Stratified random sampling technique was used in this study to obtain a sample of 98 SACCOS from a total of 132 SACCOS in Meru County. The study adopted a formulae that was recommended by Kothari (2004) to obtain the sample size of the population

$$n = \frac{z^2 \cdot N \cdot \hat{p}}{(N - 1)e^2 + z^2 \hat{p}}$$

In this formula, N represents the total population =132

n represents the sample size

e represents the error term of 0.05

\hat{p} is the standard deviation of the population given by 0.5 if known

While Z represents the standard deviation of 1.96 at 95% degrees of freedom.

The sample size was as shown in table 3.2

Table 3.2: Sample Size

Sub-county	Population	Ratio	Sample size
South Imenti	6	0.74	4
North Imenti	11	0.74	8
Tigania East	13	0.74	10
Tigania West	7	0.74	5
Igembe South	5	0.74	4
Buuri	12	0.74	9
Central Imenti	57	0.74	42
Igembe Central	11	0.74	8
Igembe North	10	0.74	7
Total	132		98

Source: Author (2019)

3.5 Research Instrument

According to Taber (2018) research instruments are testing devices used for measuring a given phenomenon designed to acquire study information on a subject of concern subject. The research used primary as well as secondary data. Semi-structured issues collected primary data. The questionnaires were structured to contain two sections; the first section contained the demographic questions while the second section contains questions related to the study variables. The questionnaire also contained both closed and open ended questions. Saunders (2011) notes that the open-ended questions enable the participants to provide in-depth responses while the investigator can readily evaluate the close-ended questions. As a result, the open-ended issues provided well-structured answers that made analysis and conclusion simpler. The close-ended questions provided more data that may not be present in the open-ended issues. The closed ended questions required the respondent to give responses basing on a 5 point likert continuum scale of 1 to 5; where 1 was highly agreed, 2 agreed, 3 disagree, 4 disagreed and 5 highly disagreed. In addition, Secondary data was obtained from the financial statements prepared by the SACCOs.

3.6 Validity of Research Instrument

Validity is the extent to which the test item sample reflects the material to be measured by the test (Kothari, 2004). Validation of the research instruments includes analysing the information collected to evaluate the precision of the research instruments. Validity of research instruments helps in determining whether

meaningful and accurate interpretations of data are made. Several statistical tests were conducted to evaluate the validity of quantitative instruments, usually involving pilot testing and testing for reliability. This study used face and content validity to measure the validity of the research instruments. Face validity is the representative of the face value information collection tool and if it is a useful tool. According to Bryman and Bell (2015), face validity determines if the instrument covers what it was supposed to cover. Content validity seeks inferences from comparable tests taken from comparable products as those in the study. Moreover, the investigator sought support of the university's supervisor and other lecturers to determine whether the study tool is valid for both face and content.

3.7 Reliability of the Research Instrument

A study instrument's reliability is how well the instrument provides the same outcomes when tested under the same circumstances on separate cases (Tomioka, Iwamoto, Saeki & Okamoto, 2011). The study carried out reliability for the research instruments to determine its consistency in measuring what it is meant to measure. The questionnaire's reliability was assessed using Cronbach's alpha; a measure of the questionnaire instrument's internal consistency. If the Cronbach alpha coefficient is 0.6 or higher, this was determined as appropriate reliability, according to (Field 2009). A Cronbach alpha coefficient of 0.6 is used in this research.

3.8 Data Collection Procedure

This study utilised both primary and secondary data .the researcher with the help of the research assistants distributed the questionnaires to different SACCOS. The questionnaires were self-administered. Self-administered questionnaire allowed researcher to explain the questions to the respondent and probe for more answers. This made it clear to provide appropriate answers. The researcher left the questionnaire to be collected later in cases where self-administered questionnaire were not relevant. To increase the response rate, a University introductory letter was attached to ensure the safety, confidence and confidentiality of the respondents. The researcher also obtained a permit from the National Commission of Science and Technology Innovation (NACOSTI) to undertake the research.

