

**BOARD CHARACTERISTICS AND FINANCIAL PERFORMANCE OF SAVINGS AND  
CREDIT COOPERATIVE SOCIETIES IN MURANGA COUNTY, KENYA.**

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**DECLARATION**

**Student's Declaration**

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

**Signature..... Date.....**

**Grace Wairimu Wakaba**

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**Declaration by Supervisor**

I confirm that the work in this project was done by the candidate under my supervision as the appointed university supervisor.

**Signature..... Date.....**

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## **DEDICATION**

Dedications goes to my dad Francis Wakaba Kamau, mum Lucy Njoki, brother John Mungai, sister Eunice Njeri, my sons Mark Wakaba and Vincent Kariuki and husband Eric Gitau for their unconditional support, financially, morally and continuous encouragement throughout the masters study period.

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## **ABBREVIATIONS AND ACRONYMS**

<b>ACGN</b>	African Corporate Governance Network
<b>BC</b>	Board Characteristics
<b>BODs</b>	Board of Directors
<b>CEO</b>	Chief Executive Officer
<b>DTS</b>	Deposit Taking Societies
<b>FP</b>	Financial Performance
<b>KUSCCO</b>	Kenya Union of Savings and Credit CO-operative Limited
<b>NACOSTI</b>	National Commission for Science, Technology and Innovation
<b>NSE</b>	Nairobi Securities Exchange
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>ROA</b>	Return on Assets
<b>SACCOs</b>	Savings and Credit Cooperative Societies
<b>SASRA</b>	SACCO Societies Regulatory Authority
<b>SPSS</b>	Statistical Package for Social Sciences

## **OPERATIONAL DEFINITION OF TERMS**

<b>Board</b>	A collection of directors who are the representatives of the shareholders' interests and their purpose being managing and monitoring the management activities and take appropriate control measures on shareholders' behalf
<b>Board Characteristics</b>	The structure of the board in terms of composition, size, ratio of executive and independent directors, ethnic and bio diversity, gender diversity, age board skills and experience
<b>Board Composition</b>	Refers to the structure of the board involving the age, gender and demography
<b>Board Experience</b>	The skills and period of time (usually in years) the directors and members of the board have acquired in running the firm
<b>Board Level of Education</b>	Refers to the board of directors' education levels and qualifications
<b>Board Size</b>	Refers to the structure of the board such as age and gender
<b>Financial Performance</b>	The effectiveness of an entity efficiently using its facilities to generate profits.
<b>SACCOs</b>	A group of individuals with common characteristic coming together to join forces to pursue a common objective mainly social, economic or financial growth.

## ABSTRACT

A board of management carries a very crucial role in the management of SACCO's hence it is very important to understand how their characteristics and effectiveness influence the organization's financial performance. Any enterprise that has to thrive financially requires a good board of management system in place. It is through the self-help initiatives that people come together through Savings and Credit Cooperative Societies to solve their social-economic challenges, support one another and drive business ventures which are meant to equally benefit the members. The study purposed to investigate the influence of board characteristics and financial performance of Local Savings and Credit Cooperative Societies in Murang'a County, Kenya. The study was framed on the specific objectives which were; to determine the influence of board size, board composition, board experience and board level of education on financial performance of Local Savings and Credit Cooperative Societies in Murang'a County, Kenya. The research proposal was based on stakeholder theory, agency theory, stewardship theory and resource dependency theory in order to link the independent variables with the dependent variable. The research adopted descriptive survey design. The study targeted all the 24 licensed Savings and Credit Cooperative Societies operating in Murang'a County. The study relied on both primary and secondary data. Research questionnaires were used to collect primary data and a checklist to collect secondary data. The research instrument was subjected to review and pre-testing prior to conducting the actual study so as to enable it gain the recommended validity and reliability. The collected data will later be analyzed by use of descriptive statistics such as means and standard deviations and also inferential analysis such as Pearson Correlation coefficient and regression coefficient. Prior to running the regression coefficients, the study conducted a diagnostic test of the data using normality and autocorrelation tests so as to ensure the data did not have anomalies or biased in nature. Frequency tables, figures were helpful in data presentation. The study established that board size had a positive insignificant effect on financial performance while board composition, board experience and board level of education had a positive significant effect on financial performance. The study recommends that the Savings and Credit Cooperative Societies need to ensure that they have the optimal number of board members as it may help in improving the problem solving within the cooperatives and increase its efficiency in carrying out its operations, the boards should be well composed with members of different skills and all genders should be well represented, board of directors and especially the managers should be well experienced in financial and cooperative management and have also necessary skills that the cooperative may benefit from and lastly board members are well educated and trained. However, the Savings and Credit Cooperative Societies should not struggle to higher very highly trained managers since highly educated managers may not necessarily guarantee transparency and accountability in the SACCO and hence its effect on financial performance is short lived and in the long run this merit may not hold

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background to the Study**

Current business environment has experienced financial performance rise in attention mainly from the organizations stakeholders and has been largely been attributed to the board characteristics in the organization. Since the year 2000, the business environment has experienced a major drop in financial performance which even lead to collapse of world multimillion-dollar companies such as Enron, Lehman Brothers, World Com among others (Dibra, 2016).

Cooperative societies across the globe are built on elaborate and unique values such as equity and equality, self-responsibility, democracy and also strive for good governance. Coming up with proper governance practices may see the efficient management in allocating resources in the firm which may see increased financial performance in the society. Firms collapse due to declining financial performance is also not a new incident and mainly be attributed to poor governance practices, poor decision making by the board, internal wrangles among others. Poor or declining financial performance may see drop in firms share prices which eventually may result in the collapse of the cooperative society (Mugo *et al.*, 2015).

SACCOs have a task to safeguard the gains achieved so far and ensure confidence is built so as to avoid SACCO bankruptcy as it is a manifestation of the sector's instability. The global financial crises such as financial markets that have been experienced since 2007 may have great implications in both developed and developing countries. Global risks still threaten the Kenya's economy. The global economic growth declined to 3.3 per cent in 2019 from 3.6 per cent in 2018 according to World Economic Outlook, (WEO, 2019). The fragility frequently experienced in

Europe, the Asia's declining demands and the slow recoveries in United States have always posed a significant threat to Kenya's macroeconomic and SACCOs financial performance (Kenani, 2018).

### **1.1.1 Board Characteristics**

An entity's board carries a very important function in governing the firms and organizations, making it very important in figuring how their characteristics influence the governance of organizations. The agency theory also suggest that it's the board of directors (BODs) responsibility in ensuring that proper resolutions are made by the managers of the organizations for the benefit of the shareholders who at times may be the minority (Freihat, Farhan &Shanikat, 2019; Desches *et al.*, 2014). Any enterprise that has to succeed requires a good board of management system in place. Consequently, good board characteristics may not only help the enterprises, but also help the countries in which they operate easily reach the international stoke and bond markets and make it possible to gain higher premiums at times of seeking international investments (Freihat *et al.*, 2019).

Board characteristics that may be perceived to be good may enable controlling and directing an organization by the virtue of the good governance principles; being accountable, having fairness, being transparent, being responsible and independent (Naimah & Hamidah, 2017). Complex systems of checks and balances are maintained by organizations that have good board characteristics. Micklethwait and Dimond (2017) note that the main role of corporate practices that are considered to be good is to ensure that the board members and board committees run independently with the management hence coming up with actions that are of best interest to shareholders.

Several researchers have covered wide range of aspects in corporate governance among them being board characteristics, voting rights, regulations, and disclosures among others. Surprisingly, the same researchers have come up with more conflicting results in support of the existing theories. Some of them have been the contradicting analysis of the board composition (BC), structure of leadership and financial performance (FP). Some arguments have also been based on the gender diversity, board meetings, board size, board expertise and director ownership as some of the key attributes that may have an association with financial performance of a firm. (Fan, Lau & Young, 2007; Chemweno, 2016).

The role of board of directors (BODs) was brought to debate of corporate governance due to globalization and liberalization of the financial markets, increase demands for accountability and transparency in organizations from stakeholders and corporate governance scandals (Ingle & Van, 2015). Finkelstein and Money (2003) note that despite BODs having various important roles, their main roles have been argued to be control, service and strategy. It is the characteristic of the board that determines the realization of these roles. The education levels and board experience may significantly determine the roles that the BODs have to perform in management which directly influences the firm performance. Freihat *et al.*, (2019) acknowledges that BODs role might be of huge importance in the corporate governance and is therefore very urgently required in many enterprises.

Surprisingly, the same researchers have come up with more conflicting results in support of the existing theories. Some of them have been the contradicting reports on the composition of the board, the leadership structure and how it performs financially. Some discussions have also been based on the size of the board, audit committee, gender diversity, board meetings, board

expertise and director ownership as some of the key attributes that may have an influence on the FP of a firm. (Fan, Lau & Young, 2007; Chemweno, 2016).

### **1.1.2 Financial Performance**

In the current business environment, financial performance has seen a rise in attention mainly from the organizations stakeholders and has been largely been attributed to the board characteristics in the organization. Over the past few years , the business environment has experienced an alarming drop in financial performance which even lead to collapse of world multimillion-dollar companies such as Enron, Lehman Brothers, World Com among others (Dibra, 2016).

Wachira (2014) and Kasyoki (2016) have attributed firms and organizations financial performance to firm's effectiveness and as firms' inner performance results normally arising from processes that are considered to be more efficient and some external actions that link the deliberations which are considered to be more involving than those which are related mutually to economic analysis by either shareholders, clients or directors. Wachira (2014) further notes that the performance can be tracked and measured in extents such as client service, monetary gains and firm social duty.

Financial performance has been a major determinant for individuals and groups of people coming together and pulling their resources together so as to form cooperatives which they project to benefit from it through various channels and grow financially (Lari, 2009). The cooperative movements started by these groups of investors plunges in different economic sectors that cut across various private and public enterprises (Mugo *et al.*, 2015)



Cooperative societies across the globe are built on elaborate and unique values such as equity and equality, self-responsibility, democracy and also strive for good governance. Coming up with proper governance practices may see the efficient management in allocating resources in the firm which may see increased Returns on Assets which directly influences the financial performance in the SACCO. Firms collapse due to declining financial performance is also not a new incident and mainly be attributed to poor governance practices, poor decision making by the board, internal wrangles among others. Poor or declining financial performance may see drop in firms share prices which eventually may result in the collapse of the cooperative society (Mugo *et al.*, 2015).

It is the financial performance that determines whether shareholders continue to subscribe to the cooperative society or even starting mass exit. This is because individuals come together to form cooperative societies with intention of coming up with possible remedies to their various economic or financial problems via shared help, individual improved programs and investing in groups so as to increase the profits for the members. The BODs plays a very important role that may see the SACCOs increase or decline in profits which is a major determinant of financial performance (Otieno, 2018). Financial Sector Development Trust-Kenya (2016), points out that SACCOs have for long time been operating with weak accounting and control systems which put more risks on members funds.

The country's state of economy has a very big role in influencing SACCOs' financial performance (FP) which directly affects the SACCO memberships in Kenya. According to Mpiira *et al* in Kenani (2018), people may find it very difficult in joining SACCOs when significant economic enterprise that will see them generate income is less guaranteed. Less membership or withdrawal of membership as result of declining financial performance may see

reduction in member's savings which has a negative impact on the SACCOs survival. Globally, for every three SACCOs that have been formed over the last decade, two have been found not to be operating due to either ceasing operations or basically being dormant (AMFIU, 2018). This has led to IMF concluding that SACCOs face many challenges which may destroy their earlier reputations as main financial services providers. The responsibility for collapsing of some of the SACCOs has largely been put on the board of directors who are at times accused in engaging in malpractices and not following the structures put down by various authorities.

Presently, the cooperative sector in Kenya is considered to be the strongest and vibrant in Africa (WCCU, 2018). Ayieko (2016) notes that the sector contributes more than 60 per cent of reserve funds and almost 64 percent assets. The past decade has seen a spontaneous increase in increase of number of SACCOs and also SACCO membership in Kenya. This increase has been accompanied by a similar increase in mobilized savings and increase in credit services and other services offered by the SACCOs. This impact has contributed both directly and indirectly to the growth of the economy in the country.

Murang'a County is a home to 24 local SACCOs of which are SASRA registered. This depicts the stark reality as in regards to fulfillment of corporate governance regulations stipulated by SASRA (DCMCG, 2019). They are member owned, managed and governed by its members who are bonded under a common goal: being subscriber of same labor union, shared fraternity, church, working for a common employer or even living/working in the same community (KUSCCO, 2016). It is through the self-help initiatives that people come together through SACCOs to solve their socio-economic challenges, support one another and drive business ventures which are meant to equally benefit the members. The financial performance of most SACCOs in the county has seen mixed trends over the past five years evident from the ever-

changing ROA which largely affects the dividends that members earn through their SACCOs. Despite of some of these challenges, the industry has been growing at 32 percent average rate per year, with some of the best performing SACCOs in Kenya such as Amica SACCO, Unaitas SACCO and Mentor SACCO, having their headquarters in Murang'a County.

### **1.1.3 Board Characteristics and SACCO Performance**

More effort has of recent been geared towards investigating the link between board attributes and organizations achievements worldwide due to the recent corporate scandals and economic crises witnessed in the past decade (Freihat *et al.*, 2019). An entity's financial performance is always taken to be its economic performance. Ceja *et al.* (2010) points out that it is what the investors use to come up with a clear picture of the organizations real value. Haddad *et al.* (2017) argue that the extent to which an organization practices and board characteristics such as board composition, and board experience may influence its economic value.

Financial performance of SACCOs may be determined by several factors within the business environment, some within their control and others beyond their control. The impact of the board characteristics (which is within the organization's control) on financial performance is the case for this study. In governance of companies or organizations, the board of directors plays a very crucial role, making it very important in understanding the traits and effectiveness of the board and its effect on the management practices. This is because the agency theory depicts the BODs role being to ensure that proper decisions are arrived at by those in charge and also able to meet the expectations of the investors (Deschenes, 2014).

Unique and elaborate values such as equality and equity, self-responsibility, need for good governance and democracy have been the main drivers of cooperative societies. Good

governance in SACCOs ensures that there is good allocation of the SACCO's resources which at long run may boost the firm's performance. When the governance practices are deemed to be poor, it may result to the firms share prices falling and at the end may see the collapse of the firm (Mwendia, 2018). This implies that every SACCO may strive to attempt to reach the optimum level of financial performance at the same time sustain its existence and pursue its core objectives.

