THE EFFECT OF BOARD COMPOSITION ON OPERATIONAL EFFICIENCY OF DEPOSIT TAKING SACCOS IN KIAMBU COUNTY, KENYA

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DECLARATION

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

Signature... Date...............................

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This research project has been submitted for examinations with my approval as the university supervisor.

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DEDICATION

This study is dedicated to my family for giving me the enabling environment for the production of this work. Their unending moral support cannot go unnoticed.

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LIST OF ABBREVIATIONS

BSC	Balanced Score Card
CEO	Chief Executive Officer
CGI	Corporate Governance Index
DTS	Deposit Taking SACCO
FOSA	Front Office Savings Account
ID	Inside Directors
OD	Outside Directors
SACCO	Savings And Credit Cooperative
SASRA	SACCO Societies Regulatory Authority
SMEs	Small And Medium Sized Enterprises

ABSTRACT

In the modern day business environment, the role of the board of director's composition has emerged as strategic resource that is crucial to enhancing operational efficiency through application of corporate governance principles. SACCOs are among the fastest growing sub sectors in Kenya's Cooperative Movement. The Vision 2030 strategic plan calls for reforms in the financial sector to ensure the implementation of corporate governance principles for purposes of enhancing transparency and efficacy in the management of depositor's funds. Most SACCOs have since implemented such strategies but an evaluation of how board composition affects its efficiency has not been undertaken hence the knowledge gap that this study sought to fill. The objective of this study was to determine the effect of the board of director's composition on efficiency of deposit taking SACCOs in Kiambu County. The study used three most widely used theories agency, stewardship and stakeholder theories. The research adopted an analytical research design using trend analysis and correlation analysis. This research targeted 15 deposit taking SACCOs operating in Kiambu County. Due to the small nature of the target population the study was a census survey. The main information gathering instruments was a questionnaire to collect data on board characteristic and secondary data collection on financial performance indicators of revenue and expenditure for the period between years 2002 to year 2016 for all the 15 SACCOs. Information concerning the board characteristics for the years 2002 to 2016 in each of the SACCOs was collected coded and tabulated for purposes of further analysis. Data was coded and analysed using trend analysis correlation analysis and regression analysis. The findings indicate that operational efficiency is positively correlated to risk and therefore we conclude that improvement in aspects of board composition enhances operational efficiency of deposit taking SACCOs in Kiambu County. The study recommends that the composition of board of directors for effectiveness should be characterized by increase in gender balance of the board members, improvement education qualification, and increase in individual board member years of professional experience, increase in director's independence, increase/adequate compensation package to the board and reduction in share ownership of the board. Administration costs in regard to the composition of the board do exist but shareholders should bear the liability associated with such since it results in improved efficiency.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In the modern day business environment, the role of the board of director's composition has emerged as strategic resource that is crucial to enhancing operational efficiency through application of corporate governance principles. According to Edwards & Clough (2015) corporate governance principles emphasize, in particular, accountability and conformance measures in organizations. For any organization to succeed in achieving sustainable operational efficiency, it must be able to embrace conventional good corporate governance practices. Failure by the board of director's composition to achieve effectiveness in their oversight role is perceived to bring forth the proliferation of bad corporate culture and eventual organizational failure (Gerard, 2014).

This study was anchored on the agency theory that proposes corporate governance arrangements in organizations. The agency theory is founded on the argument that the proprietors of an enterprise and its management have differing interest. The second theoretical underpinning was the Stewardship theory postulated by Donaldson 1998 which assumes a human perspective in regard to management and disputes assumptions that management is motivated more by their own narrow economic self-interest and argue instead that management happen to be effective stewards of an organization's resources. The third theory to be discussed in this study is the stakeholder's theory which argues that organizations should formulate and implement strategies by considering the needs of their stakeholders such as the board to ensure managerial compliance and improve operational efficiency (Keasey, 2014).

SACCOS are among the fastest growing sub sectors in Kenya's Cooperative Movement. The sector has been most significant in impacting on the livelihoods of their members as such institutions have been the key sources of reliable financing for most Kenya households and this has intensified the growth of the SACCO movement in Kiambu County. The SACCO Movement in Kenya is expected to contribute significantly to Kenya's 2017 GDP development that is anticipated to be at 6.4%. Such developments will mainly be bolstered by agribusiness and transportation those being key sectors supported by DTSs.

In Kenya, DTSs assume a key part in financial advancement and employment creation and indirectly support over 60% of employments in SMEs. The Vision 2030 strategic plan calls for reforms in the financial sector to ensure the implementation of corporate governance principles for purposes of enhancing transparency and efficacy in the management of depositor's funds. Most SACCOs have since implemented such strategies but an evaluation of how board composition affects its efficiency has not been undertaken hence the knowledge gap that this study seeks to fill.

1.1.1 Board Composition

The board of director's composition is defined as a collection of technically competent individuals whose role is to enhance adoption of effective corporate governance practices in a firm (Fama, 2012). It is the controlling system that supervises management decisions (Jensen, 2014). A board of directors plays a role of monitoring management actions in a manner that enhances a firm's efficiency. Ensuring that the board is fully knowledgeable and equipped in technical skills in areas of information systems, financial management, corporate governance, strategic planning, business continuity practices and the legal and policy environment. With such requirements for competence an individual board member was able to positively contribute to enhancing effectiveness of management decisions that translate into firm efficiency (Adams & Ferreira, 2014).

In particular, board of directors plays a key role in implementation of corporate governance because they posses relevant competences and skills that can positively influence a firm’s efficiency. Becker (2013) argued that placing managerial power on the board generally improves a firm’s efficiency. The Board of directors performs supervisory activities of a firm’s management. Administration costs in regard to the composition of the board do exist such that small shareholders can bear the liability associated with the board of director’s abuse of power. Effective control from board of directors on management practices will enhance firm’s efficiency.

