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CORPORATE GOVERNANCE AND PERFORMANCE OF SELECTED SAVINGS AND CREDIT COOPERATIVE SOCIETIES IN NAIROBI COUNTY, KENYA

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Abstract: **The SACCO industry has over time become vital in Kenya. This sector is a key player in the nation as it controls around 43 percent of gross domestic product (GDP). However, the lack of proper direction, control and accountability by the directors and management in SACCOS to the principal shareholders, exposes them to irregularities. This therefore has brought the need to investigate corporate governance effect on the performance of selected SACCOs in Nairobi City County, Kenya which was the general objective of the study. The specific objectives were to establish the effect of size of the board, board composition, gender balance of the board members and board members qualification on SACCO performance in Nairobi, Kenya. The study was underpinned stakeholders' theory and agency theory. The focused on six selected SACCOs in Nairobi City County based on a sample of fifty eight respondents. The result from the regression analysis showed that the board composition and board size were significant in predicting the performance of SACCOs at 0.05 level of significance with p values of 0.009 and 0.31 accordingly. However the board members' education and gender diversity were not significant in predicting the performance of SACCOs with p values of 0.150 and 0.178 respectively. This study thus suggests that SACCOs should put much emphasis on a lean board size and ensure that the composition of the board takes into consideration the professional and knowledge diversity of the board members.**

Keywords: **Corporate Governance, Board Composition, Board Size, Board Members' Qualification, Gender Diversity and Performance.**

1. INTRODUCTION AND BACKGROUND

The world of business today is an ever changing one having various challenges requiring strong systems of corporate governance and sound system for decision making. Mugambe (2008) opined that SACCOs have spurred development of the economy globally despite most of them going under soon after inception. There are external factors that can cause financial failure of SACCOs which may include lack of information, deregulation. Awino (2011) further indicate that the native management and governance of SACCOs by informal groupings which later formalize leads to poor financing management of the SACCOs with majority of them not coping with the ever growing competition in the financial services sector.

Developing nations are in recent times rapidly embracing good corporate governance which is due to its direct influcen on the growth and sustainability of countries (Kalungu, 2012). Good governance brings about investor confidence and goodwill (Manafi, 2015). Organizations now seek to improve the governance practices which the follow as it is key in value additions and boosting of bottom line (Akodo & Moya, 2012). Many view corporate governance to be the structure and process which are used in directing and managing of the affairs of business which enhances corporate accountability and prosperity of business with which at the same time taking into consideation the various interests of different stakeholder groups. Good corporate frameworks are beneficial to firms as it brings better finance access and firm performance, minimal cost of capital and a favourable stakeholders' treatment (Abu-Tapanje, 2011).

The SACCO sector of Kenya has an increase in total assets in 2010 from K.sh. 216 to K.sh.248 billion. SASRA (2011) reported that the sector which is the largest in the continent (Africa), holds 60, 63 and 64% of savings, assets and loan respectively of Africa. Similarly, there was an from 9.2 - 10.6 in the years 2009 to 2013 in the use of financial products offered by SACCOs. The ratios for getting credit from SACCO ranged from 3.1 and 4.0 which was an indication that activities in the SACCO sector had increased (CBK & FSD Kenya, 2013).

Mayer (1997) opined that corporate governance focuses on various ways and methods that will be investors' interests and that of firm managers to a balance. It seeks to ensure that the interests of investors are key considerations in the running of firms. It refers to a system whereby organizations are directed and controlled. Muriithi (2009) refers sets of associations between firm sharaeholders, directors among others which stipulates the powers and authority firm directors, employees' right, creditors' rights among others. Lack of adequate governance systems in place has aided financial scandals and corruption in general to excel thereby suppressing and limiting sound economic policies (Raissa, (2014; Ashenafi, 2013). Poor governance on the other hand within a firm settings often leads to failure and collapses of businesses (Al- Manaseer, 2012). Good governance of firms entails clarity, accountability and transparency thereby ensuring public trust on firms (Mwangi, 2013). Good governance also leads to a transparent and fair businesss environment where firms are held accountable for their inactions and actions (Njoroge, 2017; Olumbe, 2012).

1.1 Statement of the Problem

SACCOS perform a key function in mobilization of savings. According to Mucovi (2002) SACCOS are formed with the aim of mobilizing financial and other resources of the members in order to fulfill social and economic needs of the individuals and groups. The cross-cutting issues affecting co-operatives are govemance, weak regulations and supervision as well as risks involved in investments. Top on the list and one which results to SACCO failures, stagnation and collapse is lack of a framework to ensure that regulatory and supervisory bodies posses the power, resources and integrity to efficienctly carry out their functions. The said authorities should also make timely rulings, be transparent and fully explain their undertakings. Lack of proper direction, control and accountability by the directors and management in SACCOS to the principal shareholders, exposes them to irregularities. The need for good corporation governance is over the years being recognized especially in the case of developin nations (Nereida & Ken, 2015).