## **1.2 Statement of the Problem**

Over the past two decades, the number of Cooperative Societies in Kenya has been on a steady increase and spread both in urban and rural areas and this has been attributed to their contribution to their members in social-economic lives. Individuals come together through SACCOS to solve their social-economic challenges, support one another and drive business ventures which are meant to equally benefit the members. (KUSCCO, 2016: SASRA, 2018). Nevertheless, most of these SACCOs are faced by various shortcomings such as; mismanagement and constant wrangles, which mainly end in poor service delivery to members, bankruptcy thereby triggering mass exit of the members (Kariuki, 2020). A good example is the Cent SACCO whose shareholders got a loss of 60 million Kenya Shillings as the SACCO collapsed (Otieno, 2018). Gross budgetary blunders and poor credit recuperation were attributed to be the main cause of collapse of Cent SACCO. Financial Sector Development Trust-Kenya (2016), points out that SACCOs have for long time been operating with weak accounting and control systems which put more risks on member's funds. The financial performance of most SACCOs in the country has also seen mixed trends over the past five years evident from the ever-changing ROA which largely affects the dividends that members earn through their SACCOs.

Kenani and Bett (2018) point out that although SACCOS have a positive impact on the GDP, and are very important in any country with developing economy, they face numerous challenges which may negatively affect their financial performance. Some of the challenges noted are, weak regulations, inadequate human resources, low marketing, inadequate financial standards and risk management. However, the board characteristics are not identified as some of the key areas that may affect the FP of SACCOs.

Several researchers have carried out on areas relating to BCs and FP in various firms and organizations. Ndung'u (2016) concluded that board size, diversity, composition and CEO characteristics influenced the performance of SACCOs. However, the study by Omwenga (2017) found out that there was no relationship between the board structures and performance. Mwendia (2018) study findings also contradicts with those of Al-Matari *et al.*, (2012) who established that there was no significance relationship between board size and board composition with performance of SACCOs. Contradicting research conclusions have therefore been reported by different researchers, prompting the need for this study to be conducted to bridge the noted gaps.

### **1.3 Objectives of the Study**

#### **1.3.1 General Objective**

The study's general objective was to investigate the effect of board characteristics on financial performance of SACCOs in Murang'a County, Kenya.

#### **1.3.2 Specific Objectives**

The specific objectives were:

- i. To investigate the effect of board size on FP of SACCOs in Murang'a County, Kenya

- ii. To establish the effect of board composition and FP of SACCOs in Murang'a County, Kenya
- iii. To find out the effect of board experience on FP of SACCOs in Murang'a County, Kenya.
- iv. To establish how board education level affects FP of SACCOs in Murang'a County, Kenya

#### **1.4 Research Questions**

- i. What is the effect of board size on the FP of SACCOs in Murang'a County, Kenya?
- ii. How does board composition affect FP of SACCOs in Murang'a County, Kenya?
- iii. How does board experience affect FP of SACCOs in Murang'a County, Kenya?
- iv. What is the effect of board education level on the FP of SACCOs in Murang'a County, Kenya?

#### **1.5 Significance of the Study**

The findings from this study are of much use to the board of directors when formulating plans, policies and strategies hence improving the corporate governance practices in the SACCOs. Furthermore, this research has provided the SACCOs management with evaluations on how corporate governance and board characteristics may influence the performance SACCOs in the country, thereby providing an insight on improving their structures of governance to ensure that the challenges currently facing SACCOs are avoided and adapt to the ever changing business environment. This research is also of much benefit to the SACCO members who are considered to be the main stakeholders in the SACCO industry, by using it as a point of reference in ensuring that their SACCO is run effectively for the benefit of all the members. The government through the regulatory body, SASRA may also benefit since it may use the findings from this

study to facilitate in proper implementation of corporate governance practices. Last but not least, the research findings are of significant importance to scholars in financial management area as it adds knowledge and bridges the identified research gaps not only in corporate governance but also in the wide area of FP

### **1.6 Scope of the Study**

Murang'a County was the geographical scope of this study and it focused on the effect of board size, board composition, board experience and board level of education, as the aspects of board characteristics, on SACCOs financial performance. It was only based on the SACCOs that are established and operating in Murang'a County. Both primary and secondary data facilitated this study which covered the period between 2020 to 2016. Research questions were very useful as they will facilitate collecting the primary data while the already published documents such as financial reports were very useful in sourcing the secondary data for this study on FP of SACCOs in Murang'a County, Kenya. The study targeted all the 24 SACCOs that are operating in Murang'a County with the financial reports for all the stated period of time and regulated by SASRA. In order to determine the relationship between board characteristics and financial performance, regression model was used.

### **1.7 Limitations of the Study**

Some of the respondents could not easily give the information required as they were under some fear that it could 'paint a bad image' of the SACCO. The researcher had to inform them that the findings and data collected by this study was only to be used for academic purposes and that no information obtained would be leaked to any person or organization. Some SACCO offices were small and thus few employees in the SACCOs. The researcher had therefore to use census design to ensure all the SACCOs were sampled in the study to increase the number of respondents. The

area of study also occupied a wide geographical scope and the researcher was compelled to hire research assistants to help in collecting data in the whole country. Last but not least, locating the SACCO directors proved to be a bit hectic since they mostly work on part time. The researcher therefore had to include other stakeholders in the SACCO to form part of the respondents to facilitate the data collection process.

### **1.8 Organization of the Study**

The proposal was framed on four chapters. The first section of this study discussed the introduction to the study while focusing on the study background, the problem, the study objectives and its significance among other areas. The second chapter comprised of literature review where theoretical literature, empirical review and research gaps, and conceptual framework is discussed. The third chapter presented the research methodology that the study was to adopt. Under the research methodology among the key areas that were discussed were the study population, sampling, data collection procedures that will be followed, the analysis and presentation, the study research design and ethical considerations the researcher will adhere to.

Chapter four presented the research findings where several sections including the respondents demographic information, descriptive and inferential analysis were conducted and interpreted in line with the research objectives. The final section was chapter five which focused on summary of the study, conclusion, recommendations of the study and suggestions for further research.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The literature behind board characteristics (BCs) and financial performance (FP) are discussed in details under this chapter. It encompasses the theoretical review where various theories related to this study are discussed and also linked with the current study, empirical review where the relevant research work from various researchers in the same area or related area are also discussed in order to identify and come up with various suggestions on how the current study aims to bridge the identified research gaps or lapses in the findings of the previous researches done.

#### **2.2 Theoretical Review**

This section discusses several theories related to this proposal and also links them with the various objectives of the intended study.

##### **2.2.1 Agency Theory**

Stephen Ross and Barry Mitnick are the main proponents of this theory in 1973. Going by the theory, board characteristics are based on this theory since it explains the relationship between the principals and the agents. The agents are the board of directors while the principals are the owners of the organization/firm. Going by this model, the principal contracts the agent and gives them the mandate to act on their behalf so as to achieve their (principals) desired goals and objectives. In so doing and under the normal circumstances, the preferences of the agent and the organizations' owners goals may conflict mainly due to risk preferences, goal differences, regulation mechanisms, leadership philosophies among others. The principal can as well prevent

or reduce the tendency for goals and interest divergence by incurring more quality assurance costs and providing more incentives to the agent (Eisenhardt, 1989).

Agency theory is framed in a way that it aims at finding solutions to two main challenges that can be experienced in agency situations. The main cause of these problems is the competing personal or professional interest between the agent and the organization owner which comes out because of separating ownership and control as explained by Davis, Schoorman and Donaldson (1997). The legitimacy authority bestowed on the managers by the shareholders may make them develop certain opportunistic behavior which may result to conflict of interest thereby leading to agency problems.

It is normal for the principal to expect compensation in case the agent executes measures that may derail the business operations or even cause harm to the investment. A very good example is where the agent who is the board of directors decide to invest in very risky business ventures, it is normal to see the shareholders demanding compensations thereby raising the cost of capital. This makes it challenging to streamline the interest of the agent and that of the principal due to several areas of conflict among them being; earnings retention, moral threat, uncertainty perception and time horizon which can be combined together to be agency problems (Shleifer & Vishny, 1989; Jensen & Meckling, 1976).

Hill and Jones (1992) point out that the BODs can mislead the shareholders by distorting the information about the firm, hence the shareholders need to be very vigilant in monitoring and controlling the activities of the firm. By so doing, they (shareholders) may be able to safeguard the interests of all the parties. Some monitoring and control mechanisms that the shareholders can apply include ensuring they have hired highly competent organs of governance, promoting firm diversity, coming up with effective by-laws and promoting culture of excellence. They

further suggest that all these mechanisms have to be part of the policies of the firm and procedures to help in guiding the staff at every level and also have to be reviewed frequently on basis of the firm performance and experience. According to this theory, board members are viewed to mostly act based on self-interests hence it is common to see most of the agency theorists tending to advocate for limiting of board independence so as to improve the performance of the firm.

Beasley (2012) notes that the agency problem may take a slightly different dimension in SACCO sector since the conflict area comprises of more than two players at every particular circumstance (regulator/government, shareholders and management). The shareholders in the SACCO may increase or reduce their capital investment which may contradict with the regulators stipulated requirements with a view of finding out other sources of resources which may mostly constitute institutional investors and minority shareholders having substantial share amounts. He further argues that institutional investors may possess sufficient power to enable monitoring and controlling of the managers to some extent that may see the management revealing to them some secretive information that they may use to exploit the shareholders who may be the minority. In aid to solving minimizing these problems, the government through the SACCO regulator SASRA takes up the role of making sure that the minority shareholders and other stakeholders' interests are protected. Since this theory links the agents (BODs) and the principal (the firm owners/shareholders), it was very useful in explaining how the board size and board composition may influence the FP of SACCOs. This theory therefore provides a bridge in responding to the research question one and two of this research study.

### **2.2.2 Stakeholder Theory**

The theory was introduced by Edward Freeman (1984) in order to address ethics and values for proper management of an organization. Donaldson and Preston (1995), explain that this theory does not only expand the definition of the firm owners in including all the stakeholders, but it also puts the responsibility on the management to make sure that all the stakeholders interests are protected. Stakeholder theory argues that it is the role of those in management to select activities and direct resources the benefit of the legitimate stakeholders. Shifting from shareholders to stakeholders is meant to encourage managers to enable focusing on self-interest on account seemingly serving the wide range of interest groups.

Freeman, Wicks & Parmar (2004) explain that the stakeholder theory was further revised to comprise the idea that the art of business is based on value creation and that managers have to be involved in value creation as the stakeholders put their focus on firm trading thereby achieving a resultant relationship which is explained by the value exchange. It is the creation of value to the stakeholders that determines the firm's performance and success hence it is of significant importance for the organization leaders to be crystal clear on the board characteristics that are able to come up with an environment which is enabling for trading and value addition.

Stakeholder theory supports the view that it is the mandate of the board to create value for the wider range of stakeholders. The SACCOs shareholders comprise mainly both the male and female and it can be argued that both male and female directors would represent their respective gender interests better when they are both involved in the board. At the same time the board members represent a particular category of shareholders, it is a requirement that they conduct their operations independently when discharging their duties. This theory was thus very relevant

to this research study as it explored how board composition on the board of directors may influence the FP of SACCOs, which was among the objectives of this study.

### **2.2.3 Stewardship Theory**

Stewardship theory was first proposed by Donaldson and Davi in 1989, as a support to the agency theory. According to the theory, the firm managers and the executives need to be empowered so that they are capable of taking autonomous roles as stewards of the stakeholder's resources, instead of being controlled by the owners of the firm through certain incentives. When the board is well facilitated by the stakeholders to take up their roles, the stakeholders returns may increase hence the managers get motivated due to their mutual relation with the stakeholders (Donaldson&Davi, 1991).

Davis *et al.* (1997) further point out that unlike the agency theory that views the agents as people pursuing their self-interests, stewardship theory views the managers and the board as pursuing collective interests, which are reliable and also trustworthy. This implies that by this theory, the independence of the BODs is assured of in that the shareholders are less likely to be involved in controlling and continue with operations.

Contrary to the agency theory that sees the board of directors as people pursuing their selfish interests, stewardship theory assures that when the board is adequately empowered and facilitated, it acts in the interest of good of all the parties. Board members who the theory views as the stewards of the firm's resources, allocate these resources allocate them in the manner that will enable the firm attain optimal performance. Stewardship theory puts into consideration the composition of BODs, board size and CEO position as key elements in making sure that SACCOs attain improved financial performance (Coleman *et al.*, (2007). This theory was very

important to this research project as it helps to link the Board traits with the dependent variable of the study which is financial performance

#### **2.2.4 Resource Dependency Theory**

The resource dependency theory (RDT) came into limelight in 1970s from the publications by Jeffrey Pfeffer and Gerald Salancik concerning the organizations' external forces of control. Hillman *et al.* (2000), notes that the resource-based theory provides a theoretical basis for the roles of the board as the firm's resource. Social capital and the firm's competence can therefore be achieved through appointing of directors since it is a worthy quality which a director can take to the board. Resource based theory therefore views board composition as a resource that can increase the firm's value through improved performance.

This theory goes by a perception that the knowledge, skills and experience of the directors are resources that can be used by the firm to assist it improve its performance. It also encompasses providing advice on strategic actions to the firm (Poppo&Zenger, 1986). Firms which may be struggling with financial issues may find it better to appoint financial experts or persons with financial management experience to their board. RDT hence holds that experience, skills and knowledge that the directors have are resourceful assisting them to increase the firms' FP. This theory was therefore very important when linking the third and fourth objective of this research project which are the board experience and board level of education with financial performance of SACCOs since it views the qualifications, experience and skills of the directors and board members as a resource that is very key in increasing the firm's financial performance

## **2.3 Empirical Review**

This section of the chapter reviews different research work done by various scholars in line with board characteristics and FP so as to identify the existing research gaps and mitigate measures to enable in narrowing the identified research gaps.

### **2.3.1 Board Size and Financial Performance**

Al Azeez, Sukoharsono, Roekhudin and Andayani (2019) while conducting BCs impact on earnings management came to a finding that the board size had no significant influence on earnings management, since if the board was too large, in most cases it became less efficient in monitoring of the board. When the board has very many members, it becomes uneasy to monitor the management. The study further notes that, the size of the BODs directly influences the monitoring function from the board. The study believes that when the size of the board is smaller, it becomes easier to carry out coordination, faster in decision creation, reduced chances of having various organization problems and less likelihood of opposing innovation. However, the study findings contradict with that of Talbi *et al.* (2015) who did a study on the effectiveness of the board characteristics in limiting the earnings management and established that board size significantly and to a positive extend influenced the profitability index. The findings from this study may help to iron out the contradictions from these different studies.

Somathilake (2018) on his study on effect of BCs on firm FP in Colombo Stock Exchange came to a conclusion that BCs negatively and significantly influenced the company's financial performance. This study was conducted in Srilanka and on different target group compared to the current study. The findings from this study may hence be different from the current study as the current study targets the SACCOs in a developing country.

Kasyoki (2016) in his study on effect of BCs on FP of listed commercial and service firms at NSE concluded that board size could significantly have a positive influence on FP. This was further supported by the fact that it was possible to link BCs with stewardship and RDT which all view the number of BODs as a very useful resource that is capable of improving the FP of any firm or organization. However, this finding contradicts with that of Ndung'u (2016) who argues board size has no positive effect on profitability. Since the previous researchers have had different findings concerning the board size and FP, there is no any conclusive finding on board size and FP, more so majority of these studies have been done in different areas with regard to this research proposal that focuses on SACCOs in Murang'a County. This research therefore intends to narrow the above research gaps as identified.