In embracing the administration and oversight roles, the board guarantees of irreplaceable check and adjustments without which investor’s wealth and related framework couldn't work in a protected and sound way. To be reliable overseers, board individuals should have an essential comprehension of what dangers the organization is facing, and how those dangers are measured, checked, and controlled (Adams & Ferreira, 2014). To comprehend their administration and oversight roles, new members ought to experience. The composition of the board is usually characterized by the size of the board, gender parity amongst board members, whether there is CEO duality, the education qualification, and individual board member years of professional experience, director’s independence, compensation package to the board and share ownership of the board. All these factors affect the effectiveness of the board as was evaluated in this study.

1.1. 2 Efficiency in Organizations

In a business setting, operational efficiency can be defined as the proportion between yields earned from the business and a contribution made to maintain a business operation. The expressions operational effectiveness, proficiency and efficiency are frequently utilized reciprocally. Operational efficiency in organizations can be measured using either financial performance and or the Kaplan (2001) Key performance indicators model. Firm's financial efficiency measures how effectively a firm utilizes its assets in its operations to generate revenues over time. The performance is then compared to existing industrial average. Brealey and Marcus (2012) postulated that financial efficiency is an indication of repayment capacity and the level of debt to equity ratio. Additionally financial efficiency is measured by the net income/ net operating income, return on Assets and the revenue to expense ratio- an indicator of efficiency that was used in this study to measure efficiency.

Kaplan (2001) asserts that accountability is critical if organizations are to achieve high efficiency levels that are in line with their strategic objectives. According to Kaplan organizations traditionally measure efficiency using historical performance ratios. However scholars such as Kaplan have recently argued that financial measurements alone are inadequate indictors for accessing efficiency. Financial reporting is a practice of measuring historical performance and communicates little in regard to the long run value of the firm. Yacuzzi (2015) also agrees that efficiency measures have traditionally been financial. Approaches such as the balanced scorecard and the multiple dimensions of quality were introduced to deal with the complexity of measuring efficiency and effectiveness (Enrique, 2005). For purposes of this study both financial and the balance scorecard indicators of efficiency was used.

1.1.3 Board Composition and Efficiency of Firms

The attributes of board composition are the Size of the Board measured using member Number, gender balance measured by number of Female Members, board chairman dualling as the CEO, Educational Qualification of the board members, years of work experience by the members, Independency of the Directors, value of remuneration for the board and percentage share ownership of the board members. The relation between the size of the board and an organization's effectiveness can be explained by the primary school of thought that contends that a vast board will promote productivity in any organization (Coles, 2008). The investigations demonstrate that an extensive board will effect better the strategic changes necessary to promote efficiency especially due to the complexity of business condition and an hierarchical culture facing such organizations (Klein, 1998). Therefore, a large number of individuals sitting at the board is presumed to be reasonably better if firm effectiveness is to be achieved (Dalton, 1999).

The female board members are perceived to have a better comprehension of the market in comparison with the male individuals such that their understanding will improve the choices made by the board (Dutta và Bose, 2006) . They also provide better picture in regard to the image of the firm and this will contribute to efficiency due to improved comprehension of the business condition. They can emphatically influence vocation advancement of junior female staff in a business. Subsequently, an organization's effectiveness is enhanced straightforwardly and by implication with the close association of female board members (Smith 2016) .

In regard to the effect of CEO duality on efficiency Dahyal (2009) displayed that when there is a duality in a firm, there has been cases of abuse of power to the detriment of the organization and the investors. A board executive cannot hold the organization's CEO position unless the yearly board meeting of the investors affirms it. Jensen (1993) presumption is that the duality might reduce the supervision of the administration of an organization by the board. This decrease leads to an expenses expansion of the organization. The function of a board is to ensure the adoption of corporate governance in a firm requires each member to be completely furnished with governance principles, financial management , marketing , data frameworks, legislation and other basic leadership process (Fama, 1980). This necessity suggests that each member will contribute decidedly to the administration choices which is then converted into the organization's efficiency (Adams & Ferreira, 2014)

Work experience of the board members is relied upon to emphatically add to the better efficiency of a firm (Child, 2015). In regard to the connection between years of work experience and a company's effectiveness, limited scholarly literature highlights experienced members will more likely adapt better to business situation by contributing effectively in such a manner that productivity in an organization is enhanced (Wegge 2008). Elloumi & Gueyié (2011) state that if an organization has high percentage of independent directors in aboard, it faces little problems when it comes to finance. Likewise, when a business situation declines, firms with numerous autonomous executives have had lesser likelihood of petitioning for insolvency (Daily, 2013).

In regard to the board compensation Meckling and Jensen (1976) argue that board befits should be attached to the financial related advantages paid to a company's management. In regard to board ownership Chung and Pruitt (2012) considered that, ownership of the board will improve a company's efficiency. Mehran (2011) displayed experimental confirmation that there is a positive relationship between a board ownership and organization's productivity. Bhabra (2013) have likewise exhibited a non straight link between the proprietorship of the board and the efficiency of a company. In their examination, Fama and Jensen (2011) argued that a the commitment of the proprietorship of a board is considered as a two-edged blade in which there is an ideal level of board possession which contributes decidedly to a efficiency of the company.