Many researches have been carried out on corporate governance and firms' performance within and without Kenya, with limited focus on the SACCO sector. For the case of Kenya, research carried out centered on banks and other firms and not the SACCO sector. Jebet (2001) Manyuru (2005) and Muriithi (2005) carried out various analysis on corporate governance and performance relationsip for entities at the NSE, while Matengo (2008) studied the linkage between performance and corporate governance: the case of financing sector industries in Kenya. These studies were however largely on listed firms in Kenya, this study sought to investigate the influence of corporate governance on performance of selected SACCOs in Nairobi County, Kenya.

1.2 Objectives of the Study

1.2.1 General objective

The general objective of the study was to ascertain the effect of corporate governance on performance of selected SACCOs in Nairobi City County, Kenya.

1.2.2 Specific Objectives

The specific objectives were:

i. To evaluate the effect of board composition on performance of selected SACCOs in Nairobi City County, Kenya.

ii. To determine how board size affects the performance of selected SACCOs in Nairobi City County, Kenya.

iii. To assess how board members' qualification affects the performance of selected SACCOs in Nairobi City County, Kenya.

iv. To establish how gender diversity affects the performance of selected SACCOs in Nairobi City County, Kenya.

The research questions were formulated in view of the above specific objectives.

2. LITERATURE REVIEW

2.1 Theoretical Review

Agency Theory was proposed by Jensen and Meckling (1976). The theory describes the relationship between the principal and the agent in which is a person hires another to carry out a service, to act or make decisions on their behalf. Managers in a firm are agents of shareholders who assume that the principles guiding them are those geared towards maximization of shareholders wealth. In reality, this assumption is affected by following three factors. First, clash of interests of the principal and the agent because the agents may strife to make the most of their own value with no thought for the principal's, secondly, the presence of a great amount of information irregularity between the principal and the agent and the possibility that the agent can take advantage of it to enrich themselves and lastly the inability of the principal to make sure that the agent performs in obedience to the principal's interests that makes it either difficult or too costly for him to observe the agents' efforts (Beasley, 2012). In the SACCO sector firms, agency conflicts come in different forms because various parties are involved. The shareholders of SACCOs invest more or less of the stipulated capital by the regulator with the aim of taking advantage of suppliers of funds who are usually institutional investors and also other shareholders who may be having large number of shares.

Stakeholder Theory was propounded by Ian Mitroff in 1983 in San Francisco. The theory evolved from the criticism of Agency theory due to the narrowing down of stakeholder, assuming that shareholders are the only firms' interest group. Stakeholder theory over the years came to prominence as various scholars have identified that firm activities affects and is affected by the external environment of firms. McDonald and Puxty (1979) assert that firms are no more instruments to shareholders alone but the society at karge. However, this fact has been recognized just of recent. Furthermore, there is the realization that economic value is brought about by individuals that come together voluntarily to add value to each others lives (Freeman & McVea., 2004). Stakeholder theory sees governance as primarily interested in the effectiveness of different systems of governance in enhancing firm long run investment and various stakeholders commitments (Williamson, 1985). As put forward by Kester (1992), "the central problem of governance is to devise specialized systems of incentives, safeguards, and dispute resolution processes that will promote the continuity of business relationships that are efficient in the presence of self-interested opportunism".

2.2 Empirical Review

Daily and Dalton, (2003) also conducted a study on how gender influences decision making of the board. Gender equity element is not well embraced among boards of directors and is likely to lead to poor decision making given the male chauvinism paradigm among the male members against their female counterparts. However if either gender is incorporated in the board and their ability or skills appreciated in equal measure, decision making will be effective and efficient and hence performance. However, the issue of diversity shouldn't just be based on equitable representation but to also provide and advocate the notion of broadening the principle of merit

Belkhir (2006) carried out a study on the significant of board size on SACCO performance in the context of Kenya. The research realized that a company's BOD is vital in monitoring the behaviour of managers. The general notion as regards to the ideal size of board is that higher BOD number results to lower firm performance. This rests on the fact the communication, coordination of task, sharing of ideas iand decision making in a large group is slow and more difficult as compated to smaller groups. The study therefore indicated that a lean and smaller board is bound to be efficient and effective on performance than a large one. This study sought to establish how board size influences performance of SACCOs in Kenya.

Milliken and Martins (2006) in their study on gender balance and board diversity, realized that the composition of boards should be a reflection of the society structure and adequately incorporate the ethnicity, gender and professional backgrounds of members. Boards are interested in achieving the right composition so as to have diverse perspectives presented. A gender balanced board is more likely to perform better given the diverse views and background of either gender in decision making and perception on various corporate issues.