### **2.3.2 Board Composition and Financial Performance**

Ndung'u (2016) established that board composition significantly and positively influenced FP indicating that entities normally benefit from a pool of expertise and also human resources. This study recommended board members to be of different expertise so that the firm can gain from their different skills which may not be easy to achieve with all board's members. Although this study was conducted on SACCOs, its geographical scope was in Nairobi County, hence creating a geographical gap as this study proposal is proposed to be conducted in Murang'a County.

Hansel (2018) in her study based on the resource dependency theory explains that, experienced and qualified board members are very important to an entity since they become strategic resources and their experience, skills and knowledge are considered to be very critical in steering the organization towards financial performance. The reason behind this is that such kind of a board, members ensues that there are high intellectual ability levels in the board together with effectiveness and also soundness. On a different angle, a study done by Agrawal and Chada



(2015) found out that when boards have members with high expertise levels, they experience reduced financial performance. VanNess *et al.* (2010) however found out that the expertise of board members and financial performance were negatively correlated hence contradicting the previous research studies. This implies that the growth of a business may require more of entrepreneurial skills rather than member's expertise. Similar findings have also been reported by Voltante (2015) while carrying out a study on firms in Switzerland, as she found there to be negative correlation between the expertise in the board and financial performance.

### **2.3.3 Board Experience and Financial Performance**

Kenani and Bett (2018) came to a conclusion that board experience positively and significantly influenced FP of SACCOs in Kisii County, Kenya. They also argued that the positive relationship noted was due to more experienced directors' skills that were diverse and also very innovative ideas in running the SACCOs, thereby being able to steer the SACCOs performance to greater heights. Oguda (2015) also noted that occupational experience had a positive influence on the performance since the experienced directors could share their wisdom acquired over time with other members in running the firm affairs, at the same time they were able to put their experience to the better utilization of the firm's resources so as to maximize the performance of the firm.

Onourah and Imeme (2016) in their study note that when a board has experienced members and also experts, the level of confidence increases and also leading to higher level of confidence in financial reporting in the firm. For the directors to be experienced, they have to possess adequate professional experience, educational qualification and also must have served in the same field or area for some good number of years. However Kankanamage (2015) contradicts with these

findings as he notes that board experience and expertise significantly and negatively affects the performance of firms.

Aifuwa and Embele (2019) in their study found out that board expertise and board experience had a significant and positive affect the FP of the firm by having increasing the firms reporting quality, which was deemed to be quite true and realistic. This was further explained to have resulted from the theoretical view that when managers were well experienced, they were able to put their knowledge and experience for the better functioning and running of the firm so as to maximize its financial performance. The results were in line with Kantudu and Samaila (2015) and also Onourah and Imeme (2016).

#### **2.3.4 Board Level of Education and Financial Performance**

Somathilakes' (2018) study on BCs and FP of firms in Sri Lanka revealed that education qualifications had positively not significant influence on the financial performance of the firm. The study recommended firms to higher directors who may have higher levels of education and at the same time and also implement proper training programs for the directors so as to maximize on the firm's FP.

Kenani and Bett (2018) in their study investigated how the educational qualification influenced the financial performance. The study findings indicate educational qualification positively correlates with FP of SACCOs. The study established that the directors who were more qualified were able to invent and adopt new innovative ideas which were key to SACCOs increased financial performance. The study also established that the director's vast experience was able to steer the SACCOs performance to greater levels. Mwendia (2018) in her study found out that educational qualification had a positive correlation with financial performance. Among the other findings from the study was that there was high fraction of the directors who had college degree

and other higher qualifications carried a significantly positive influence on the financial performance of the SACCOs. The study recommended the boards to have members who have higher education qualifications

Phan (2016) in the study titled BODs education and firms' FP: A dynamic approach revealed that there was no correlation between the level of education of the board of directors and the return on assets which was the main measure of FP in the study. By holding the other entire factors constant, the study came to a conclusion that the boards with well-educated directors may seem to be attractive on the face of it, making their performance to seem to be better and short lived, but in the long run, the advantage may not hold. Higher levels of education may therefore not be the best competency parameters since one acquires them before being appointed as a director making other parameters such as cognitive experience and knowledge in the industry to be better in maximizing the firm's financial performance. The findings from this study however contradict with the findings by Mwendia (2018), Kenani and Bett (2018), and Somathilake (2018) who found that there was positive correlation between levels of education/qualifications and financial performance, hence creating gaps that this research proposal hopes to narrow.

#### **2.4 Summary of Literature Review and Research Gaps**

The main challenge that SACCOs have to overcome is to ensure they satisfy the demands from the shareholders and also the stake holders at large by ensuring that there is ever increasing shareholder's wealth in the organization. This challenge can be solved by ensuring there is increased financial performance in the SACCO. Various factors may affect the financial performance of an entity, some being under control and others beyond control. The factors that may be under control can be internal factors within the organization and can on very high degree be influenced by the corporate governance of the SACCO. This implies that the board

characteristics play a very important role that may make the SACCOs achieve their objectives or not. Several studies have been done by various researchers as earlier discussed, but no any conclusive agreement has been reached in almost all the aspects of BCs and FP. The controversies surrounding this topic have hardly been agreed on by different authors, scholars, researchers or even schools of thought. From the reviewed literature, there seems to be several aspects of board characteristics in different organizations and their influence on financial performance that is yet to be explored, to iron out the controversies surrounding the topic. This research proposal aims to fill these gaps by getting a solution to the research question; how do BCs influence FP of SACCOs in Murang'a County, Kenya. Table 2.1 presents the review of the study's literature and research gaps.

**Table 2.1: Summary of Literature Review and Research Gaps**

Author (Year)	Study Focus	Study Findings	Research Gaps	Focus on the Current research proposal
Al Azeez et al. (2019)	Impact of BCs on earnings management	Board size did not have any impact on earnings management, since if the board was too large, in most cases it became less efficient in monitoring of the board	The study findings contradict that of Kasyoki (2016)	This research proposal seeks to iron out the noted controversies by the two researchers and add value to their findings.
Talbi et al. (2015)	Effectiveness of the board characteristics in limiting the earnings management	positive influence of the board size on the earnings management	The study did not put into consideration the financial performance and only focused on the earning management	This research proposal brings in the financial performance aspect which is also key on determining the earning management in the firm
Somathilake (2018)	Effect of BCs on firm FP in Colombo Stock Exchange	board size had a negative influence on performance of company	The study focused on oil companies which is very different from the SACCOs as they operate in very different business environment	This research proposal focuses on the financial performance of SACCOs
Kasyoki (2016)	Effects of BCs on FP of listed commercial and service firms at NSE	Board size could significantly have a positive influence on financial performance	Finding contradicts with that of Ndung'u (2016) who argues that there is no effect of board size on profitability	This research proposal seeks to iron out the controversy by investigating the influence of board size on financial performance in SACCOs
Ndung'u (2016)	Effect of corporate	Board composition had a	Study conducted on a	This research proposal focuses

	governance practices on financial performance of selected SACCOs	significant positive influence on financial performance	different geographical scope, Nairobi County, Kenya	on the SACCOs in Murang'a County Kenya.
Oguda (2015)	Relationship between board characteristics and firm performance: survey of firms listed at the NSE	Occupational experience had a positive and significant influence on the firm's performance	The study focused on the firms listed at the Nairobi Security Exchange which may have different management styles compared to the SACCOs	This research proposal bridges this gap by focusing on the SACCOs in Murang'a County, Kenya
Hansel (2018)	Resource dependency theory and firm performance	Experienced and qualified board become strategic resources and has high influence on performance	Agrawal and Chada (2015) found out that when boards have members with high expertise levels, they tend to have reduced FP	Aims to uncover the level of education and expertise on financial performance and iron out the differences noted
Phan (2016)	BODs education and firm performance: A dynamic approach	No correlation between the BODs level of education and FP	Findings in the study contradict with that of Mwendia (2018), Kenani and Bett (2018), and Somathilake (2018)	The research proposal aims to iron out the noted controversies.
Onourah and Imeme(2016)	Board Characteristics and Firm performance	When a board has experienced members and also experts, the level of confidence increases and also leading to higher level	Kankanamage(2015) contradicts with these findings as he notes that	This research proposal bridges this gap by focusing on the SACCOs

		of confidence in financial reporting in the firm	board experience and expertise significantly and negatively affects the performance of firms.	
Kenani and Bett (2018)	Corporate governance and performance of SACCOs in Kisii County, Kenya.	There was positive correlation between educational qualification and financial performance of SACCOs	The findings contradict those of Phan (2016), who found no relationship between education levels and financial performance	The research proposal seeks to narrow the gaps created by the controversies noted by establishing how board education levels affect the financial performance
Aifuwa and Embele (2019)	Board Characteristics and Financial Reporting Quality	Board expertise and board experience significantly and positively affects the performance	The study placed more focus on financial reporting than financial performance, more so it was conducted in Nigeria	This research proposal focuses on financial performance and targets SACCOs in Murang'a County, Kenya.
Mwendia (2018)	Corporate Governance Practices and Financial Performance on Deposit- Taking SACCOs	There was positive correlation between levels of education/qualifications and financial performance	The findings of the study contradict with the findings from the study by Phan (2016) who notes that there was no correlation between the level of education of the board of directors and	The research proposal aims to iron out the noted controversies.

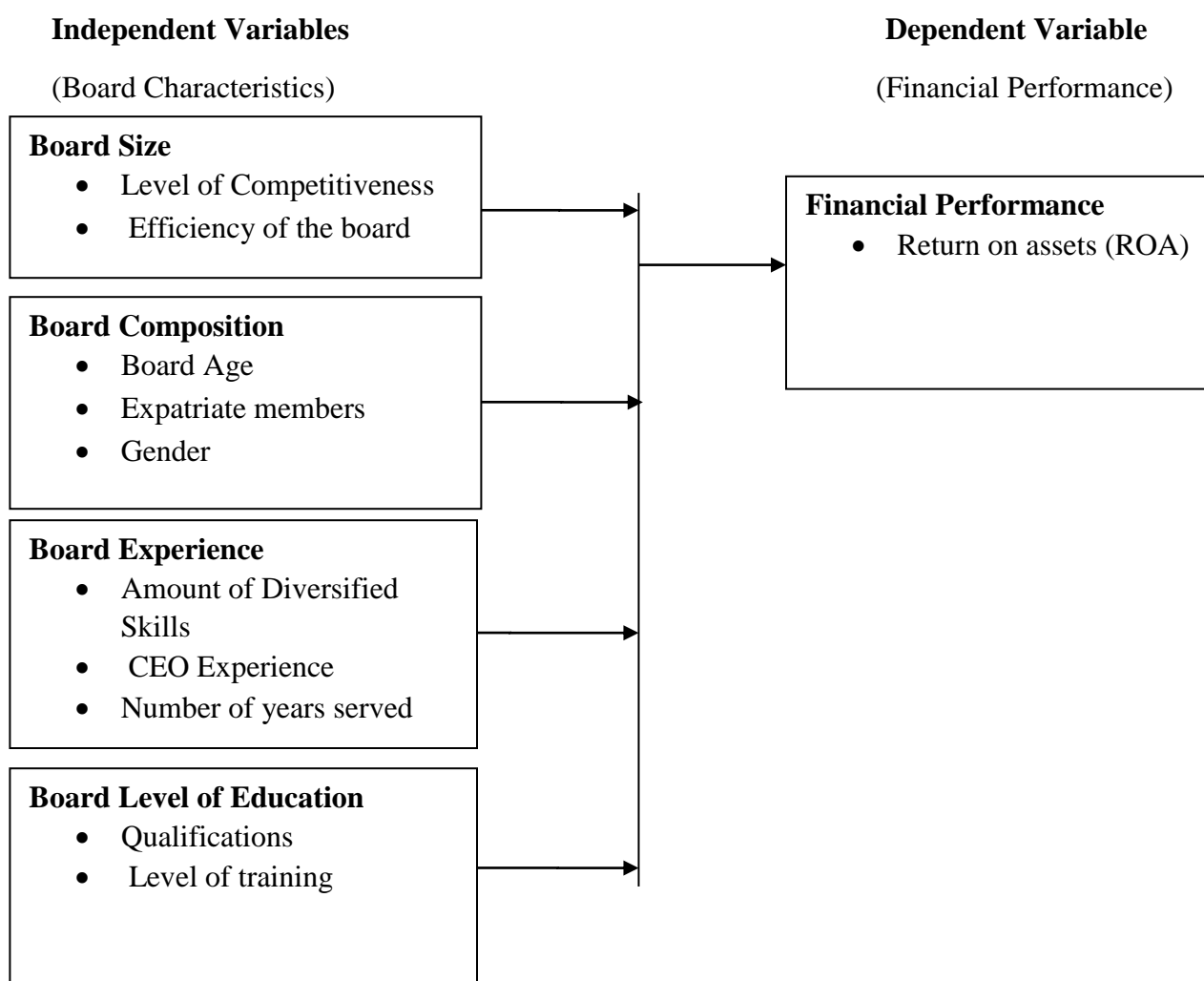
			the return on assets	
Kankanamage(2015)	The relationship between board characteristics and earnings management: Evidence from Sri Lankan listed companies	Board experience and expertise significantly and negatively affect the performance of firms.	The study had a different outcome variable	This study focuses on financial performance of SACCOs
Van Ness <i>et al.</i> (2010)	Board of directors' composition and financial performance	Negative correlation between the expertise of board members and financial performance	The findings contradict with those of Hansel (2018).	The study mainly focused on board composition and left other characteristics such as board experience and board education levels, which is the focus of the current study
Agrawal and Chada (2015).	Mechanisms of controlling of controlling agency challenges between shareholders and the board and effect on FP	When boards have members with high expertise levels, they tend to have reduced financial performance.	The study did not bring into focus the aspect of board size and board composition on performance	This study brings in the aspects of board size and board composition

**Source: Reviewed Studies (2022)**



## 2.5 Conceptual framework

A conceptual framework is as a conjectural model that defines how the predictor variables relate with the depended variable through identification of the model under the study (Mugenda & Mugenda, 2019). Financial performance was the dependent variable of the research study and was determined by operationalizing the independent variable which were; board size, board composition, board experience and board educational level.



**Figure 2.1: Conceptual framework**

**Source: Author, 2022**

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter encompasses various stages, procedures and methods that the research project had to adhere to when carrying out the research in line with the study research objectives. It is driven towards explaining the background and also justifies the methodology and research designs that the research study adopted during the stages of data collection, data analysis and general methodology used. By investigating the effect of board characteristics on financial performance, the study had to focus on various aspects of BCs which are board size, composition, experience and also the level of education.