3.9 Data Analysis and Presentation

In order to determine precision, completeness, consistency and usefulness of the collected data, data from the field was first edited, cleaned and assessed. Once the information was cleaned, the analysis software was encoded and fed in. Quantitative and qualitative data was used in this study. The information gathered was edited and data entry performed after the data collection. Descriptive statistics such as frequency distributions, percentages, mean and standard deviation was used to analyse quantitative data as well as the Statistical Package for Social Sciences (SPSS) version 23. The study also analysed the open-ended questions using corporate content analysis and presented in prose form. The results obtained were then presented in tables.

Furthermore, inferential assessment was carried out using multiple regression models to determine the influence of corporate governance on financial performance of SACCOS in Meru County. The model of regression was as follows:

$$P = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where: P= Financial Performance

β_0 = Constant

$\beta_1, \beta_2, \dots, \beta_5$ = Beta coefficient of the study variables

X_1 =Board Independence

X_2 =Board Accountability

X_3 =BoardCommitment

X_4 =BoardStructure

ε =Error Term

3.10 Ethical Considerations

Ethical considerations refer to judging correct and incorrect behaviour. According to Field (2009), ethical considerations involve judgments concerning respondent identity, confidentiality of information gathered, and voluntary involvement in studies. In this research, the respondents' identity will stay unknown as no respondent will be needed to give out their names or other data about their proof of identity. In addition, the investigator must guarantee that the participants are involved in the studies on a voluntary basis. Csikszentmihalyi and Larson (2014) observed that the investigator will report the objective and use of the study to the participants. The

investigator sought for a National Commission for Science, Technology and Innovation (NACOSTI) study license in perspective of the above.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

This main objective of the study was to find out the influence of corporate governance on financial performance of SACCOs in Meru County, Kenya. Data was collected on the four objectives of the study which included establishing the effect of board independence, board accountability, board commitment and board structure on the financial performance of the SACCOs. Data was analyzed using both descriptive and inferential statistics. The findings were as presented in the subsequent sections;

4.1.1 Response Rate

The study targeted 132 SACCOs that complied with the study criteria. Out of which a total of 98 SACCOs were sampled. The study focused on the board secretaries or any other knowledgeable person on board activities and management incase the secretary was not available. Out of the 98, 80 of the respondents, completed the questionnaires and submitted them for analysis. This gave a response rate of 81.63% which is deemed sufficient for the study. The findings are as shown in Table 4.1.

Table 4.1: Response Rate

Rate	Frequency	Percentage
Response	80	81.63
Non-Response	18	18.37
Total	98	100

Source: Field data, 2019

The findings show that the response rate was sufficient for the current study. This is supported by Mugenda and Mugenda (2013) who stated that a sample size of 70% and above is deemed statistically sufficient for a study.

4.1.2 Reliability Test

To ascertain the reliability of the research instruments, a Cronbach Alpha coefficient methodology was used. A Cronbach alpha was computed for each of the variables and the overall coefficient determined. The findings were as shown in Table 4.2.

Table 4.2: Reliability Test

Variable	Number of Items	Cronbach Alpha
Board independence	5	0.821
Board accountability	5	0.788
Board commitment	5	0.773
Board structure	5	0.891
Average Cronbach Coefficient		0.8183

Source: Pilot Study, 2019

The study established that board independence as the first independent variable had a Cronbach coefficient of 0.821; Board accountability had a Cronbach alpha coefficient of 0.788. Board commitment had a Cronbach alpha coefficient of 0.773 and board structure had a Cronbach alpha coefficient of 0.891. The average Cronbach coefficient was 0.8183 which was greater than 0.7, an indication that the research instruments were reliable for the study. This is supported by Cronbach (1951) who stated that a Cronbach alpha of 0.7 and above indicates that the research instruments are sufficiently reliable for a study.

4.2 Demographic Background

The study assessed the bio-demographic background characteristics of the respondents. The main aspects assessed were position held, level of education and period worked in the SACCO. The findings are presented in the following sections.

4.2.1 Position Held

The study assessed the position held by the respondents among the selected SACCOs in Meru County. The study established that 71% of the respondents were secretaries to the boards who were also the CEOs among the SACCOs while 29% were board members. This indicates that the respondents were holders of relevant positions to the study and therefore gave a fair view of the SACCOs regarding the objectives and questions of the study.