Eisenberg *et al*. (2008) did a research where it was indicated that an inverse association lies between profitability and board size in the context of small and midsize and Finnish firms. Similarly, Mak and Yuanto (2003) in their study found that board inversely impacts on listed firms in Malaysia and Singapore as the indicated that valuation of firms is highest in the case where a board is comprised of 5 directors, this number is therefore considered small in such markets. Ongore and K'Obonyo (2011) did a research to ascertain the interrelations existing between ownership, manager and board characteristics and firm performance. The research focused on 54 listed firms at the NSE which were the sample of the study. Results show positive relationship existing between managerial discretion and firm performance. The study indicated that the influence of governemnet and ownership concentration on company performance was found to inversely significant.

Carpenter and Westphal (2011) conducted a study on the relationship between members of board's knowledge and skills on company performance. It was realized that BOD have a combination of capabilities and competencies which collectively represent a collection of social capital which also brings about value creation in executing the governance roles of the board. Board members qualifications are key in decision making process. Thus, the role of monitoring by the board can be implemented effectively in the case where the BOD are experienced and qualified. From perspective of resource dependency, skilful and qualified board members can be regarded as strategic resources which providec linkage to the different external resources (Ingley & van der Walt, 2011). As such members who posses advanced qualifications nring about an effective board with high levels experience, intellectual ability, integrity and sound of judgment (Hilmer, 2008).

Lipton and Lorsch (2012) carried out a study on rationale behind board size limitation among organizations. The research found that restricting the size of board to a certain level is genrally agrred to lead to the improvement of firm performance at the various firm levels. The merits emanating from increased monitoring as in the case of larger groups (boards) becomes outweighed due to poor communication and slow decision making process. Several researches pertaining board size have provided similar findings. Large board size are likely to be ineffective and characterized by bearacracies. Large boards are less efficient and in such cases they are likely to be controlled by the CEO. In this case, board size plays a major role on the performance of every prospering organization.

3. RESEARCH METHODOLOGY

3.1 Research Design

The study used descriptive research design which is used in a study which aims at establishing the why, where and how of a phenomena. The design was used because it allows analysis of qualitative data which cannot be quantified on figures. The design involved systematic collection of data from members of a given population through questionnaires (Cooper & Schindler, 2009).

3.2 Study Population and Sampling Design

The target population for this study was 6 Saccos in Nairobi County with their headquarters in the city. The selection of the six SACCOs was based on their market share as at 2017. The selected SACCOs were those in the large market share category according to SASRA (2017) that have an asset base of more than 4billion and are based in Nairobi City. The technique of stratified random sampling was used in selecting a 30% sample in each strata making up a sample size of fifty eight (58).

3.3 Data Collection

The research utilized primary data which was obtained through administration of questionnaires. Structured questionnaires, comprising open ended and closed questions were used. Questionnaires were used because of the large number of respondents. They collect information that is not observable thus the respondents can express their feelings, motivations and attitudes.

4. DATA ANALYSIS AND PRESENTATION

4.1 Response Rate.

The study had a response rate of 88% while the non response was 12%. The response was good and well representative. This is in line with Mugenda and Mugenda (2013) who stated that a response rate of 50% and above is sufficient for inferential analysis.

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4.2 Correlation Analysis

The correlation test was also carried out to determine how strongly a pair of variable is correlated. The results are presented in Table 1 below:

Table 1: Correlation Test

	Org. performance	Board composition	Board size	Board education	Gender diversity
Org. performance	1				
Board composition	.489*	1			
	.000				
Board size	.521*	.490*			
	.000	.000			
Board education	.223	-.024	-.065		
	.115	.868	.650		
Gender diversity	.172	.604*	.511*	-.340*	1
	.228	.000	.000	.015	

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

Source: Survey Data (2019)

From Table 1 above, there is a significant positive relationship between the board composition and organisational performance (r=.489, 'p value' .000). The results are in line with an examination by K'Obonyo (2011) whose study established a positive correlation between board composition ans organisational performance. There is also a significant positive correlation between board size and organisational performance (r=.521, 'p value' .000). A study carried by Belkhir(2006) also found similar results. There is a non significant positive correlation between board education and organisational perfromance (r=-.223, p-value .115).

4.3 Analysis of Variance (ANOVA)

This study made use of the ANOVA statistics to find out the significance of the association between the performance of SACCOs in Kenya and the independent variables.

Table 2: Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.734	4	2.683	7.766	.000[b]
	Residual	15.894	46	.346		
	Total	26.627	50			

a. Dependent Variable: Organisational performance
b. Predictors: (Constant), Gender diversity, Board members' education, Board size, Board composition

Source (Survey data, 2019)

From the findings in Table 2, the model was significant with a p-value of 0.000 which implies that the model was good for estimation.