1.1.4 Deposit Taking SACCOS in Kiambu County

The SACCO sub-sector consists of Deposit Taking and non-Deposit Taking SACCOs. DTSs are defined by law as those that accept withdrawable deposits and are licensed and regulated by SASRA while non-Deposit Taking SACCOs are supervised by the Commissioner of Co-operatives. SASRA licenses SACCOs that have been duly registered under the Co-operative Societies Act CAP 490. According to SASRA, there were 135 Deposit Taking SACCOs in Kenya and 11 in Kiambu County as at the end of December 2016. DTSs in Kenya control more than 78% of the total deposits and assets of the SACCO industry IMF (2016) as a result there is need for a closer oversight in regard to SACCO Front Office operations that are particularly considered high-risk as depositors risk savings in the event of mismanagement and misappropriation of depositors money hence the need for effective board of directors

SACCO Societies Regulatory Authority (SASRA) is an agency of the Kenyan government under the Ministry of Industrialization and Enterprise Development that is semi- autonomous. It was created as a result of the SACCO Societies Act of 2008 and implemented in the year 2009. Its core mandate is to license and supervise DTSs in Kenya which are mainly those SACCOs that have Front Office Saving Activities (FOSA). The Authority has put in place some minimum key requirements to ensure that there is proper governance in place within the SACCO movement. According to the Authority, the supreme authority of a SACCO society is to be exercised in general meetings, and members have the responsibility of ensuring that only credible members are elected to the board of directors, who should all be non-executive directors.

The boards of directors have various responsibilities bestowed upon them by the regulator. These include; ensuring maintenance of proper and correct records that are a reflection of the true and fair view of the position of the SACCOs financial condition, ensuring the efficiency in operation of the SACCO society and efficient internal control system is set up and establishment of appropriate policies such as human resource, credit, investment, savings, Operational efficiency, information preservation, dividend and risk management policies.

The Authority has also put a limit on the number and frequency of meetings that should be held by the board of directors in any given financial year. The number of meetings should not be more than twelve in any financial year and not more than two months should lapse between the date of one meeting and the date of the next meeting. In addition all board of directors in SACCOs are expected to establish various board or management committees, including an audit and a credit committee as may be necessary to efficiently perform its roles. The audit committee should be comprise of board of directors for reviewing of the financial situations of the SACCO society, its internal controls, performance and findings of internal auditor and for recommendations of actions to be taken in order to remedy situations at least once every three months.

The regulator requires that audit committee not comprise of not more than three appointed members from the board, out which one will be familiar with matters related to finance and accounting and the board chairperson should not be an audit committee member. The boards of directors are not expected to get any remuneration in form of salaries for services given to the SACCO society, but may be compensated if there are any expenses incurred in the course of undertaking the duties to the SACCO society's benefit. A member of the board cannot hold the director's position in more than one licensed SACCO society under the Act. The board of the directors are bestowed with the responsibility of appointing and removing of a CEO of the SACCO whereas the CEO makes sure that the board of directors is appraised frequently and sufficiently on the SACCO society operations by presenting board papers that are relevant.

1.2 Research Problem

The board plays a key role in the adoption of corporate governance principles in any organization and as such organizational strategy and efficiency is significantly influenced by the board of director's oversight role. An effective, reliable and an ethical board demands from the management of an elaborate and concise corporate strategy that is reviewed periodically for its validity and which is consistently used as a reference point for all other board decisions (Marcus, 2014). The board ensures the integrity and reliability of management actions and financial reports through formulation of effective strategies that meets both short term and long term management needs that focuses on the long term development needs of the organization.

Regardless of tight governing framework, corporate governance remains weak in Kenya's corporate world and in particular Kenya's deposit taking SACCOs industry (Omondi, 2014). Cases of fraud, mismanagement and poor efficiency are rampant in the sector. Much needs to be done to transformation the sector to avoid lose of shareholders funds through misappropriation. There has been renewed attention regarding application of corporate governance in public and private institutions. Nevertheless, appropriate data from experimental studies are limited. This has habitually led to limited understanding of the subject. The role of the board of director's composition in enhancing operational efficiency and protecting shareholder investment and enhancing operational efficiency has been put to doubt due to past experiences hence the knowledge gap.

A study was carried out by Oskar (2012) in Poland. The aim of the study was to establish the impact of corporate governance and a firm's efficiency in Poland. Corporate Governance was measured using the Corporate Governance Index (CGI). The study also sought to construct an exhaustive measure of the corporate governance for an estimated 298 non-financial organizations listed in the stock markets of Warsaw Poland from the year 2006 to 2010. The findings from the study confirm that there is a positive correlation between corporate governance and efficiency of an organization. It was also evident that better governance lead to better returns.

A study conducted by Guze (2012) on the effect of corporate governance on efficiency of public corporations in Kenya established that corporate governance plays a major role in determining the level of efficiency. The researcher adopted case study research design of the Kenya Pipeline Ltd. The researcher used an interview guide to interview management at the organization on their perceptions of the effect of corporate governance on efficiency to establish a causal effect relationship. the findings were subjective as the indicator for measuring efficiency in the public corporations were not clearly outlined and the researcher adopted a case study design leading to a possibility that the findings might not be applicable in other sectors ;

A study by Mureithi (2013), on the other hand, focused on the role of the board of directors in enhancing organizational performance in Kenya's parastatals. The researcher adopted census survey research design by administering questionnaires to the managing directors and used data on financial performance and expenditure on board composition to establish a causal effect relationship. The findings indicated negative correlations. A study by Omondi (2016), studies the role of the board of directors in implementation of corporate governance principles and its impact on performance in Kenya's big five Audit firms. The researcher adopted census survey research design by administering questionnaires to the divisional managers in those organizations to establish a causal effect relationship. The findings indicated a strong positive correlation.