4.2.2 Education Level

The respondents were further asked to indicate their highest education level. This was meant to indicate whether the respondents were qualified to hold the positions they held and had the pre-requisite knowledge and skills. The findings were as presented below;

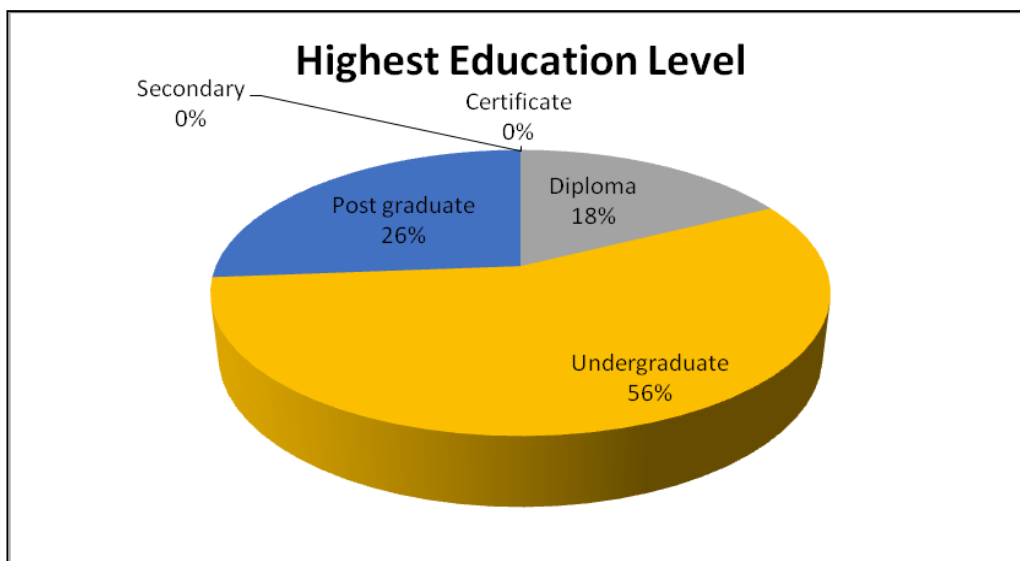


Figure 4.1: Education Level

Source: Field data, 2019

It was established that 56% of the respondents were undergraduate degree holders, 18% were diploma holders, 26% had post graduate qualifications while none had secondary or certificate as the highest education qualifications.

4.2.3 Period worked

The study further sought to establish the number of years the respondents had worked with the SACCOs in Meru County. The findings were as presented below;