#### **3.2 Research Design**

Borg, Meridith and Gall (2018) refer a research design as the plan that the researcher intends to use while conducting the research. Can also be defined as a conceptual structure used to conduct a research (Mugenda & Mugenda, 2019). Kothari (2014) points out that research design focuses on predictions, explanations of facts and events relating to circumstances. This research project adopted descriptive-survey design. Descriptive survey design requires collecting data that explains an event then organizing, tabulating, depicting and describing the data. Mugenda and Mugenda (2019) further explain that descriptive survey design portrays the variables by helping to answer who, how and what questions. The said research design was also very appropriate to this research project since it outlines or explains a subject, which is arrived at by coming up with profile of elements of the research study by finding and coming up with their frequency tables based on the variables used in the research or the interactions .

### 3.3 Target Population

Target population as explained by Cooper and Schindler (2013), is a total composition of elements or events from which from which the researcher hopes to make inferences. According to Borg and Gall (2018) it is a set or group of elements that are said to be vast and comprises of real set of people or even members of fancy, events or objects which the inferences are intended to be generalized at the time of the research The target population for this research project was the 24SACCO's (SASRA, 2020) which were licensed by the SACCO Societies Regulatory Authority of Kenya and carrying out operations within Murang'a County. The target population was therefore 24 SACCOs as shown in Table 3.1. The respondents for this study were any member of the board of directors in each SACCO.

**Table 3.1: Target Population**

Cluster (sub counties)	Population
Murang'a South	6
Kahuro	4
Murang'a East	10
Kigumo	1
Mathioya	1
Kandara	2
<b>Total</b>	<b>24</b>

**Source: (SASRA, 2020)**

### 3.4 Sampling Design

This research project adopted census design thereby taking into considerations all the SACCOs in the target population to participate in the study. True (2003) asserts that when the population under the research proposal is relatively small and making it very essential to include everyone in the research proposal, census design is the most appropriate sampling design to use. A similar observation is also noted by Kothari (2014) who explains that it is appropriate to use census design when a researcher wants to include all the subjects in the target population while

conducting the research study. Since the target population of this research proposal is relatively small, all the SACCOs in the target population were included in the research proposal. A sample size was therefore 24 as shown in Table 3.2. The respondents were six board members from each SACCO bringing the total number of the respondents to 144 respondents.

**Table 3.2: Sample size**

Sub county	Target Population	Sample Size
Murang’a South	6	6
Kahuro	4	4
Murang’a East	10	10
Kigumo	1	1
Mathioya	1	1
Kandara	2	2
<b>Total</b>	<b>24</b>	<b>24</b>

**Source: Author (2022)**

### **3.5 Data Collection Instruments**

Both primary and secondary data were of huge significant importance in facilitating this study. The structured questionnaires were administered to six board members in each of the 24 licensed SACCOs in Murang’a County, so as to collect primary data. This is because Christensen et al. (2014) asserts that questionnaires allow time saving and are very efficient in collecting large amount of information since they have similar questions being asked to each respondent. Kothari (2014) also views that questionnaires have a wide range of use in economic and business survey due to the ability of capturing huge samples and are also unbiased in nature. The structured questionnaires were framed in open –ended and closed format and some well had a five-point ordinal scale so as to gather primary data. Secondary data was obtained from the internal sources and published financial reports from the SACCOs. The internal sources of secondary data was

obtained from SACCOs documents such as financial statements, and yearly financial performance while the external sources helped in coming up with data from government departments such as SASRA, business journal, internet especially from the SACCO websites and business magazines.

### **3.5.1 Validity**

Gray (2009) notes that validity of a research instrument is the extent to which the content of the research instrument actually measures the concept. A similar observation is noted by Mugenda and Mugenda (2019) who view validity as the degree to which the study outcome accurately presents the variables of the study. Valid results or outcomes mean it becomes very easy for the researcher to arrive at more generalizations. The research project made use of content validity which is defined as the extent to which the instrument being used provides adequate report on the topic under the research proposal. The researcher involved the allocated supervisor in reviewing the research instrument, university lecturers in the department and also post graduate students in the same field of business management when constructing the research instrument. This is because involving the experts to judge the instrument during the process of construction of the instrument can significantly improve the extent to which the content of the research instrument actually measures the concept (Bordens & Abbot, 2011).

### **3.5.2 Reliability**

Reliability of the research instrument can be defined as a degree of consistency of the measured results after several repeated trials. A reliable measure is the one that that is perceived not to contain random errors. Piloting was carried out in order to improve the reliability of the research instrument. 10 percent (approximately 3 SACCOs) were randomly selected from the sample size and used in the pilot study. The researcher took much care to ensure that the SACCOs that were

listed to take part in the piloting were not included in the real study. The reliability of the research instrument was thereafter be tested by use of Cronbach's Alpha Coefficient which is the measure of the internal consistency and it requires a single administration of the research instrument hence may have a higher chance of yielding greater internal consistency. The result in Table 3.3 shows the reliability results for the research instrument.

**Table 3.3 Reliability Statistics**

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.860	.870	4

**Source: Research Data (2022)**

The results in Table 3.3 show that all the four variables were able to give a Cronbach's alpha coefficient of 0.860. According to Orodho (2012) a research instrument that is able to give a reliability coefficient of more than 0.75 is considered to have a high pre-test reliability. The research instrument was therefore taken to be reliable.

### **3.6 Data Collection Procedures**

Various research permits were sought prior to conducting the study. They included the research permit from the university graduate school which was very useful in seeking other permits such as National Commission for Science, Technology and Innovation (NACOSTI). Permit letters were also sought from other local administration such as county director for education and also ministry of the interior through the county commissioner. Two research assistants were involved in the study to help traverse major towns in which the SACCOs have their offices so as to drop the questionnaires and latter pick them. The research assistants were trained for one day on administration of the research instrument prior to collection of data.

### 3.7 Data Analysis and Presentation

After completing the data collection process, the collected data was categorized, organized coded and later fed into the computer so as to be analyzed by use of statistical package for social sciences (SPSS). Descriptive statistics among them being means and standard deviation were used in analyzing the quantitative data. Qualitative data in this research proposal was expressed in form of write-ups in order to facilitate descriptive analysis in the quantitative approaches. Inferential analysis was also adopted in order to arrive at Pearson correlation coefficients and regression coefficients which were useful in predicting the relationship between the board characteristics and the financial performance. The degree of relationship between the BCs and FP which is the dependent variable was therefore established by use of regression analysis. Going by the scholars Illaboya and Obaratein (2015), and Ujunwa (2012), the regression model indicated in equation 3.1 was adopted by this research study so as to determine the relationship between BCs and FP.

#### Equation 3.1

$$Y_{it} = \beta_0 + \beta_{1it} X_1 + \beta_{2it} X_2 + \beta_{3it} X_3 + \beta_{4it} X_4 + \varepsilon,$$

Where;

Y= Financial Performance of SACCOs in Murang'a County

$\beta_0$  = Constant (coefficient of the intercept)

$X_1$  = Board Size

$X_2$  = Board Composition

$X_3$  = Board Experience

$X_4$  = Board Level of Education

$i$  is the number of SACCOs licenced by Sasra in Murang'a County (24 SACCOs targeted in this study)

$t$  is the time that is the year 2016, 2017, 2018, 2019 and 2020

$\varepsilon$  = Error term

$\beta_1, \beta_2, \beta_3, \beta_4$  are the regression coefficients for the respective variables

In presentation of data, the researcher had to make use of frequency tables and also charts and a brief discussion had to follow thereafter.

### **3.8 Diagnostic Test**

The diagnostic test is the test that is performed on a raw data so as to find out if there are any anomalies in the data. The study relied on normality tests to determine if there were any anomalies in the data.

#### **3.8.1 Normality Test**

Normality test was done so as to find out whether the set of collected data follow a normal distribution. The study used a Probability plot (Q-Q plot) to test for normality in the data set. By using the probability plot also known as Q-Q plot, the observations will be said to be normally distributed if they seem to fall closely along the fitted distribution line Martinez and Inlewicz in Amuhanda(2015).



### **3.8.2 Auto correlation Tests**

The study also used auto correlation tests in order to test for anomalies in the data. This test refers to correlation of error terms over time. The most common auto correlation tests used are the Ljung-BoxQ test and Durbin-Watson test. The study used Durbin –Watson test in order to predict auto correlation in the residuals from the statistical regression analysis. The auto correlation problem is controlled by the robust standard errors. The auto correlation problem is controlled by the robust standard errors. The outcome of this test ranges from 0 to 4. A score of around 2 indicate there is very small auto correlation. A score of 0 means there is strong positive correlation while a score of closer to 4 indicate there is stronger negative auto correlation. Correlations between the variables can also be tested by use of Pearson’s Product Moment of Correlations at 95% level of confidence in order to make a decision. A value less than 0.05% will prove that there is enough evidence of correlation; otherwise there will be no evidence.

### **3.9 Ethical Considerations**

The researcher made sure there was credibility of the respondents by protecting their identities and also ensuring that there was confidentiality in their responses and they remain anonymous. The researcher did not also share the findings from one SACCO with any other and also ensured that the research findings were only used for the academic purpose of this research proposal.

### **3.10 Operationalization of variables**

Table 3.3 summarizes the variables that this study project made use of and their operationalization.

**Table 3.3: Operationalization of variables**

<b>Objective</b>	<b>Variables</b>	<b>Indicators</b>	<b>Scales of Measurement</b>	<b>Type of data Analysis</b>	<b>Tools used in Analysis</b>
To investigate the effect of board size on financial performance of SACCOs in Murang'a County, Kenya	Board Size	-level of competitiveness -Efficiency of the board	Ordinal Nominal Interval	Descriptive  Inferential	Means Standard deviation Pearson correlation coefficient, regression coefficients
To establish the effect of board composition and financial performance of SACCOs in Murang'a County, Kenya	Board Composition	-Board age -Gender -Expatriate members	Ordinal Nominal	Descriptive  Inferential	Means Standard deviation Pearson correlation coefficient. Regression
To find out the effect of board experience on financial performance of SACCOs in Murang'a County, Kenya	Board Experience	-Amount of diversified skills -Number of years served -CEO experience	Ordinal Nominal Interval	Descriptive  Inferential	Means Standard deviation Pearson correlation coefficient Regression coefficient

<p>To establish how board education level affects financial performance of SACCOs in Murang'a County, Kenya</p>	<p>Board Education level</p>	<p>-level of training - Qualifications</p>	<p>Ordinal Nominal</p>	<p>Descriptive Inferential</p>	<p>Means Standard deviation Pearson correlation coefficient Regression coefficient</p>
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## **CHAPTER FOUR RESEARCH FINDINGS**

### **4.1 Introduction**

The findings and discussions of this study as inferred from the data collected , analyzed and interpreted are presented under this section. The study used descriptive analysis tools (frequencies, standard deviations and means) and inferential analysis tools (Pearson correlation and regression coefficients) in order to answer the research questions. Among the chapter's key areas are the respondents demographic information, diagnostic testing and analysis both inferential and descriptives.

### **4.2 Response Rate**

Respondents numbering 144 were targeted from 24 sampled SACCOs who served as board members at their SACCOs. Of the 144 questionnaires that were distributed to the SACCOs, 77 were returned dully answered and hence able to be used in the data analysis for this study. 77 questionnaires returned accounted for 53.5 of the questionnaires distributed and hence representing 53.5 percent questionnaire return rate. For an in-depth analysis to be carried out for this kind of a study, a response rate has to be at least 50 percent (Mugenda &Mugenda, 2019). Kamau and Mwenda (2020) conducted their analysis on a response rate of 50.8 % while Odenyo and Rosemary (2018) achieved 53.02%. Several statistical authors also give a recommendation of at least 30 percent response rate in order to do an in-depth analysis. The current study was therefore considered to have achieved sufficient questionnaire return rate enough for carrying out a detailed research analysis.

### **4.3 Demographic Information**

This section gives the demographic information of the respondents who took part in the study and their SACCOs. Among the aspects covered in the section are respondents position in the

SACCO, years of existence of the SACCO and the method of appointing board members in the SACCO.

#### **4.3.1 Respondents Position in the SACCO**

The position the respondents play in the management of the SACCO and decision making via the board of management may play a crucial importance in shaping the FP of the SACCO. It was therefore very key to bring into light various roles the respondents played in their corresponding SACCO boards of management. The results are shown in Table 4.1

**Table 4.1: Respondents Positions**

<b>Position</b>	<b>Frequency</b>	<b>Percent</b>
<b>Chair</b>	11	14.3
<b>Vice-Chair</b>	6	7.8
<b>Treasurer</b>	15	19.5
<b>Manager</b>	17	22.1
<b>Secretary</b>	12	15.6
<b>Member</b>	16	20.7

**Source: Research Data (2022)**

The results in Table 4.1 show that 11(14.3%) of the respondents served as the chair of their SACCOs boards, 6 (7.8%) served as the vice chair, 15 (19.5%) were in treasurer position, 17(22.1%) were managers, 12 (15.6%) served as SACCO secretaries to the board while 16 (20.7%) served as board members. The findings show that most of the SACCO positions in the board of the management were well represented in the study and hence there was no skewing of the views from the respondents in a particular direction.

#### **4.3.2 Age Distribution of the Respondents**

The study aimed at revealing the age distribution of the respondents who took part in the study as the age factor is a very important component to consider especially when focusing on the

experience of the board of directors especially the managers. The findings are as illustrated in Table 4.2

**Table 4.2: Respondents Distribution by Age**

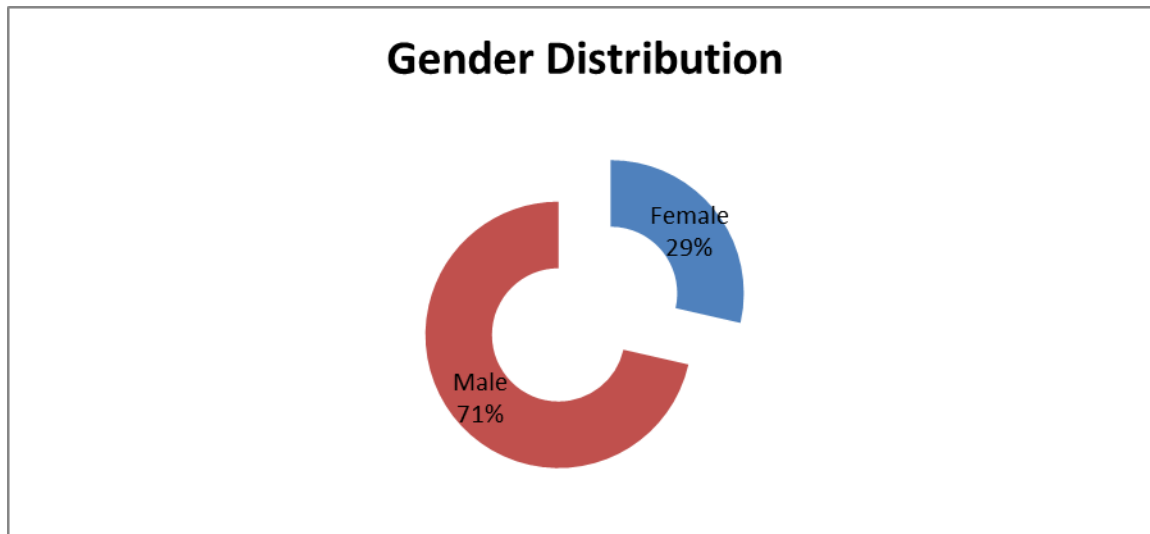
Age	Frequency	Percent
26-35	19	24.7
36-50	36	46.7
Above 50	22	28.6
<b>Total</b>	<b>77</b>	<b>100</b>

**Source: Research Data (2022)**

The study established that 19 (24.7%) of the respondents were of between 26-35 years, 36 (46.7%) were aged between 36-50 years while 22( 28.6%) were above 50 years. This illustrated that the board of directors in the SACCOs were well composed in terms of age distribution.