Looking into the available literature it is established that the studies have not adequately established the link between dimensions of corporate governance (board of directors) and their influence on efficiency. In spite of the large number of works published during the past decades, there are important areas of board of director's composition still unexplored, such as the relevance of the role of board of director's composition in determining the efficiency of deposit taking SACCOS that are under tight regulation currently is unknown. This study will seek to provide the required knowledge that can be able to fill this gap by answering the following research question; what is the effect of the board of director's composition on efficiency in deposit taking SACCOS in Kiambu County.

1.3 Research Objective

The study aims at establishing the effect of the board of director's composition on efficiency of deposit taking SACCOS in Kiambu County.

1.4 Value of the Study

This research is an assessment of the board of director's composition influence on operational efficiency. Such kind of information is deemed to be invaluable to mangers, shareholders & investors seeking business continuity and success within a constantly changing business environment. An understanding of the relevant aspects of the board of directors' role will inform organizations strategy on board composition, remuneration and role allocation all aimed at utilizing such strategies to enhance operational efficiency .

Policy makers are usually informed by research findings that attempt to explain a phenomenon or address an existing knowledge gap. SASRA and other industry policy makers was able to make informed policy adjustments either in terms of policy changes, structural adjustments or even reviewing its deposit taking SACCOs regulatory policies. Kenya's deposit taking SACCOs industry investors and other industry players will find the information useful especially in implementing strategies to enhance operational efficiency.

In theory the findings will inform future researchers in terms of literature and theoretical foundation and appropriate research methodologies to undertaking similar studies in the future. The researchers will also be able to evaluate the limitations of the methodology adopted in this study if any for purposes of designing superior research methodologies that result in more reliable research outcome.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter gives a review of the theoretical literature pertinent to the subject of study. It also offers a critical analysis of literature provides a summary statement and highlights the knowledge gap in relation to the subject under investigation.

2.2 Theoretical Foundation

This section reviews the most important theories of corporate governance. This section reviewed the literature using the three most widely used theories agency, stewardship and stakeholder theories

2.2.1 Agency Theory

Agency theory attempts give an explanation for the performance of organizations that have implemented the corporate governance principles of separating the ownership and control of such organizations. Berle & Means (1932) pioneered in their justification for such separation. Agency theory takes a contractual approach to the firm guided by the principle that a modern corporation is run by professional managers or agents who run the business on behalf of the owners /principals. Their arguments postulate that managers attempt to prioritize their own individual interests rather than those for the owners (Williamson, 1984). The agency problem occurs as a result of the obstacles that the principal encounters in ensuring that management acts in the best interests of the shareholders. Shleifer and Vishny (1997) argues that the agency problem arise due to the difficulties financiers face in ensuring that their investments are not wasted through management self- centered actions.

Thus agency theory explains the problems occurring in the shareholder and manager relationship which include costs associated with the monitoring the agent's behavior by the shareholders and the differing attitudes toward risk by both management and shareholders (Eisenhard, 1989). Agency costs are defined as the costs of bonding, structuring and monitoring the actions of agents (Jensen, 1983). The theory focuses on solving the above mentioned problems. In the Jensen & Meckling, (1976) contractual approach; the firm is viewed as a legal entity created by joining of legal contracts amongst the owners of the company and management.

The agency theory postulates that inside directors should be part owners of the organization so as to ensure managers get an incentive to pursue a value-maximizing behavior (Seifert, 2015). This approach entails monitoring of management actions and concentrated shareholdings which ensure effective monitoring of managers as an act that results in improved firm performance. According to Demsetz & Lehn (2015) the board of director's composition perspective is that there are managerial incentives enough to align the interests of management to those of the shareholders supported by the existence of adequate monitoring or control mechanisms to protect shareholders wealth.

2.2.2. Stewardship Theory

Stewardship theory postulates contradicting view to the agency theory view of corporate governance. While agency theory is based on arguments of financial economics; the stewardship theory is based on the principles of sociology and psychology. In regard to this theory; management is generally regarded as essentially a collection of people who can be trusted to take care of the interests of the investors (Davis & Donaldson 1997). It is based on the view that human beings behavior is more of a good image seeker rather than the self centered as portrayed in the agency theory. Stewardship theory proponent's further attempt to postulate that management will act in the best interest of the shareholders due to fear of ruining their reputation should they attempt to act selfishly and enrich themselves at the expense of the shareholders (Davis, 2002).

Defenders of this hypothesis argue that better corporate productivity was achieved by a larger part of inside directors (ID) as they work to amplify benefit for investors. This depends on a view that in light of the fact that IE comprehend the business well and they can administer superior results as compared to outside directors (OD) and thus are settled on as the preferred choices (Davis 1997). According to Donaldson, (1990) the essential method of reasoning is based on the affirmation that since supervisors are normally dependable there were no significant agency costs. Stewardship scholars argue that the leading group of management's structure ought to have a huge extent of ID to guarantee more powerful and effective basic leadership. (Donaldson & Preston, 1995).

This expectation is precisely the inverse of agency hypothesis. Defenders of stewardship hypothesis see CEO-Chair duality as a positive power, on the grounds that there is clear administration for the organization. There has been minimal observational confirmation particularly in view of the stewardship hypothesis expectation. Be that as it may, the consequences of an investigation by Brickley (1997) give some support to the advantages of CEO-duality. Like the agency hypothesis this experiment found out that the forecasts of stewardship hypothesis were unreliable. Davis (1997) in his advancement of stewardship hypothesis of management proposed that the model expects supervisors to carry on as stewards or specialists and that directors' decision is reliant on their mental inspirations and impression of the circumstance.