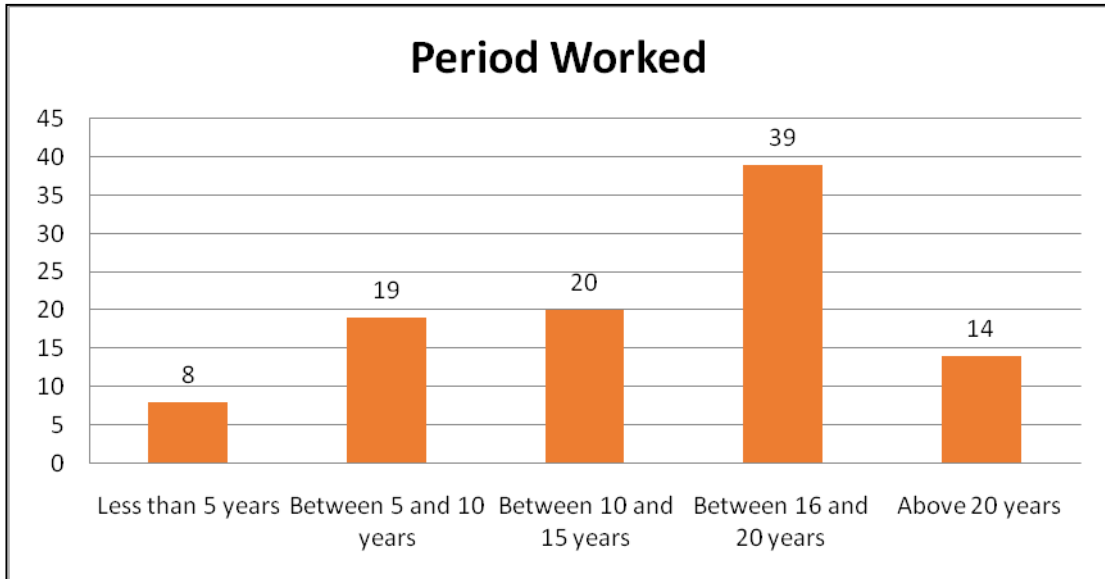


Figure 4.2: Number of years worked at the SACCO

Source: Field data, 2019

The study established that 8% of the respondents had worked for less than 5 years in their respective SACCOs, 19% had worked for between 5 and 10 years, 20% had worked for between 10 and 15 years, 39% had worked for between 16 and 20 years while 14% had worked for over 20 years. This indicates that most of the respondents had worked for a significantly long period of time among their firms to give informed feedback on the research questions.

4.3 Descriptive Findings

The study analyzed the extent to which board independence, board accountability, board commitment and board structure were embraced among the SACCOs as key corporate governance aspects using descriptive statistics. The findings were as presented in the following sections;

4.3.1 Board Independence

The respondents were asked to indicate the extent to which board independence influenced performance of their SACCOs. 61% indicated that the effect was to a great extent, 11% moderate extent, 21% to a very great extent while 7% indicated that board independence to a low extent influenced firm performance. This indicates that board independence to a great extent influenced performance of the SACCOs.

The study further asked the respondents to indicate the extent to which the following aspects of board independence influenced SACCO performance on a scale of 1-5 where 1 (no extent) 2 (low extent), 3 (moderate extent), 4 (great extent) and 5 (very great extent). The findings were as presented below;

Table 4.3: Board Independence

Aspects of Board Independence	Mean	Std. Dev
Relationship with shareholders	3.56	0.756
Relationship with pas present company staff	3.77	0.844
Nomination procedures	3.81	0.901
Existence of non-executive directors	3.64	0.802

Source: Field data, 2019

The study established that relationship with shareholders, relationship with pas present company staff, nomination procedures and existence of non-executive directors as key aspects of board independence to a great extent influenced the performance of the SACCOs as indicated by a mean of 3.56, 3.77, 3.81 and 3.64 respectively. The respondents further indicated that board independence promotes transparent, integrity, objective and accountable decision making, policy formulation and management of the firms which improves their performance.

4.3.2 Board Accountability

The second objective of the study was to establish the effect of board accountability on the performance of SACCOs in Meru County. The respondents were therefore asked to indicate the extent to which board accountability influenced performance of their SACCOs. 65% of the respondents indicated that board accountability to a great extent influenced performance of the SACCOs, 24% indicated that it had to a very

great extent while 11% indicated that the effect was to a moderate extent. This indicates that the relationship between SACCO performance and board accountability was to a significantly great extent.

The respondents were further asked to indicate the extent to which the following aspects of board accountability influence performance of the SACCOs on 5-point likert scale where 1 (no extent) 2 (low extent), 3 (moderate extent), 4 (great extent) and 5 (very great extent). The findings were tabulated below;

Table 4.4: Board Accountability and SACCO Performance

Aspects of Board Accountability	Mean	Std. Dev
Information clarity and accuracy	4.01	0.799
Adequate disclosure	3.87	0.802
Communication channels	3.91	0.811
Existence of policies and procedures	3.67	0.699

Source: Field data, 2019

The study established that information clarity and accuracy, adequate disclosure, communication channels and existence of policies and procedures as aspects of board accountability to a great extent influenced SACCO performance as indicated by a mean of 4.01, 3.87, 3.91 and 3.67 respectively. This indicates that the board accountability had a significant effect on SACCO performance.

The respondents were further asked to indicate their opinion on the influence of board accountability on performance of the SACCOs. It was indicated that accountability promotes diligent, effective and efficient use of resources which spurs performance.

4.3.3 Board Commitment

The study sought to establish the extent to which board commitment influences performance of the SACCOs. 79% of the respondent indicated that the effect was to a great extent while 21% indicated that the influence was to a very great extent. This indicates that the effect of board commitment on SACCO performance was significant and positive.