#### 4.3.3 Distribution of the Respondents by Gender

The study had to find out how the board of directors was composed in terms of gender distribution. The findings are as shown in figure 4.1.



**Figure 4.1: Gender distribution**

From figure 4.1, it is evident that male accounted for 71 percent of board of director positions while the female gender accounted for only 29 percent. The 29 percent represented by the

women is less than a third, meaning that most of the SACCOs may not have achieved the two third gender rule as it is required in both private and public sector. Majimbo (2021) also came up with similar findings which were also in line with the findings from and Kananu and Njuguna (2021) hence implying that most of the private sector entities are further away in achieving the constitutional requirement of two-third gender rule. Gender disparity witnessed in the local SACCOs in Murang'a County was however deemed not to have any influence on the financial performance of the SACCOs.

#### 4.3.4 Respondents Level of Education

The study aimed to determine the academic qualification of the respondents who took part in the study. The summary is shown in Table 4.3

**Table 4.3: Respondents Level of Education**

Academic qualifications	Frequency	Percent
KCSE Certificate	19	24.6
Diploma	27	35.1
First Degree	16	20.8
Masters Degree	9	11.7
PhD (Doctoral)	6	7.8
<b>Total</b>	<b>77</b>	<b>100</b>

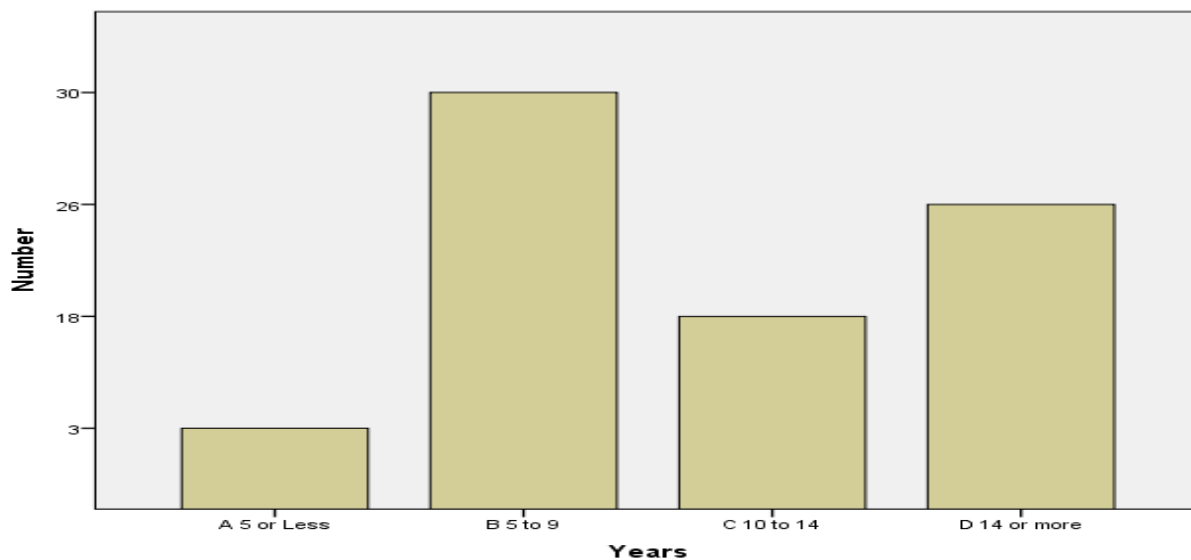
**Source: Research Data (2022)**

From Table 4.2, it is clear that majority of the respondents had at least a diploma certificate 27(35.1%). The number of those with KCSE certificate was 19 (24.6%), first degree was 16 (20.8%), masters' degree was 9 (11.7%) while those with a doctoral degree was 6 (7.8%). Majority of the respondents (59.7%) had therefore not gone past the diploma level. Even though Kenani and Bett (2018) points out that higher academic qualifications have a positive effect on financial performance, Somathilake (2018) note that there is no significant relationship between level of education and financial performance.

#### 4.3.5 Number of years the SACCOs have been in operation

The study sought to find out the period in years the SACCOs had been operating so as to determine if they were able to provide all the required information for the financial performance.

The findings are as shown in figure 4.2



**Figure 4.2: Years in operation**

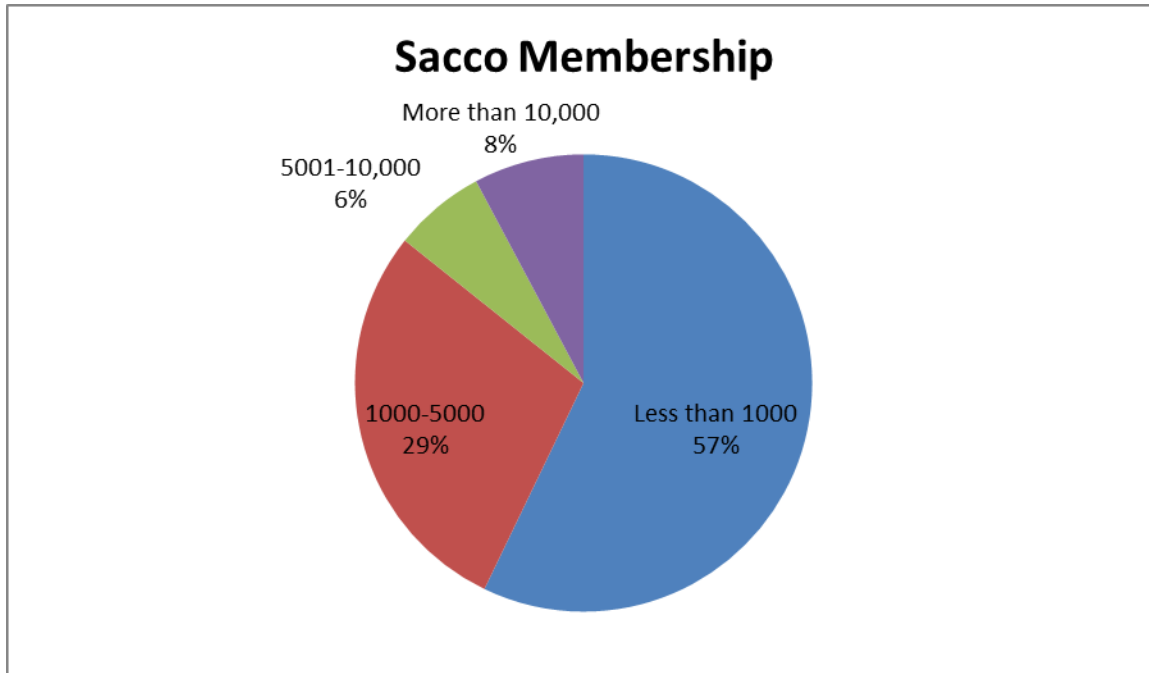
**Source: Research Data (2022)**

From figure 2, it is clear that 30 of those who participated in the study pointed out that their SACCOs were in operation for between 5 to 9 years, 26 respondents indicated that their SACCOs had been operating for a period of more than 14 years, 18 indicated a period of 10 to 14 years while only 3 noted that their SACCOs had been operating for a period of less than 5 years. This implies it was possible to obtain the data reflecting the required number of years (5 years) from majority of the SACCOs that were involved in the study. It was therefore possible to extract the financial performance data of most of the SACCOs under the study for the financial period required in the research.



### 4.3.6 SACCO membership

The researcher asked for the data on SACCO membership, so as to determine how many clients had subscribed to different SACCOs under the study. The findings are illustrated in Figure 4.3



**Figure 4.3: SACCO Membership**

**Source: Research Data (2022)**

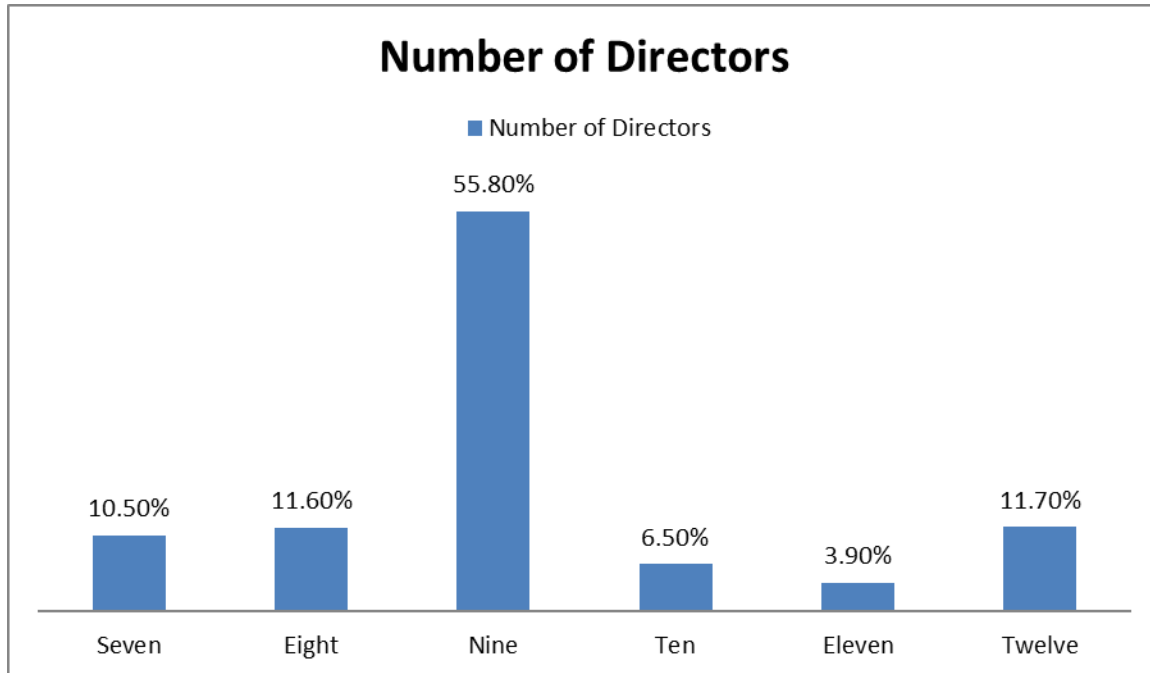
The study revealed that 57% of the SACCOs under the study had a membership of less than 1000, 29 % had a membership of between 1000 to 5000, 6 % had a membership of between 5001 to 10,000 while 8% had a membership of more than 10,000.

### 4.4 Descriptive Analysis

A detailed descriptive analysis was done on each of the variable to explain the basic features of the data the study used. The purpose of this study was to investigate the effect of board characteristics on FP of SACCOs in Murang'a County, Kenya.

#### 4.4.1 Board Size and SACCO Performance

The study first sought to determine how the board of directors was composed in size. Figure 4.4 shows the board size for various SACCOs that participated in the study.



**Figure 4. 4: Board Size**

**Source: Research Data (2022)**

Figure 4 illustrates that majority of the SACCOs had nine directors who served on their boards which represents 55.8 percent of the SACCOs. This was followed by twelve board of directors (11.7%), eight board of directors (11.6%), seven (10.5%) ten (6.5%) and lastly eleven members (3.9%). The researcher sought to find out what was the optimal number of directors that a SACCO needed to perform effectively. The respondents pointed out that the SACCOs needed nine members which was optimal for them to operate effectively and efficiently. The study had also to find out the method the SACCOs used to appoint the directors. All the respondents pointed out that it was done via secret ballot during the annual general meetings, and the participants were nominated based on the SACCO deposits and shares they had.

The study further requested the respondents to rate how they agreed or disagreed with various statements relating with board size and financial performance. The findings are shown in Table 4.4

**Table 4.4: Board Size and Financial Performance**

Statement	N	Mean	Std. Deviation
The board size increases the boards competitiveness hence influencing the financial performance	77	2.23	1.276
Board size increases the efficiency of the SACCO	77	2.10	1.154
The size of the board influences problem solving in the SACCO which may improve the SACCOs performance	77	2.05	1.234
The diversity of the opinions is influenced by the board size hence affecting the performance	77	2.19	1.246
Composite mean and standard deviation		2.142	1.228

**Source: Research Data (2022)**

Table 4.4 research finding show that most of the respondents disagreed that the board size increases the boards competitiveness hence influencing the financial performance of the SACCO with mean and standard deviation (M=2.23; SD=1.276). The respondents disagreed with the statement that the board size increased efficiency of the SACCO in delivering its products with mean and standard deviation (M= 2.10; SD= 1.154) and also disagreed that size of the board influences problem solving in the SACCO which may improve the SACCOs performance (M=2.05; SD=1.234). The respondents also disagreed that the board size influenced the diversity of the opinions which affects the performance (M=2.19; SD= 1.246). The combined mean and standard deviation was (M=2.142; SD=1.228), an indication that most of the board size had a very minimal effect in the performance of the SACCOs in Murang’a County. The large standard deviation shows the respondents had many varied views on board size characteristics and the SACCOs performance. The study concurs with the findings from Al Azeez, Sukoharsono,

Roekhudin and Andayani (2019) who note that board size has very little impact on the earnings management and in cases the boards are too large, they normally become less efficient.

#### 4.4.2 Board Composition and Financial Performance

The respondents had to rate how they agreed or did not agree with various statements concerning board composition and the SACCO performance. The findings are shown in Table 4.5

**Table 4.5: Board Composition and Financial Performance**

Statement	N	Mean	Std. Deviation
Various expatriates on the board has improved the SACCOs efficiency	77	4.30	.762
Expatriate SACCO manager’s skills and knowledge are important in spearheading the SACCO towards attaining its goals.	77	3.95	1.099
Gender equally represented on the board improves decision making	77	3.97	.827
Board composition affects the risks management in the SACCO and is likely to improve performance	77	4.01	.953
Composite mean and standard deviation		4.06	0.910

**Source: Research Data (2022)**

From the findings in Table 4.5, the respondents agreed that various expatriates in their SACCO boards played a very important role in improving the SACCOs efficiency in delivering its functions to the stakeholders with mean and standard deviation (M=4.30; SD= 0.762). The small standard deviation shows that there were very minimal disparities in the responses given. The respondents agreed that expatriate SACCO managers’ skills and knowledge were very important in spearheading the SACCO towards attaining its goals, mean and standard deviation ( M= 3.95; SD= 1.099).