2.2.3 The Stakeholder Theory

Clarkson (2013) defined stakeholders as a group of individual whose continued participation influence the objectives pursued by organizations such that the survival of the organization depends on the satisfaction of the stakeholders. The theory provides a guideline for evaluating interrelations between the stakeholder and management and how such relations influence the achievement of organizational objectives (Speckbacher 2013). Having evaluated the relevance of stakeholder in management, Mitchell (1997) outlined the importance of recognizing stakeholders whose activities are the ultimate source of an organizations wealth or lack of it. Therefore stakeholders should be engaged and used for formulating, implementing and evaluating organizations strategic objectives to enhance organizational growth and survival (Matten 2003).

There exist two evaluations of the stakeholder theory recognized as relevant to implementation of strategy. These are: key stakeholders, their relative power and the stakeholder's perception towards other stakeholder groups (Daake & Anthony, 2010). This has extraordinarily added to the key administration thoughts on the premises of adjusting hierarchical destinations and key activities to the requirements and desires of the key partners. This current study's' point of view of the partner hypothesis is that it contains an assortment of methods that are created to help associations to oversee complex settings (Rodriguez, 2012). It is in this manner essential to comprehend the interests, desires and part of key partners keeping in mind the end goal to effectively convey on the destinations being sought after with negligible clash. Partner examination is along these lines essential with an end goal to handle the difficulties of the use of the adjusted score card. It proposes that the viability of the BSC can be accomplished through among others a comprehension of the different partners' key desires, interests and parts (Thompson and Strickland, 2003).The parts and desires of every partner ought to be all around oversaw and imparted and their engagement utilized as an instrument for checking their commitments and fulfillment of how the vital administration of an element is being overseen.

2.3 Board Composition

The accompanying are the attributes of board composition: Size of the Board measured using member Number, gender balance measured by number of Female Members, board chairman dualling as the CEO, Educational Qualification of the board members, years of work experience by the members, Independency of the Directors, value of remuneration for the board and percentage share ownership of the board members. Each of these qualities was talked about in subtle elements and thus underneath.

2.3.1 Board Size

The relation between the size of the board and an organization’s effectiveness can be explained by two contemplations. The primary school of thought argues that a tinier size of the board influences the achievement of a firm (Yermack, 1996). An alternative hypothesizes that a vast board will promote productivity in any organization (Coles, 2008). The investigations demonstrate that an extensive board will effect better the strategic changes necessary to promote efficiency especially due to the complexity of business condition and an hierarchical culture facing such organizations (Klein, 1998). Therefore, a large number of individuals sitting at the board is presumed to be reasonably better if firm effectiveness is to be achieved (Dalton, 1999).

2.3.2 Female Board Members

The female board members mirror an enhanced humanity for the board (Dutta và Bose, 2006). Smith (2016) evaluated a number of distinct reasons that attempt to justify the number of women at the board. To begin with, female board members more often than not have a likely better comprehension of the market as compared to the male individuals. In that capacity, their understanding can improve the decisions made by the board. Second, female board members provide a better pictures in regard to the firm image and this will contribute to SACCO's efficiency . Third, other board members will have enhanced understanding of the business conditions when female board members are delegated. More so, female board members can emphatically impact the vocation development of junior female staff in a business. Subsequently, an organization's effectiveness is enhanced straightforwardly and by implication with the close association of female board members .

2.3.3 Education Level of Board Members

The function of a board is to ensure the firm adopts corporate governance (Fama, 1980). A board is additionally a control framework in a business (Fama and Jensen, 1983). A governing body directing administration choices in a productive way will improve organization's effectiveness . Doing so requires each member to be completely furnished with governance principles, financial management , marketing , data frameworks, legislation and other basic leadership process. The suggestion of this necessity is that each member will make contributions altogether and also to choices of the administration which is converted into the organization's efficiency (Adams & Ferreira, 2014) .

2.3.4 Board Work Experience

It is argued that board members within the higher age normally will have basically more experience in contrast with a more younger members. The experience is relied upon to emphatically add to better the firm's efficiency. Nonetheless, more seasoned age member has all the earmarks of being more forceful and tyrannical with choices. These qualities of board members may bring about unsafe basic leadership, which may undermine an organization's effectiveness (Carlson and Karlsson, 2007). Also, board members with a higher age may be restrictive to the adoption of new business practices in response to changing business condition and this may ruin the usage of more key choices (Child, 2015). Despite the disparity in perspective on the connection between years of work experience and a company's effectiveness, limited scholarly literature highlights experienced members will more likely adapt better to business situation by contributing effectively in such a manner that productivity in an organization is enhanced (Wegge 2008).

2.3.5 Independent Directors

Elloumi and Gueyié (2011) presumed that organizations with high proportion of independent directors in a board face less problems in relation to finance. Likewise, when a business situation declines, firms with numerous autonomous executives have had lesser likelihood of petitioning for insolvency (Daily, 2013).

2.3.6 Board Compensation .

One of the vital targeted in current corporate governance is management of agency issues (Meckling and Jensen 1976). The hypothesis considers that the objectives adopted by a company's administration and the investors are by and large not comparable. All things considered, investors ought to attach their financial related advantages to the amount paid to a company's management . When administration conduct is vague, remuneration is a corporate governance component to urge administration to run a firm in light of a legitimate concern for investors. This connection will resolve an organization issue amongst administration and investors and contribute decidedly to an organization's efficiency (Jensen & Murphy, 1990).

2.3.7 Board Ownership

Brickley (2013) assumed that the proprietorship of the board is a support for board members. This support will enhance board members direct administration in a more effective manner. Chung and Pruitt (2012) considered that, board's ownership will improve company's efficiency. Mehran (2011) displayed experimental confirmation that there is a positive relationship between a board ownership and organization's productivity. Bhabra (2013) have likewise exhibited a non-straight connection between a proprietorship of the board and a company's effectiveness. In their examination, Fama and Jensen (2011) argued that commitment of proprietorship of a board is considered as a two-edged blade in which there is an ideal level of board possession which contributes decidedly to efficiency of a company.