4.4 Model Summary

The study also examined the percentage of variation in the dependent variable as a result of a percentage change in the predictor variables. The results are presented in table 3 below

Table 3: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.864[a]	.746	.744	3.8564231

a. Predictors :(Constant), Board composition, Board size, Board members' education, Gender diversity

Source (Survey data, 2019)

The model had an adjusted R-square value of 0.744. The R-square value of 0.744 implies that the predictor variables (Board composition, Board size, Board members' education, Gender diversity) explain 74.4% of the changes in the performance of SACCOs

4.5 Regression Analysis

This study carried out the multiple regression effect of corporate governance practices on the performance of SACCOs in Kenya. Table 4 exhibits the regression analysis output.

Table 4: Multiple Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B	
	B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound
1 (Constant)	-2.241	1.404		-1.596	.117	-5.067	.585
X1	.933	.339	.423	2.749	.009	.250	1.616
X2	-.379	.179	-.183	-2.188	.031	-.745	-.037
X3	.307	.210	.183	1.464	.150	-.115	.729
X4	-.490	.359	-.224	-1.367	.178	-1.213	.232

a. Dependent Variable: Organisational performance

Source: Survey Data (2019)

Without the inclusion of the predictor variables, the performance of the SACCOs declines by 2.241 times. A unit increase in the board composition (X1) holding the other variables constant results in a significant increase in the performance of SACCOs by .993 times with a p-value of .009 at 0.05 level of significance. Secondly, a unit increases in board size (X2) other factors held constant, results in a significant decrease in performance of SACCOs by .379 times. The p-value is .031 at .05 siginificance level. Thirdly, a one unit increase in board members' education levels (X3) leads to a non significant increase in the performance of SACCOs by .307 times other factors held constant. Lastly, there was a non significant inverse relationship between the gender diversity and performance of SACCOs. A unit increase in gender diversity(X4) results in a decline in the performance by .490 times other factors held constant.

4.6 Interpretation of Findings

The researcher sought to establish the influence of board composition on the performance of SACCOs. The results exhibited in Table 4 of regression analysis demonstrate that a unit increase in the board composition (X1) holding the other variables constant results in a significant increase in the performance of SACCOs by 0.993 times. The increase is statistically significant at 95 percent confidence level as depicted by the 'p value' of .009. The results are consistent with that of similar studies done in the past. For instance Ongore and K'Obonyo (2011); Eisenberg *et al*. (2008).

The second objective of the study was to examine the influence of board size on the performance of SACCOs. The regression results indicate that a unit increases in board size (X2) other factors held constant, results in a significant decrease in performance of SACCOs by .379 times. The p value was reported at .031 which indicate significance at .05 siginificance level. The findings correspond with those of Belkhir (2006); Lipton and Lorsch (2012) who documenet significant relationship between board size and performance.

The third objective of the study was to ascertain the influence of the board members' education levels on the performance of SACCOs in Nairobi county. A one unit increase in board members' education levels (X3) leads to an insignificant increase in the performance of SACCOs by .307 times other factors held constant. Unlike the current study, past studies such as Carpenter and Westphal (2011); Ingley and van der Walt, (2011) established a significant relationship between the board skills and performance. However, all positive effect as it is the case in the current study.

The last objective of the research was to determine the impact of gender diversity on performance of SACCOs. The results of regression analysis in Table 4 demonstrate that A unit increase in gender diversity(X4) results in a non significant decline in the performance by .490 times other factors held constant. The findings from the current study are not consistent with the findings from studies in the literature reviewed. According to a study by Dalton (2003) gender diversity positively influence the performance of organisations. Milliken and Martins (2006) in their study on gender balance and board diversity, realized that the composition of boards should be a reflection of the society structure and adequately incorporate the ethnicity, gender and professional backgrounds of members thus found a significant impact of gender diversity on performance of organisations.

5. CONCLUSIONS AND RECOMMENDATIONS

The first conclusion was that board composition positively and significantly influence the performance of SACCOs in Kenya. The study recommends that SACCOs in Nairobi county Kenya should ensure that the composition of the board is rich in terms of the professional skills, competencies and knowledge in various fields. This will ensure proper decision making in the SACCOs which ultimately contributes towards good performance in the SACCOs.

The study concludes that board size has significant negative effect on the performance of the SACCOs in Kenya. The study recommends that for the SACCOs to have better performance, they should ensure that the board size is lean as this will ensure that there is faster decision making as well as efficiency which doesn't happen in the case of large board size. The third conclusion was that the education of board members has no significant effect on performance of the SACCOs. Lastly, the study concludes that gender diversity has a no significant effect on performance of SACCOs in Nairobi county Kenya.

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