Although most of the SACCOs had not attained gender equality in their SACCOs as required by the government policy of the two-third gender rule, most of the respondents agreed that gender equality on the board of directors improved decision making which is key in ensuring the

SACCOs have improved performance as shown by the mean and standard deviation (M= 3.97; SD= 0.827). It was further noted that the respondents agreed that board composition affected the risks management in the SACCO and was likely to improve performance (M= 4.01; SD= 0.910). The variable had a composite mean and standard deviation (M= 4.06; SD= 0.910), an indication that the most of the respondents agreed with various board composition characteristics and financial performance in their SACCOs. The small standard deviation depicts that there were very minimal disparities in the responses given. The study findings agree with the findings from Ndung'u (2016) who also recommends that the board members to be of different expertise so that the firm can gain from their different skills which may not be easy to achieve.

#### 4.4.3 Board Experience and Financial Performance

The respondents were requested to rate how they agreed or disagreed with various statements concerning board experience and the SACCO performance as summarized in Table 4.6

**Table 4.6: Board Experience**

Statement	N	Mean	Std. Deviation
Board members with diversified skills make good decisions in the running of the SACCO	77	4.70	.461
New members with no previous management experience have a huge contribution in management and is likely to improve performance	77	1.87	1.005
Experienced manager is able to bring on board good business ideas and is likely to influence performance	77	4.22	.788
Number of years served by the board members have a positive effect on the performance of the SACCO	77	4.12	.858
Composite mean and standard deviation		3.73	.778

**Source: Research Data (2022)**

The results from Table 4.6, most of the respondents strongly agreed that board members who had diversified skills made good decisions in the running of the SACCO , mean and standard

deviation (M= 4.70; SD= .461), experienced managers were able to bring on board good business ideas which improved their SACCO performance (M= 4.22; SD= .788) and the number of years members served on the board enabled them to get experience which had a positive impact on the SACCO performance (M= 4.12; SD= .858). However, majority of the respondents strongly disagreed that new members with no previous management experience had a huge contribution in management in the SACCO as depicted by the line mean and standard deviation (M= 1.87; SD= 1.005). The variable reached a combined mean and standard deviation (M=3.73; SD= .778) an indication that board experience was a very important factor that was required by majority of the SACCOs in running and managing the SACCOs so as to improve their financial experience. The results support the findings from Aifuwa and Embele (2019) who argue that when managers were well experienced, they were able to put their knowledge and experience for the better functioning and running of the firm so as to maximize its financial performance

#### **4.4.4 Board Level of Education and Financial Performance**

The respondents were requested to rate how they were in line or not with various statements concerning board level of education and the SACCO performance. The findings are shown in Table 4.7

**Table 4.7: Board Level of Education and Financial Performance**

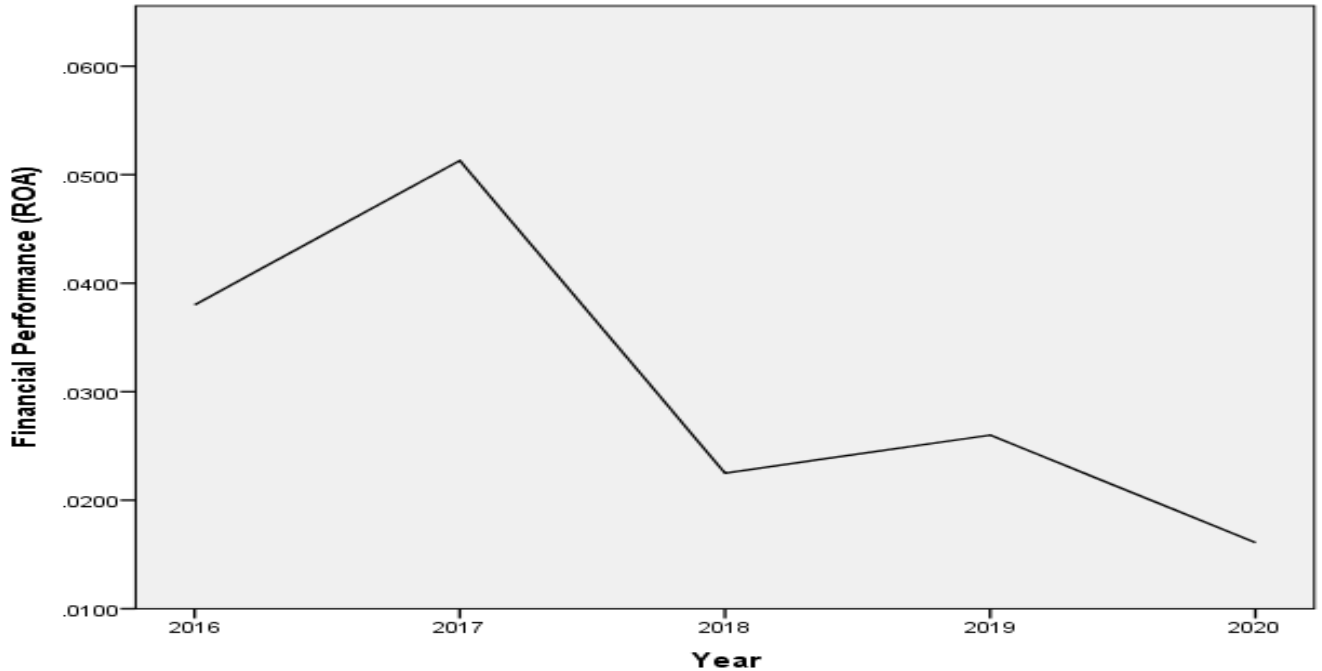
Statement	N	Mean	Std. Deviation
Members with higher educational qualifications make good decisions which is likely to improve performance	77	3.52	1.304
Highly trained and qualified CEO/manager spearhead the SACCO towards greater business ideas	77	2.79	1.004
A highly educated board ensures there is transparency and accountability	77	2.26	1.302
Composite mean and standard deviation		2.86	1.203

**Source: Research Data (2022)**

Form Table 4.7, respondents agreed with the statement that members with higher educational qualifications make good decisions which is likely to improve performance with mean and standard deviation (M= 2.42; SD= 1.304). The higher standard deviation shows that the responses were widely dispersed. Majority of the respondents remained neutral on whether highly trained and qualified CEO/managers were able to spearhead the SACCO towards greater business ideas with mean and standard deviation (M= 2.79; SD= 1.004). The respondents further disagreed with the statement that a highly educated board ensures there is transparency and accountability (M= 2.26; SD= 1.302). The majority of respondents did not agree that an educated board could make wise decisions, ensure transparency and accountability, and lead the SACCO to significant economic gains, as shown by the overall composite mean and standard deviation of (M= 2.86; SD= 1.203).

#### **4.4.5 Financial Performance**

The study sought to determine the financial performance of SACCOs in Murang'a County for the period 2016 to 2020. Figure 4.5 shows the trends analysis of the financial performance of SACCOs in Murang'a County.



**Figure 4.5: ROA Trends**

**Source: Research Data (2022)**

Figure 4.5 illustrates that financial performance (ROA) was changing every year as depicted by the changes in the curve slopes. The ROA for the local SACCOs in Murang'a county was at peak in 2017, but had a sharp drop in 2018 before rising steadily in 2019. The ROA hit its all time lowest in 2020, which can be attributed to various factors such as the incursion of COVID 19 Pandemic, that saw businesses loss most of the financial gains they had made in the previous years.

#### **4.5 Correlation Analysis**

The study conducted correlation analysis using Pearson correlation coefficient to facilitate in determining the association between variables under the study (Nyongesa *et al.*, 2017). Correlation Matrix is shown in Table 4.8



**Table 4.8: Correlations**

		ROA	Board Size	Board Composition	Board Experience	Board Education
ROA	Pearson	1	-.019	.466*	.522*	.430*
	Correlation					
	Sig. (2-tailed)		.928	.022	.040	.036
	N	24	24	24	24	24
Board Size	Pearson	-.019	1	-.040	-.012	-.133
	Correlation					
	Sig. (2-tailed)	.928		.853	.957	.535
	N	24	24	24	24	24
Board Composition	Pearson	.466*	-.040	1	.866**	.689**
	Correlation					
	Sig. (2-tailed)	.022	.853		.000	.000
	N	24	24	24	24	24
Board Experience	Pearson	.522*	-.012	.866**	1	.514*
	Correlation					
	Sig. (2-tailed)	.040	.957	.000		.010
	N	24	24	24	24	24
Board Education	Pearson	.430*	-.133	.689**	.514*	1
	Correlation					
	Sig. (2-tailed)	.036	.535	.000	.010	
	N	24	24	24	24	24

\*. Correlation is significant at the 0.05 level (2-tailed).  
\*\*. Correlation is significant at the 0.01 level (2-tailed).

**Source: Research Data (2022)**

The correlation analysis conducted indicated that board size had a weak negative and insignificant correlation (Pearson correlation coefficient= -0.019). The negative correlation coefficient implies that increasing the board size would lead to a decrease in financial performance at local SACCOs in Murang'a County, though the change may not be significant.

Board composition had a positive and significant correlation (Pearson correlation coefficient =0.466) which implies that the financial strength at the SACCOs will increase by ensuring that

the board of directors is composed of all the genders and well represented, the board is made up of expatriate members with different skills and is composed of members with different age groups.

Board experience had a positive and significant correlation (Pearson correlation coefficient= 0.522) an indication that financial performance will improve at the SACCOs by ensuring that the board of directors and managers are composed of people who are well experienced in financial management.

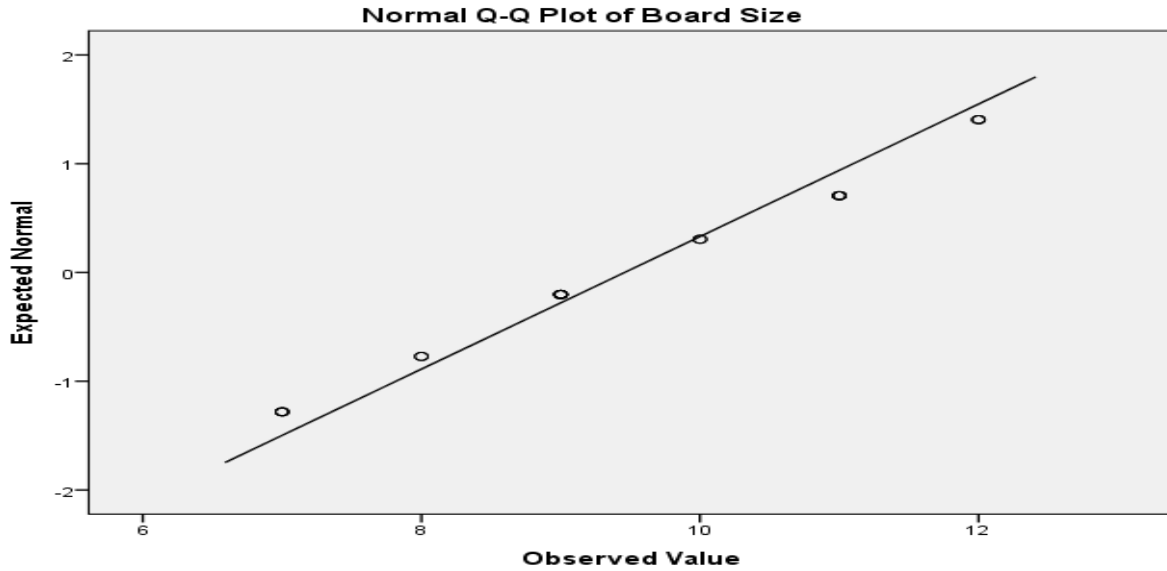
Board level of education had a positive and significant correlation (Pearson correlation coefficient= 0.430) an indication that having a board that is composed of individuals who have high academic qualifications and training will strengthen the FP of local SACCOs in Murang'a County.

#### **4.6 Diagnostic Tests**

Prior to conducting regression analysis, it was necessary to carry out diagnostic testing on the raw data so as to find out if the data had any anomalies. The study conducted normality tests and autocorrelation test.

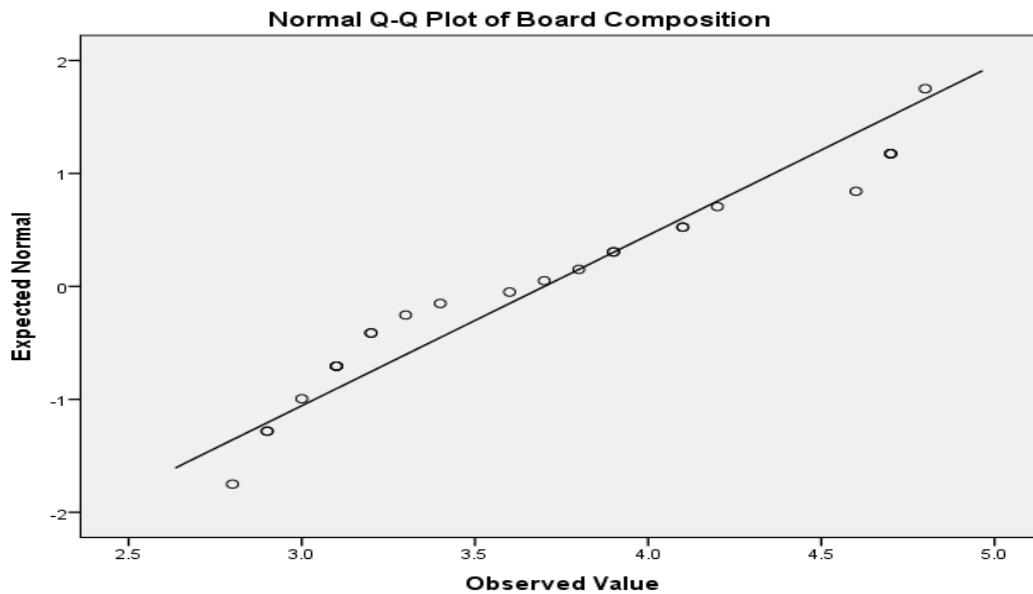
##### **4.6.1 Normality Test**

Normality test was important in finding out if the data could fit normal distribution. The study made use of graphical model approach in order to determine if the data had a normal distribution. Figure 4.6 Shows the Q-Q plot of board size having the observed values against the expected normal values. The observed values were able to converge a long a line of best fit which is an indication that the data had a normal distribution.