2.4 Empirical Review

Even though there is a conflicting view on how board of directors' composition affects a firm's efficiency it's undoubtedly clear that, board of directors' composition plays an important role in governance and attention to a firm's efficiency.

2.4.1 International Literature

Interest in finding any possible relationship between board of directors composition and business efficiency have involved the works of scholars such as Barnett (2014), studies showed a negative correlation between the board and performance of the firm. Becker (2011) considered that, centralizing managerial power in block holding individuals will generally impact the efficiency of a firm positively. The findings indicate that corporate governance practices leads responsible management towards different stakeholders; better firm efficiency, characterized by improved employee satisfaction, reduced absenteeism, powering image, loyalty of customers and employees. In both cases, the authors end up stating that board of director's composition that improves firm efficiency through the impact that these practices have on the organization-stakeholder relationships.

Another recent study analyzing the link between board of director's composition and competitiveness efficiency has been conducted by using data from Italian organizations, which operate in the fashion industry, authors show a strong and positive correlation among several corporate governance practices and efficiency. Margolis and Walsh (2013) stated that they have to be cautious to just believe to these results. Like them, other researchers affirm that all the studies about this relationship are full of problems of all kinds that can bias the results. Teoh, Welch and Wazzan (2014) affirm that there is no relation between board of directors' composition and efficiency. Hatfield (2015) found no relation between board of director's composition and enhanced business competitiveness; while and Branch (1990) reported a negative one.

2.4.2 Local Literature

Omwenga (2012) examined the relationship between board of director's composition and firm performance. Their findings indicate that Superior performance may be shown by increased profits, sales, market share or attainment of strategic goals. Sigei (2014) examined board strategies and performance and found mixed results of the financial impact of such well-doing strategies on short-term and long-term efficiency of the organization. Kariuki (2013) examined the relationship between board of directors and company performance the results showed that a company's previous performance is generally a better predictor of board of directors than following performance. He asserted that board of directors' composition and efficiency are interrelated. According to them, board of directors' composition is positively associated with future efficiency. However, they too believe that board of director's composition is positively associated with prior efficiency.

Ndegwa (2012) studied board of director's composition and performance; the findings indicate that these companies serve the financial aims of the shareholders as well the stakeholders of the organization. Whilst there is a lack of consensus in the literature with regard to the correlation between board of director's composition development and operational efficiency, it is proposed that board of director's composition development has a direct relationship with operational efficiency. Nyambura (2013), studies the role of the board in the organizations service industry and efficiency, the findings indicated as positive correlation but the results were limited to one financial institution. Mureithi (2013) studied the role of corporate governance on firm efficiency in Kenya's public service. The findings indicated a negative correlation. A study conducted by Guze (2012) on the impact of corporate governance on efficiency of public corporations in Kenya established that corporate governance plays a major role in determining the level of efficiency.

A study by Muoki (2015) evaluated the role of corporate governance on performance in commercial banks**.** The researcher adopted census survey research design o administering questionnaires to the managing directors of used data on financial performance and the perceived relevance of the board members to establish a causal effect relationship. The findings indicated a positive correlation. Orit (2016) evaluated the role of the board in the organizations industry performance of manufacturing firms case study of Mabati Rolling Mills. The researcher used data on financial performance and the board component qualifications of the board members to establish a causal effect relationship. The findings indicated a positive correlation.

2.5 Conceptual Framework

Mugenda and Mugenda (2003) and Smith (2004), describe a conceptual framework as an hypothesized model that explains the correlation between the dependent and independent variables. For purposes of this study the board components was the independent while the operational efficiency was the dependent variable.