Further the study sought to find out the extent to which the following aspects of board commitment influence performance of the SACCOs. The respondents were to rate the

degree of influence on a scale of 1-5 where 1 (no extent) 2 (low extent), 3 (moderate extent), 4 (great extent) and 5 (very great extent). The findings were tabulated below;

Table 4.5: Board Commitment and SACCO Performance

Aspects of Board commitment	Mean	Std. Dev
Board meetings attendance	3.61	1.501
Participation in committees	3.91	0.719
Information utilization	4.02	0.866
Willingness to volunteer	3.79	0.824

Source: Field data, 2019

The study established that to a great extent board meetings attendance, participation in committees, information utilization and willingness to volunteer as aspects of board commitment influenced performance of the SACCOs as indicated by a mean of 3.61, 3.91, 4.02 and 3.79 respectively. This indicates that board commitment significantly influenced performance of the SACCOs in Meru County.

The respondents further indicated that board commitment through timely decision making, participation and involvement in meetings, gathering information, giving feedback and improving systems for an organization contributes to peak performance.

4.3.4 Board Structure

The study also sought to establish the effect of board structure on firm performance. The respondents were asked therefore to indicate the extent to which board structure influenced performance of their SACCOs. 75% of the respondents indicated that to a great extent there was an effect while 22% indicated that it was to a very great extent while 3% indicated that it was to a moderate extent. This significantly indicates that board structure to a great extent influenced firm performance.

The respondents were further asked to indicate the extent to which the following aspects of board structure influence performance of their SACCOs on a scale of 1-5 where 1 (no extent) 2 (low extent), 3 (moderate extent), 4 (great extent) and 5 (very great extent). The findings were tabulated below;

Table 4.6: Board Structure and SACCO Performance

Board Structure	Mean	Std. Dev
Board size	3.55	0.901
Gender parity	3.67	0.824
Level of education and experience	3.89	0.671
Board member occupation	3.91	0.855

Source: Field data, 2019

The study established that board size, gender parity, level of education and experience and board member occupation as aspects of board structure to a great extent influenced the performance of the SACCOs in Meru County as indicated by a mean of 3.55, 3.67, 3.89 and 3.91 respectively. The respondents opined that the structure of the board in terms of capacity, experience, skills and knowledge, exposure, rank or management rotation and decision making matrix had a significant effect on firm performance.

4.4 Inferential Statistics

The study conducted inferential statistics to establish the extent of correlation between corporate governance and performance of SACCOs in Meru County, Kenya. The findings of Model Summary, ANOVA and Regression Coefficients are indicated in subsequent sections below.

4.4.1 Model Summary

The findings of coefficient of determination and coefficient of adjusted determination are as shown in Table 4.7.

Table 4.7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.851 ^a	.862	.848	1.812241

The findings found out that coefficient of correlation R was 0.851an indication of strong positive correlation between the variables. Coefficient of adjusted determination R² was 0.848 which changes to 84.8% an indication of changes of dependent variable can be explained by (board independence, board accountability,

board commitment and board structure). The residual of 15.2% can be explained by other factors beyond the scope of the current study.

4.4.2 ANOVA

The study carried out an ANOVA at 95% level of significance. The findings of $F_{\text{Calculated}}$ and F_{Critical} are as shown in Table 4.8.

Table 4.8: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	811.025	15	54.0683	14.5154	.000 ^b
Residual	242.121	65	3.7249		
Total	1053.146	80			

The findings show that $F_{\text{Calculated}}$ was 14.5154 and F_{Critical} was 5.6631, this show that $F_{\text{Calculated}} > F_{\text{Critical}}$ (14.5154 > 5.6631) an indication that the overall regression mode was significant for the study. The p value was 0.000 < 0.05 an indication that at least one variable significantly influenced performance of the SACCOs.

4.4.3 Coefficients of Regression

The study used coefficient of regression to establish the individual influence of the variables to firm performance. The findings are indicated in Table 4.9.