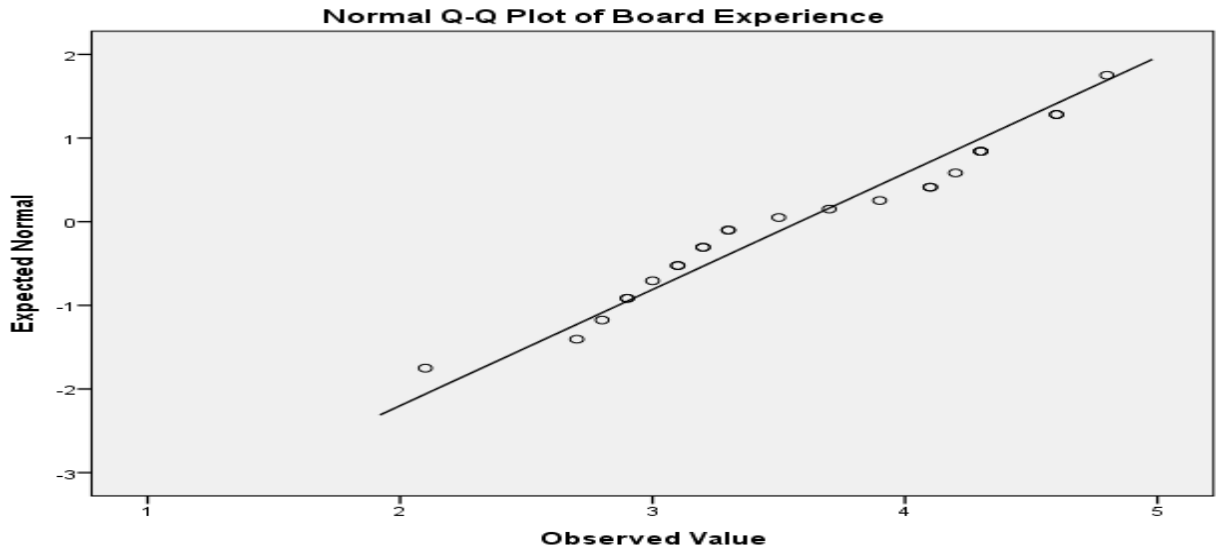
**Figure 4.6: Normal Q-Q plot for Board Size**  
**Source: Research Data (2022)**

Figure 4.7 shows the Q-Q plot for Board Composition observed values against the expected values. The observed values were viewed to be merging along a line of good fit, which is an indication of normal distribution of the scores on board composition.



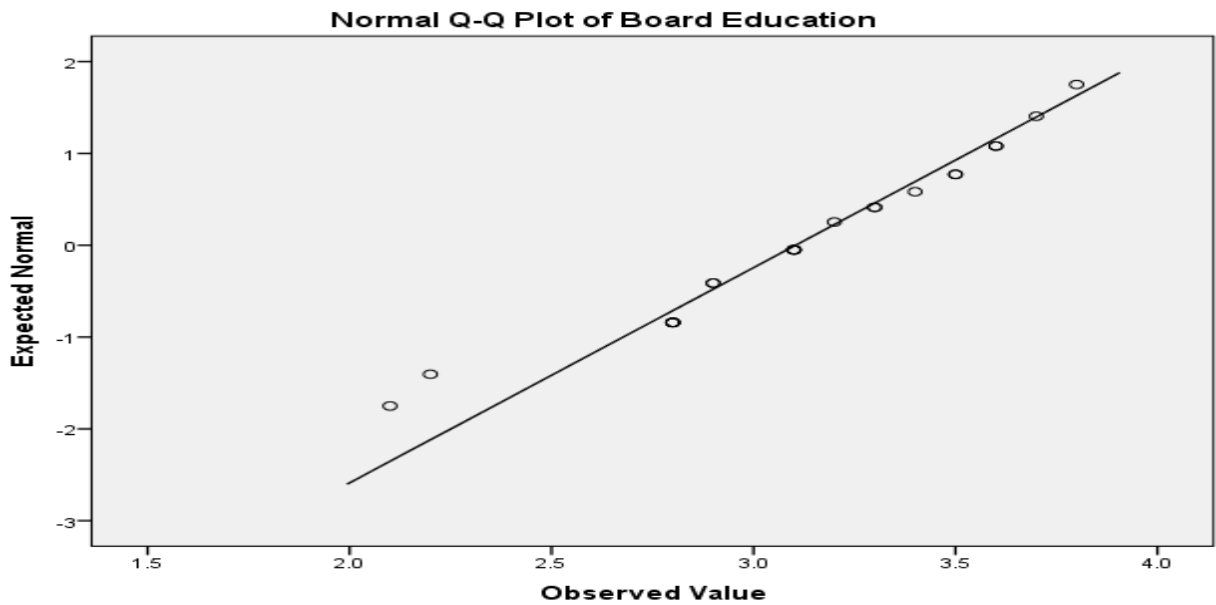
**Figure 4.7: Q-Q plot for board composition**  
**Source: Research Data (2022)**

Figure 4.8 shows the Q-Q plot for Board Experience, observed values against the expected values.



**Figure 4.8: Q-Q Plot for Board Experience**  
**Source: Research Data (2022)**

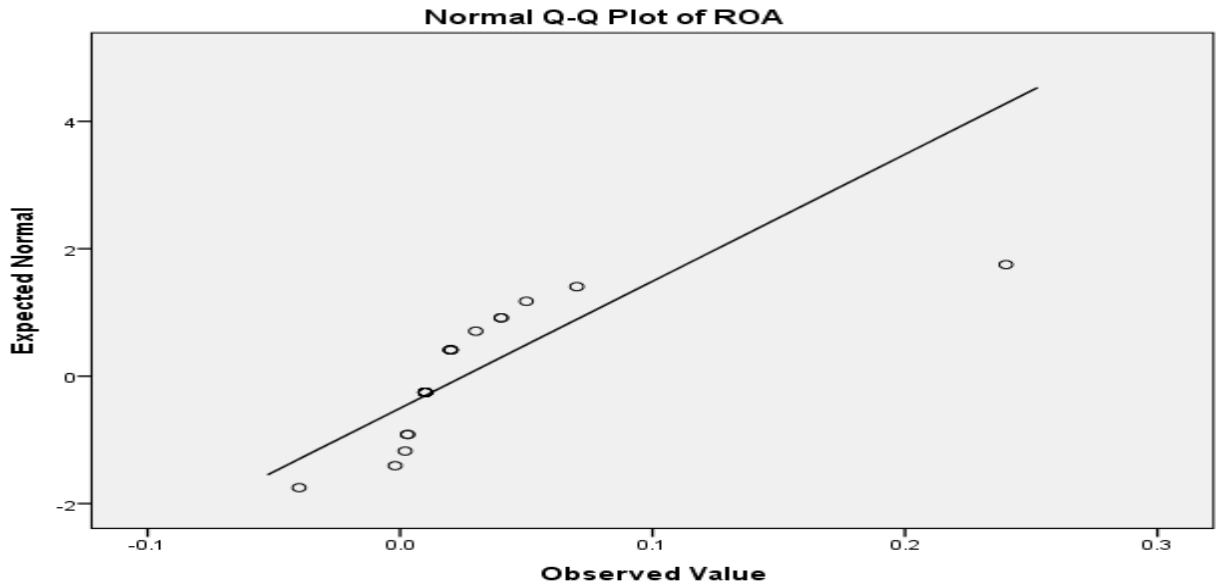
The observed values were found to concentrate along a line of best fit, a clear indication that there was normal distribution of data on board experience used in the study.. Figure 4.9 shows the Q-Q plot for Board Level of Education.



**Figure 4.9: Q-Q Plot for Board Level of Education**

**Source: Research Data (2022)**

From figure 4.9, the observed values were found to converge along a line of good fit. This indicates that the data on board level of education was normally distributed. Figure 4.10 shows the Q-Q plot for ROA.



**Figure 4.10: the Q-Q plot for ROA.**

**Source: Research Data (2022)**

The study found out that the observed values were able to converge a long a line of best fit, showing that the data on ROA was normally distributed.

#### **4.6.2: Auto Correlation Test**

The study adopted Durbin –Watson test in order to predict auto correlation in the residuals from the statistical regression analysis. The auto correlation problem is controlled by the robust standard errors. The outcome of this test ranges from 0 to 4. A score of around 2 indicate there is very small auto correlation. A score of 0 means there is strong positive correlation while a score of closer to 4 indicate there is stronger negative auto correlation. A score that is between 1.5 to

2.5 is considered to have no autocorrelation (Garson, 2012). Hypothesis testing assigned by H0 and H1 at 5% level of significance had to be done so as to find out if there was possibility of autocorrelation. The autocorrelation results are shown in Table 4.9.

**Table 4.9: Durbin Watson Test**

<b>Model Summary</b>	<b>Durbin- Watson</b>	<b>Sig.F Change</b>
<b>1</b>	1.942	.229

**Source: Research Data (2022)**

From Table 4.9, the Durbin- Watson test had a score of 1.942 which is an indication of absence of autocorrelation in the data. Since the p value was also found to be more than 0.05, the study did not reject the null hypothesis, implying that there was no presence of autocorrelation in the data.

#### **4.7 Regression Analysis**

After conducting the normality and autocorrelation test, it was concluded that the data did not violate the classical linear regression assumptions and had no biased parameters. The study therefore conducted a multiple linear regression analysis in order to investigate the effect of board characteristics on financial performance of SACCOs in Murang'a County, Kenya. The coefficient of determination and the coefficient of adjusted determination are shown in Table 4.10.

**Table 4.10: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.495 <sup>a</sup>	.245	.087	.0479620	.245	1.545	4	19	.026

a. Predictors: (Constant), Board Education, Board Size, Board Experience, Board Composition

**Source: Research Data (2022)**

Table 4.10 shows that the coefficient for correlation was 0.495. The 0.495 coefficient for correlation indicates that there is a positive correlation between the variables. Since the p value is less than 0.05, the study came up with the conclusion that there was a positive association between board characteristics and financial performance.

The  $R^2 = 0.245$ , indicating that 24.5% of the financial performance change is catered for by the variables included in the study model which are, board size, board composition, board experience and board level of education. This indicates that apart from board characteristics, there are other numerous factors that contribute to or influence 75.5% of the financial performance of the SACCOs, and are not part of this study. The findings are in line with Mwendia (2018) and Kenani and Bett (2018) who note that board characteristics positively affects financial performance. For the study to determine the effect of each of the board characteristics on financial performance, the study adopted the coefficient of regression. The coefficients of regression for this study are shown in Table 4.11.

**Table 4.10: Coefficients of Regression**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.153	.101		-1.514	.146
	Board Size	.021	.006	.025	.102	.620
	Board Composition	.034	.037	.180	.372	.014
	Board Experience	.041	.029	.146	.356	.006
	Board Education	.027	.034	.233	.818	.023

a. Dependent Variable: ROA

**Source: Research Data (2022)**

From Table 4.11, the coefficients of regression directs us to the equation

$$Y = -0.153 + 0.021X_1 + 0.034X_2 + 0.041X_3 + 0.027X_4 + \varepsilon,$$

From the equation, when all the factors are held constant, the FP of the local SACCOS in Murang'a County would be at -0.153. This further explains that the projected value of financial performance will be at -0.153 if all the independent variables in this study (board size, board composition, board experience and board education) are set to zero.

By holding all the other factors at zero, strengthening the board size will increase the financial performance in local SACCOS in Murang'a County by 0.021. Although the effect is positive, it is however insignificant as its P value is more than 0.05. The study therefore comes up with a finding that the board size positively but insignificantly affects the financial performance of local SACCOS in Murang'a County. Though the study agrees with the findings from Al Azeez, Sukoharsono, Roekhudin and Andayani (2019), that board size has no significance influence on financial performance, it contradicts with the findings from Somathilake (2018) who point out that board size negatively and significantly affects financial performance.



The study established that when all the other factors are held at zero, strengthening board composition will increase the FP of local SACCOs in Murang'a County by 0.034. Board composition therefore has positive significant relationship with FP. The study is in line with the findings from Ngung'u (2016) and Hensel (2018) who argue that board composition significantly and positively influenced FP indicating that entities normally benefit from a pool of expertise and also human resources. Experienced and qualified board members are very important to an entity since they become strategic resources and their experience, skills and knowledge are considered to be very critical in steering the organization towards financial performance. The reason behind this is that such kind of a board, members ensures that there are high intellectual ability levels in the board together with effectiveness and also soundness.

Board experience was found to positively and significantly affect the FP of local SACCOs in Murang'a County ( $r = 0.041$ ;  $p = 0.06$ ). This implies that increasing the board experience by one unit when all the other factors are held constant will lead to an increase in financial performance by 0.041 units. The findings were also found to be agreeing with Aifuwa and Embele (2019) and Kenani and Bett (2018) who also found out that board experience had positive influence on financial performance. The study notes that more experienced directors' skills that are diverse and also very innovative ideas in running the SACCOs are very key in steering the SACCOs performance to greater heights. More so, from theoretical point of view, when managers were well experienced, they were able to put their knowledge and experience for the better functioning and running of the firm so as to maximize its financial performance.

When all the other factors were held at constant, strengthening board level of education will lead to increase in FP of local SACCOs in Murang'a County, by 0.027 units. The relationship is significant implying that board level of education positively and significantly affects FP.

Although the findings are in line with Mwendia (2018) who found out that educational qualification had a positive effect on financial performance it contradicts with the findings from Phan (2016) who noted that there was no significant relationship between the board level of education and financial performance. The point is that by holding all the other factors constant, boards with well-educated directors may seem to be attractive on the face of it, making their performance to seem to be better and short lived, but in the long run, the advantage may not hold.

The study came to a finding that board size had a positive but insignificant effect on financial performance ( $\beta=0.021$ ;  $P=0.620$ ), board composition had a positive and significant effect on financial performance ( $\beta= 0.034$ ;  $P=0.014$ ), board experience had a positive and significant effect on financial performance ( $\beta= 0.041$ ;  $P=0.06$ ) and board level of education had a positive significant effect on financial performance ( $\beta=0.027$ ;  $P=0.023$ ).

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter presents the summary of the study findings, the conclusions the study arrived at based on the objectives of this study, the recommendations and finally the suggestions for further research.

#### 5.2 Summary of the Findings

The purpose of this study was to investigate the effect of board characteristics on financial performance of SACCOs in Murang'a County, Kenya. The study objectives were: to investigate the effect of board size on FP of SACCOs ; to establish the effect of board composition and FP of SACCOs; to find out the effect of board experience on FP of SACCOs and to establish how board education level affects FP of SACCOs in Murang'a County, Kenya. The study relied on both primary and secondary data. The study used research questionnaires to collect primary data and a checklist to collect secondary data which was financial performance (measured by use of ROA) and board size of different SACCOs in Murang'a County. The questionnaires were distributed to 144 respondents who were the members of board of directors and the study was able to receive back 77 questionnaires which were duly filled ready for analysis. The 77 questionnaires received represented 53.5% questionnaire return rate. The study used descriptive statistics tools and also inferential analysis tools (Pearson correlation coefficients and regression analysis) in order to find out the effect of board characteristics on financial performance.