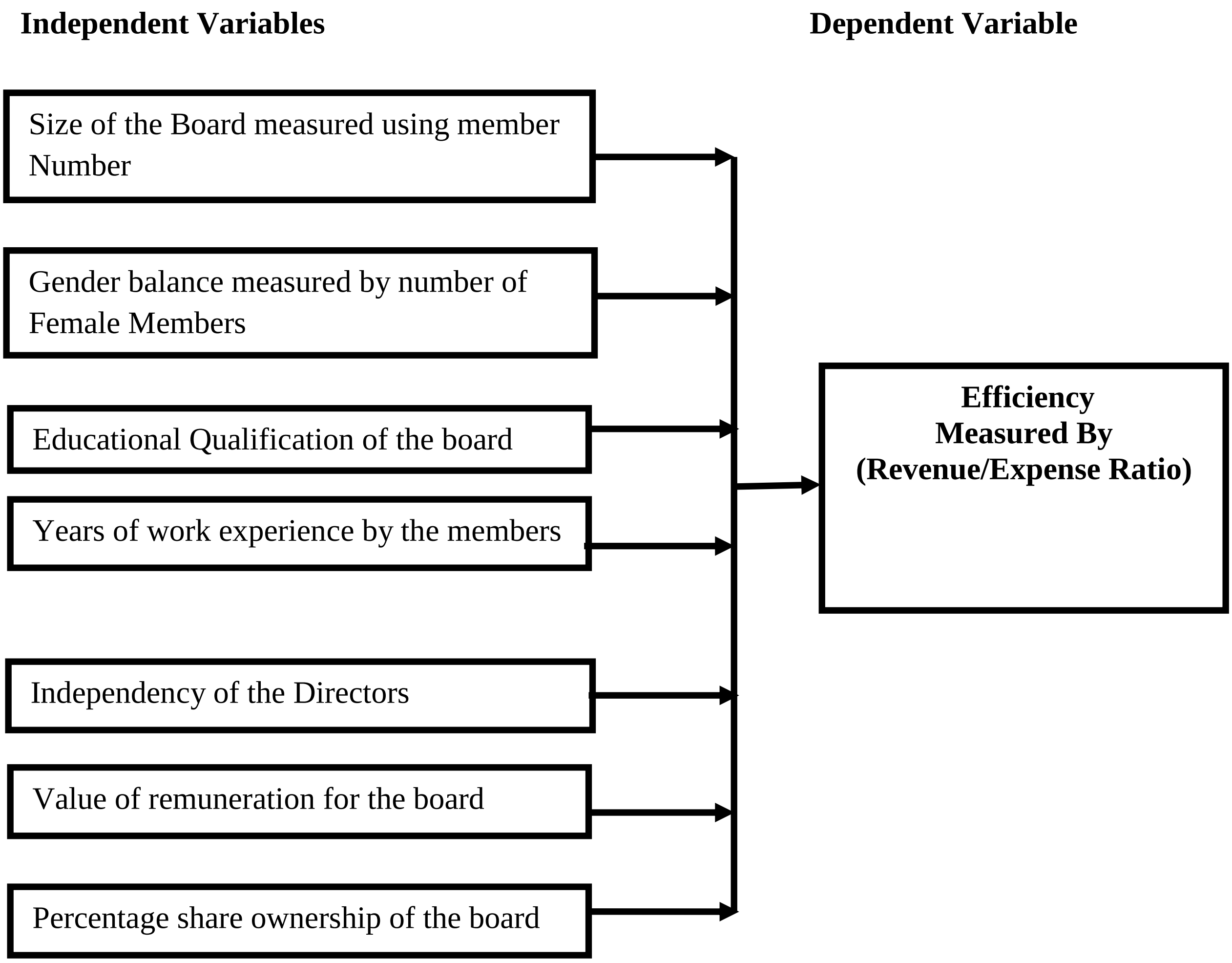

Figure 2: Conceptual Framework

2.6. Summary of Literature Review

This section has investigated three of the most persuasive hypotheses in customary corporate governance. These hypotheses while having a few contrasts additionally have various imperative similitudes. They to a great extent inspect the connection between the central inward corporate governance systems, the leading group of management actions and firm efficiency. Specifically, every one of the speculations essentially concentrates on how board basic qualities affect on firm efficiency. This fixation on board structure has been tremendously evaluated, particularly given the clashing observational writing on the connection between board structure and firm efficiency.

In a review of empirical investigations identified in this study; half of these examinations revealed a positive relationship and the others a negative connection between the study variables thus blended outcomes. Since there is no concession to this, this investigation is embraced, keeping in mind the end goal to have a more clear vision of the relationship. Indeed, even from this concise writing survey, it is apparent what number of various observational examinations can be made on this theme. A portion of the purposes behind these opposing outcomes come from theoretical, operationalization and methodological contrasts in the meanings of corporate governance practices and productivity.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section presents the methodology that was adopted in collecting, analyzing and interpreting data. It articulates the research design to be adopted, the research site, study population, sampling techniques and the data collection instruments to be used.

3.2 Research Design

A research design is the mythological approach adopted for purposes of answering research question and outlines an effective system to be followed in the study (Kerlinger, 1973). For purposes of this study the research adopted an analytical research design using trend analysis and correlation analysis. This is because the data to be used was quantitative secondary data on performance and board characteristics that will also be quantified.

3.3 Target Population

Every item in consideration within any field of questioning consists of population and universe (Kothari, 2004). It is the total number of individuals or things from where a study aims at the generalization of its findings (Cooper and Schindler, 2008).This research targeted 15 deposit taking SACCOS operating in Kiambu County. Due to the small nature of the target population the study was a census survey.

3.4 Data Collection

In this study, the main information gathering instruments was a questionnaire to collect data on board characteristic and secondary data collection on financial performance indicators of revenue and expenditure for the period between years 2002 to year 2016 for all the 15 SACCOs. Information concerning the board characteristics for the years 2002 to 2016 in each of the SACCOs was collected coded and tabulated for purposes of further analysis.

3.5 Data Analysis

According to Berkiwertz (1997) data analysis is a technique that undertakes to give meaning to the raw data collected for purposes clarifying and testing theories. According to Mugenda (2003), data must be cleaned, coded and properly analyzed so as to attain a meaningful report. Before capturing the same in Statistical Packages for Social Sciences (SPSS) for analysis, the collected data was sorted and organized. Data was coded and analyses using trend analysis correlation analysis and regression analysis.

3.5.1 Analytical Model

This study used the following regression model established in line with the study variables

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \varepsilon}$$

Where

Y = Efficiency (Measured By Revenue to Expense Ratio)

X_1 = Size of the Board measured using member Number

X_2 = Gender balance measured by number of Female Members

X_3 = Educational Qualification of the board members

X_4 = Years of work experience by the members

X_5 = Independency of the Directors

X_6 = Value of remuneration for the board

X_7 = Percentage share ownership of the board members

3.5.2 Diagnostic Tests

The study performed significance testing using Analysis of variance (ANOVA). ANOVA measures differences between variables. Correlation coefficient (R) measured the strength and direction of linear relationship between variables. Coefficient of determination (R^2) gave the proportion by which credit risk management (x) predicts operational efficiency (y). (R^2) is such that $0 \leq r^2 \leq 1$, and denotes the strength of the linear association between *x* and *y*.