Table 4.9: Coefficients of Regression

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	5.794	0.744		2.884	.000
Board independence	0.879	.163	.157	9.331	.000
Board accountability	0.844	.151	.086	11.069	.000
Board Commitment	0.902	.177	.331	10.449	.000
Board structure	0.878	.161	.272	9.667	.000

The resultant equation was

$$Y = 5.794 + 0.879X_1 + 0.844X_2 + 0.902X_3 + 0.878X_4$$

Where: X_1 = Board dependence

X_2 = Board accountability

X_3 = Board commitment

X_4 = Board structure

The study found out that by holding all the variables constant, performance of the SACCOs in Meru County will be at 5.794. A unit increase in board independence when holding all the other variables constant, SACCO performance would be at 0.879. A unit increase in board accountability while holding other factors constant, SACCO performance would be at 0.844. A unit increase in board commitment while holding other factors constant, SACCO performance would be at 0.902. A unit improvement in board structure while other factors are held constant, SACCO performance would be at 0.878.

The findings pointed out that board independence, board accountability, board commitment and board structure had a p value of $0.000 < 0.05$ an indication that the selected corporate governance practices significantly influenced performance of SACCOs in Meru County. This is supported by Sanda, Garba and Mikailu (2011) who noted that the selected corporate governance indicators had a strong correlation with firm performance by promoting strong, leaner, committed, accountable and transparent board of management and with a clear structure and independence in decision making and use of resources.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings; conclusion and recommendations are based on the findings and interpretation of the variables in chapter four. Suggestions for further studies are also provided.

5.2 Summary of the Findings

The main objective of the study was to establish the influence of corporate governance on the performance of SACCOs in Meru County, Kenya. The study specific objectives were to establish the influence of board independence, board accountability, board commitment and board structure on the performance of SACCOs in Meru County, Kenya. The study had a coefficient of correlation R of 0.851 an indication of strong positive correlation between the variables and coefficient of adjusted determination R^2 was 0.848 which changes to 84.8%.

5.2.1 Board Independence and SACCO Performance

The study established that board independence had a positive influence on the performance of SACCOs in Meru County. The study established that relationship with shareholders, relationship with past present company staff, nomination procedures and existence of non-executive directors as key aspects of board independence to a great extent influenced the performance of the SACCOs. The respondents further indicated that board independence promotes transparent, integrity, objective and accountable decision making, policy formulation and management of the firms which improves their performance.

5.2.2 Board Accountability and SACCO Performance

The study established that board accountability positively influenced the performance of SACCOs in Meru County. The study established that information clarity and accuracy, adequate disclosure, communication channels and existence of policies and procedures as aspects of board accountability to a great extent influenced SACCO

performance. This indicates that the board accountability had a significant effect on SACCO performance. The respondents were further asked to indicate their opinion on the influence of board accountability on performance of the SACCOs. It was indicated that accountability promotes diligent, effective and efficient use of resources which spurs performance

5.2.3 Board Commitment and SACCO performance

The study pointed out that board commitment as a corporate governance aspect positively influenced performance of SACCOs in Meru County. The study established that to a great extent board meetings attendance, participation in committees, information utilization and willingness to volunteer as aspects of board commitment influenced performance of the SACCOs. This indicates that board commitment significantly influenced performance of the SACCOs in Meru County. The respondents further indicated that board commitment through timely decision making, participation and involvement in meetings, gathering information, giving feedback and improving systems for an organization contributes to peak performance

5.2.4 Board Structure and SACCO Performance

The study established that board structure positively influenced performance of SACCOs in Meru County. The study established that board size, gender parity, level of education and experience and board member occupation as aspects of board structure to a great extent influenced the performance of the SACCOs in Meru County. The respondents opined that the structure of the board in terms of capacity, experience, skills and knowledge, exposure, rank or management rotation and decision making matrix had a significant effect on firm performance.

5.3 Conclusions

The study concluded that corporate governance was a significant factor in determining performance of the performance of the SACCOs in Meru County. The study concluded that the boards were significantly independent, accountable, committed and well structured.

The study further concluded that board accountability, integrity, professionalism, transparency and efficiency promoted financial performance of SACCOs. .

The study concluded that the board members among the SACCOs in Meru County have not embraced gender balance in their board composition and leadership.

5.4 Recommendations

The study recommends that the SACCOs need to ensure that the boards are accountable, committed, independent professional and qualified for peak performance.

The study recommends that leaner and clearly structured board of management among the SACCOs due to their efficiency and effectiveness in decision making, management, communication, coordination, monitoring and in operation cost.