Board size was established to have positive but insignificant effect on financial performance, implying that the board size did not significantly influence the financial performance of

SACCOs in Murang'a County. Most of the SACCOs that had board size of more than 9 had mixed trends in financial performance for the period of the study, and the same scenario was observed on the SACCOs that also had board members of less than 9. The board size did not influence the diversity of the opinions in most of the SACCOs, did not improve on problem solving and neither did it increase the efficiency of the SACCO. Despite board size having little or negative effect on financial performance, it was found that most of the SACCOs agreed that the optimal number of board of directors to be 9 members.

Board composition had a positive and significance effect on FP of SACCOs in Murang'a County, Kenya. A board of directors was said to be well composed if it had various expatriates, skilled manager and all genders well represented. Experienced and qualified board members were found to be very important to SACCOs since they became strategic resources and their experience, skills and knowledge were considered to be very critical in steering the organization towards financial performance. The reason behind this is that such kind of a board, members ensures that there are high intellectual ability levels in the board together with effectiveness and also soundness. Despite most of the board of directors being well composed, the gender disparity remained the major issue of concern on the boards as most of the SACCOs had not attained the two-third gender rule representation as required by law.

Board experience had a positive and significant effect on FP of SACCOs in Murang'a County. The study notes that more experienced directors' skills that are diverse and also very innovative ideas in running the SACCOs were very key in steering the SACCOs performance to greater heights. More so, from theoretical point of view, when managers are well experienced, they are able to put their knowledge and experience for the better functioning and running of the firm so as to maximize its financial performance.

Board level of education was found to have a positive significant effect on financial performance of SACCOs in Murang'a County. The board of directors that had high score in board level of education were also found to be having increased financial performance. Most of the respondents however believed that highly qualified managers may not necessarily spearhead the SACCO to greater financial gains neither does a highly educated board guarantee transparency and accountability in the SACCO. This implies that even though board level of education may have positive effect on financial performance, its effect is short lived and in the long run this merit may not hold.

### **5.3 Conclusion**

Board size had insignificant positive effect on financial performance of SACCOs in Murang'a County. This implies that increasing the board size may not necessarily lead to an increase in financial performance. The diversity of the opinions in SACCO management may not necessarily be influenced by the board size and neither would the board size improve the problem solving in the SACCO and increase its efficiency . Board size was found to be among the least influential board characteristics in attaining or strengthening FP of the SACCOS.

Board composition played a very pivotal role in strengthening the FP of SACCOs in Murang'a County. A board of directors was said to be well composed if it had various expatriates, skilled manager and all genders well represented. When board members are well experienced and qualified to perform their duties, they become strategic resources implying that their experience, skills and knowledge become very critical in steering the organization towards financial performance.

Board experience is a very useful tool and it positively and significantly affects the financial performance of SACCOs in Murang'a County. More experienced directors' skills are taken to be

diverse and very important in the SACCOs operations. Managers and board members with very innovative ideas in running the SACCOs are also very key in steering the SACCOs performance to greater heights.

Board level of education was found to have a positive significant effect on financial performance of SACCOs in Murang'a County. However, highly qualified managers may not necessarily guarantee the SACCO high financial gains. On the same effect a highly educated board does not guarantee transparency and accountability in the SACCO implying that that even though board level of education may have positive effect on financial performance, its effect is short lived and in the long run this merit may not hold.

#### **5.4 Recommendations of the Study**

Board size had insignificant positive effect on financial performance of SACCOs in Murang'a County. However, the board size still performs a very important role in SACCO operations which may improve their financial performance. The SACCOs need to ensure that they have the optimal number of board members which the study found to be 9. Optimal number of board size may help in improving the problem solving within the SACCO and increase its efficiency in carrying out its operations.

Board composition is a very important characteristic in financial performance of SACCOs. The boards should be well composed with members of different skills and all genders should be well represented. Although the board composition positively affects the SACCO financial performance, the two third gender rule is yet to be achieved in majority of the SACCOs, with most of them being dominated by the male members. The SACCO management should therefore strive to ensure that all the gender is well represented and that their boards meet the two third gender rule as required by the law.

Board experience positively and significantly affected the financial performance of the SACCOs. The SACCOs should ensure that the board members and especially the managers are well experienced in financial and SACCO management and have also necessary skills that the SACCO may benefit from. When the board is well experienced and well equipped in skills, it becomes a resource to the SACCO.

The SACCOs should ensure that their board members are well educated and trained since the study established that board level of education positively and significantly affected the financial performance of SACCOs. However the SACCOs should not struggle to hire very highly trained managers since highly educated managers may not necessarily guarantee transparency and accountability in the SACCO and hence its effect on financial performance is short lived and in the long run this merit may not hold.

### **5.5 Suggestions for Further Research**

This study covered 24.5 % of factors that influence financial performance of SACCOs implying that there are other numerous factors that contribute to or influence 75.5% of the financial performance of the SACCOs, and are not part of this study. More research should be done on other factors that may influence the financial performance of SACCOs so as to exhaustively come up with a comprehensive findings on financial performance of the SACCOs and the factors that affect it. The study also noted contradicting findings on board size and board level of education when compared with the results and findings from the previous studies. The study recommends more research to be done in this area while focusing the board size and board level of education and their effect on financial performance and compare the results with this study.

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## **APPENDICES**

### **APPENDIX I: LETTER OF TRANSMITTAL FOR DATA COLLECTION**

Dear Respondent

I am a postgraduate student currently studying at Kenyatta university school of business. In partial fulfillment for the award of a degree in Master of Business Administration (Finance), am carrying out a research study which is a pre-requisite requirement for this award. This study is geared towards investigating the effect of board characteristics on FP of SACCOs in Murang'a County, Kenya. This research proposal is basically for academic purpose and all the responses obtained from the respondents shall remain confidential and also the identity of the respondents will be kept anonymous. Find the attached copy of questionnaire and assist by giving the appropriate responses.

Thanks in advance.

Yours truly,

Grace Wakaba Wairimu

**APPENDIX II: RESEARCH QUESTIONNAIRE**

This research proposal is basically for academic purpose and all the responses obtained from the respondents shall remain confidential and also the identity of the respondents will be kept anonymous. Place a tick (√) in the most appropriate answer. Please try to be as much truthful as possible.

**Section A: General Information**

1. Reveal your title or position in your SACCO? \_\_\_\_\_

2. For how long has your SACCO been operating in years?

Less than 5 [ ]      5to 9 [ ]      10 to 14 [ ]      more than 14 [ ]

3. Select the method by which board of directors is appointed in your SACCO?

Elected [ ]    Inherited [ ]    Nominated [ ]    Others [ ], Please specify \_\_\_\_\_

**Board Size and SACCO performance**

4. Number of members are in the board of directors in your SACCO? \_\_\_\_\_

5. In your own view, what number do you think should be optimal size of the board for an effective and efficient board? \_\_\_\_\_

6. Kindly indicate on the scale of 1-5 how you agree with the following statements about board size and SACCO performance where 1= strongly disagree, 2= disagree, 3= neutral, 4= agree, 5= strongly agree

Statement	1	2	3	4	5
The size of the board increases the competitiveness of the board hence influencing performance					
The board size increases the efficiency of the SACCO					
The size of the board influences problem solving in the SACCO hence affects the performance					
The diversity of opinions is influenced by the board size hence affecting the performance					

**Board composition and Performance**

7. What is your gender? Female [ ]      Male [ ]

8. Age bracket: Below 25 [ ] 26 to 35 [ ] 36 to 50 [ ] above 51 [ ]

9. Tick (√) your level of education (the highest)

KCSE certificate [ ] Diploma [ ] Bachelors degree [ ] Masters or PhD [ ]

10. What is mostly considered in your SACCO when appointing new board members \_\_\_\_\_

11. What is your occupation?

Finance specialist [ ] Educationist [ ] Informal sector [ ] Legal officer [ ]  
Economist [ ] Accountant [ ] others [ ] Please specify \_\_\_\_\_

12. Kindly indicate on the scale of 1-5 how you agree with the following statements about board composition and SACCO financial performance.

Statement	5	4	3	2	1
Various expatriates on the board has improved the SACCOs efficiency					
Expatriate SACCO manager's skills and knowledge are important in spearheading the SACCO towards attaining its goals					
Gender equally represented on the board improves decision making					
Board composition affects the risks management in the SACCO and is likely to improve performance					

**Board experience and performance**

13. Specify the current membership in your SACCO?

Less than 1000 [ ] 1001- 5000 [ ] 5001 – 10,000 [ ] More than 10,000 [ ]

14. For how long have you been serving as a board member in your SACCO 0-1 years [ ] 1-3 years [ ] 3-5 years [ ] more than 5 years [ ]

15. Kindly indicate on the scale of 1-5 how you agree with the following statements about board experience and SACCO performance where 1= strongly disagree, 2= disagree, 3= neutral, 4= agree, 5= strongly agree.

Statement	5	4	3	2	1
Board members with diversified skills make good decisions in the running of the SACCO and is					

likely to improve the performance					
New members with no previous management experience have a huge contribution in management and is likely to improve performance					
Experienced manager is able to bring on board good business ideas and is likely to influence performance					
Number of years served by the board members have a positive effect on the performance of the SACCO					

**Board Level of education**

16. Briefly what is your opinion on the level of education among the board members and the SACCOs performance? \_\_\_\_\_

17. Kindly indicate on the scale of 1-5 how you are in agreement with the following statements concerning board level of education and SACCO performance.

Statement	5	4	3	2	1
Members with higher educational qualifications make good decisions which is likely to improve performance					
Highly trained and qualified CEO/manager spearhead the SACCO towards greater business ideas and is likely to improve performance					
A highly educated board ensure there is transparency and accountability in the SACCO and this is likely to improve performance					

**APPENDIX III: CHECKLIST FOR SACCOs (2016-2020).**

Code/Year	Sacco Name	Net Income	Total Assets	ROA
1/2020	MTN	7807200	169005563	0.046195
2019		1505325	158858232	0.009476
2018		1549340	129508280	0.011963
2017		2474713	117191878	0.021117
2016		1999696	106599926	0.018759
2	EMUKI	917808	33306730	0.027556
		104072	40971366	0.00254
		225075	23820801	0.009449
		162637	19862164	0.008188
		114303	7527705	0.015184
3	WEDO	1762429	142918906	0.012332
		308598	113561621	0.002717
		335414	86149260	0.003893
		305750	69203833	0.004418
		183394	51496256	0.003561
4	BRILLIANT	283412	139099353	0.002037
		-161461	14610737	-0.01105
		-66773	18530762	-0.0036
		465841	14008316	0.033255
		463758	9479273	0.048923
5	RAFIKI HALISI	-408850	15871776	-0.02576
		112362	14328475	0.007842
		945045	15762342	0.059956
		376383	11440988	0.032898
6	REAL 1PM	207806	16232830	0.012802
		95782	13078648	0.007324
		116011	13002840	0.008922
		47752	11396734	0.00419
		4372	9563249	0.000457
7	NAMUKIKA	173063	24823914	0.006972
		604782	22679972	0.026666
		342484	20816270	0.016453
		192783	20507716	0.009401
		502123	17744082	0.028298
8	FAMNUT	2198705	100804386	0.021812
		2198705	90409899	0.024319



		1991619	83712362	0.023791
		1424477	79859554	0.017837
		1482263	71205114	0.020817
9	MUSACK	214561	9273609	0.023137
		640227	7354398	0.087054
		312581	5224986	0.059824
		192427	3464867	0.055537
10	SWIFT EAGLES	50933	2743768	0.018563
		77754	2077740	0.037422
		221286	2044530	0.108233
		104398	1399281	0.074608
		-13367	908164	-0.01472
11	INTER-COUNTY	4633	13728088	0.000337
		88815	13988560	0.006349
		90271	14224965	0.006346
		30181	13727044	0.002199
		2504	12932375	0.000194
12	KEHMA	314401	5733603	0.054835
		55821	3922612	0.014231
		-91818	2422622	-0.0379
13	SAFI	32932	13765224	0.002392
		-4621	13190003	-0.00035
		130526	10381712	0.012573
		25650	5444712	0.004711
		12282	20727669	0.000593
14	TRANSLIM	474535	6775650	0.070035
		205147	6029243	0.034025
		387502	5551850	0.069797
		3631461	601682	6.035515
		436170	985370	0.442646
15	MUIGANA	12365	11091506	0.001115
		108701	9604096	0.011318
		411799	7325424	0.056215
		242715	6205188	0.039115
		89099	4705571	0.018935
16	KWIHOTA	97935	27146840	0.003608
		49694	26735672	0.001859
		36824	24270129	0.001517
		93474	24993683	0.00374

		11048	23675025	0.000467
17	KAMUNA	390728	32344722	0.01208
		28024	34195131	0.00082
		42664	25355555	0.001683
		243399	22495650	0.01082
		215246	22392266	0.009613
18	FAIR TRADE	931056	29163314	0.031926
		460753	19805644	0.023264
		200274	13938511	0.014368
		32537	10455993	0.003112
		22181	8849321	0.002507
19	RUBET	429564	52895814	0.008121
		12394514	49187018	0.251988
		1163924	38441460	0.030278
		785345	30811067	0.025489
		1399118	29014178	0.048222
20	KIMURI	419390	62131028	0.00675
		830682	58213957	0.014269
		786558	65775060	0.011958
		370632	47851591	0.007745
		75442	46121678	0.001636
21		7807200	169005563	0.046195
		1505325	158858232	0.009476
		1549340	129508280	0.011963
		2474713	117191878	0.021117
		1999696	106599926	0.018759
22		917808	33306730	0.027556
		104072	40971366	0.00254
		225075	23820801	0.009449
		162637	19862164	0.008188
		114303	7527705	0.015184
23		1762429	142918906	0.012332
		308598	113561621	0.002717
		335414	86149260	0.003893
		305750	69203833	0.004418
		183394	51496256	0.003561
24				
		28024	34195131	0.00082
		42664	25355555	0.001683
		243399	22495650	0.01082

## APPENDIX IV: RESEARCH PERMIT



KENYATTA UNIVERSITY  
GRADUATE SCHOOL

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Website: [www.ku.ac.ke](http://www.ku.ac.ke)

P.O. Box 43844, 00100  
NAIROBI, KENYA  
Tel. 810901 Ext. 4150

Internal Memo

FROM: Dean, Graduate School

DATE: 14<sup>th</sup> April, 2022

TO: Grace Wairimu Wakaba  
C/o Accounting and Finance Dept.

REF: D53/CE/28237/2015

SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL

This is to inform you that Graduate School Board at its meeting of 31<sup>st</sup> March, 2022 approved your Research Project Proposal for the M.B.A Degree Entitled, "**Board Characteristics and Financial Performance of Savings and Credit Cooperative Societies in Muranga County, Kenya**".

You may now proceed with your Data Collection, Subject to Clearance with Director General, National Commission for Science, Technology and Innovation.

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

Thank you.

ANNBELL MWANIKI  
FOR: DEAN, GRADUATE SCHOOL

c.c. Chairman, Accounting and Finance.

Supervisors:

1. Mr. Anthony Thuo  
C/o Department of Accounting and Finance  
Kenyatta University

## **APPENDIX V: NACOSTI PERMIT**