The study recommends further that the board members among the SACCOs in Meru County should have the necessary knowledge, skills, experience and ideas to improve the performance of the firms.

5.5 Suggestions for Further Studies

Corporate governance among the firms in both the financial and non-financial sector in Kenya should be investigated so as to establish if players in the SACCO and financial services sector in Kenya face similar challenges in board independence, accountability, commitment and structure. The main objective of the study was to establish the influence of corporate governance on performance of SACCOs in Meru County, Kenya, future research should be carried out on other players in the financial sector like banks, MFIs and mortgage firms. The coefficient of adjusted determination R^2 was 0.848; therefore, the residual of the study was 15.2% and can be explained by other factors beyond the scope of the current study that future scholars should focus on.

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APPENDICES

Appendix I: Transmittal Letter

June, 16th, 2019.

Yusuf Wako
P.O. Box 3172-00506
Nairobi.

Dear Sir/Madam,

RE: Research Participation

The researcher is a final year MBA student studying at Kenyatta University. To meet all the required course requirements the researcher is required to conduct a project. The selected title of the study is **CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF SACCOs IN MERU COUNTY**. The researcher wish to request you to participate in the study by providing relevant information relating to your SACCO by filling in the attached research instrument. Data collected shall be used exclusively to answer the research questions and not for any other purpose. Your identity shall be concealed and the information provided treated with adequate confidentiality. If any clarification is required, kindly reach the researcher or contact the university directly.

Sincerely,

Yusuf Wako

Appendix II: Research Instrument

Please provide your responses to the following questions. Use a tick or cross where necessary. Feel free to provide any additional relevant information relating to the subject matter in the spaces provided. Do not include any identifying details on this questionnaire.

PART A: BACKGROUND INFORMATION

1. Which position do you hold in the SACCO?.....

2. Educational Level?

Secondary education level []

Certificate level []

Diploma level []

Undergraduate level []

Post graduate level []

3. In the spaces provided, please check the most appropriate number of years you have worked in this SACCO?

Less than 5 years []

Between 5 and 10 years []

Between 10 and 15 years []

Between 16 and 20 years []

Above 20 years []

PART B: Board Independence

4. In your view what is the extent to which board independence influence performance of your SACCO?

Very great extent [5] Great extent [4] Moderate extent [3]

Very low extent [1] Low extent [2]

5. To what extent do the following aspects of board independence influence performance of your SACCO?

Aspects of Board Independence	5	4	3	2	1

Relationship with shareholders					
Relationship with past and present company staff					
Nomination procedures					
Existence of non-executive directors					

6. In your view, in which way does board independence influence the SACCO's performance?

.....

PART D: Board Accountability

To what extent does board accountability influence performance of your SACCO?

Very great extent [5] Great extent [4] Moderate extent [3]
 Very low extent [1] Low extent [2]

7. To what extent does the following aspects of board accountability influence performance of your SACCO?

Aspects of Board Accountability	5	4	3	2	1
Information clarity and accuracy					
Adequate disclosure					
Communication channels					
Existence of policies and procedures					

8. In your own opinion, how does board accountability influence performance of your SACCO?

.....

PART E: Board Commitment

9. To what extent does board commitment influence performance of your SACCO?
 Using Likert Scale

10. To what extent do think the following aspects of board commitment influence performance of your SACCO?

	5	4	3	2	1
Board meetings attendance					
Participation in committees					
Information utilization					
Willingness to volunteer					

11. In your own opinion, how do the facets of board commitment above influence performance of your SACCO?

.....

.....

.....

PART F: Board Structure

12. To what extent does board structure influence firm performance in your organization?

Very great extent [5] Great extent [4] Moderate extent [3]

Very low extent [1] Low extent [2]

13. To what extent do the following aspects of board structure influence performance of your SACCO?

Board Structure	5	4	3	2	1
Board size					
Gender parity					
Level of education and experience					
Board member occupation					

14. In your own opinion, how do the facets of board structure above influence performance of your SACCO?

THANK YOU FOR YOUR PARTICIPATION

Appendix III: Secondary Data Collection Sheet

Name of the SACCO

Year	2014	2015	2016	2017	2018
Variable					
Sales/ Revenue					
Net profit after tax					
Total assets					
Shareholders' Equity					