The higher the (R^2), the higher percentage of points the line passes through when the data points and line are plotted. With 0.80 coefficient, 80% of the points should lie within the regression line. Values of 1 or 0 would show the regression line represents all or none of the data, respectively. A higher coefficient is an indication of a better goodness of fit for the observations. The study used T statistic since the population is at 95% confidence level. A t-test's statistical significance will indicate whether or not the difference between two variables' averages most likely reflects a "real" difference in the population from which the groups were selected.

3.7 Operational Framework

	Variable	**Operational definition**	**Indicators**	**Measurement Scale**	**Academic Reference**
Dependent Variable	Efficiency	The rate of asset utilization to generate	profitability and asset utilization	Ratio	Kaplan (2001)

		revenues			
Independent Variable	Size of the Boards	Number of board members	number of board members	Nominal	Coles (2008).
	Gender Balance	The rate of representation of both gender on the board	number of Female Members	Nominal	Smith (2016)
	Educational Qualification	Stages completed in acquiring formal education	stages completed	Percentage	Adams and Ferreira,(2014)
	Work experience	The number of years of meaningful professional experience	number of years	Nominal	(Child, 2015).
	Independency of the Directors	Non participating members	rate of share ownership	percentage	Elloumi and Gueyié (2011)
	Board compensation	Financial related advantages for board members	Value of compensation	Nominal	Jensen and Murphy, (1990).
	Board ownership	Level of participation in the shareholding	Rate of share ownership	Nominal	Mehran (2011)

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This part examines the elucidation and introduction of the examination discoveries drawn from the exploration instrument by method for information investigation. This part introduces the examination and discoveries of the investigation as set out in the exploration approach. The exploration information was assembled solely through auxiliary information.

4.2 Summary Statistics

The study sought to establish the effect of board composition on the operational efficiency of deposit taking SACCOs in Kiambu County. This was measured using descriptive statistics of the collected data and the summary of the findings is presented in the in table below.

4.3.1 Summary Statistics of Study Variables

This section is a representation of the descriptive statistics of the study variables under investigation measured over a five year period. They include the summary statistics on the efficiency ration of the SACCOs, number of board members, number of female members, the educational qualification of the members, independency of the directors, work experience of the members, the compensation value and value of shares held by the board members.

Table 4.1 Summary Statistics of the Study Variables

	Efficiency ratio	Board Members	Fem-ales	Educat-ion	Indepen-dent Director	Experience	Compensation '000'	Share value '000'
Mean	3.42	9	4	3	4	10	8,410	27,200
SE	0.34	0	1	0	1	2	383	1,613
Median	3.40	9	4	3	4	10	8,640	27,200
SD	0.76	0	2	1	2	4	856	3,606
Range	1.95	0	5	2	5	10	2,160	8,500
Minimum	2.50	9	2	3	2	5	7,200	22,100
Maximum	4.45	9	7	4	7	15	9,360	30,600
Count	5	5	5	5	5	5	5	5

The findings indicate that the average annual operational efficiency ratio in the SACCOs was 3.42 as indicated by the standard deviation of 0.76. The findings indicate that the average annual board composition was 9 members in the SACCOs was as indicated by the standard deviation of 0. The findings indicate that the average annual number of female board members in the SACCOs was 4 as indicated by the standard deviation of 2. The findings indicate that the average educational level of the board members in the SACCOs was a bachelor's degree as indicated by the standard deviation of 1.

The findings indicate that the average year of work experience in the SACCOs was 10 years as indicated by the standard deviation of 4. The findings indicate that the average annual number of independent directors in the SACCOs was 4 as indicated by the standard deviation of 2. The findings indicate that the average annual compensation for the board members in the SACCOs was 8.4million as indicated by the standard deviation of 856. The high standard deviation is an indication of constant increase in annual payments. The findings indicate that the average annual market value of shares held by the board in the SACCOs was 27.2 million as indicated by the standard deviation of 3606. The high standard deviation is an indication of constant changes in ownership structure.

4.3.2 Trend Analysis

A trend analysis was undertaken to indentify the changes in board composition and operational efficiency indicators. They include the average annual changes / growth rate over the five year period of the SACCOs, number of board members, number of female members, the educational qualification of the members, independency of the directors, work experience of the members, the compensation value and value of shares held by the board members .The findings is presented in the in table below.

Table 4. 2 Trend Analysis

Changes	2012-2013	2013 -2014	2014 -2015	2015 -2016	Mean Growth
Board Members	0%	0%	0%	0%	0%
Female Members	100%	0%	25%	40%	41%
Educational Level	20%	7%	16%	8%	13%
Work experience	40%	43%	20%	25%	32%
Independency of Directors	0%	100%	25%	40%	41%
Compensation	10%	9%	3%	5%	7%
Share Value	0%	-11%	-6%	-13%	-8%
Efficiency Ratio	17%	16%	13%	16%	16%

The findings indicate that the average annual growth rate or changes in operational efficiency ratio in the SACCOs was 16%. The average annual growth rate or changes in number of board members in the SACCOs was 0%. The average annual growth rate or changes in number of female board members in the SACCOS was 41%. The average growth rate or changes in educational level of the board members in the SACCOs was 13%. The average growth rate or changes in year of work experience in the SACCOs was 32%. The average annual growth rate or changes in number of independent directors in the SACCOs was 41%. The average annual growth rate or changes in compensation for the board members in the SACCOs was 7%. The average annual growth rate or changes in market value of shares held by the board in the SACCOs declined by an average of 8% annually.

4.3 Effect of Board Composition Operational Efficiency

In order to determine the relationship between board composition and operational efficiency by deposit taking SACCOs operating in Kiambu County; a correlation analysis was undertaken. The independent variable (board composition) was correlated against the dependent variables operational efficiency .The findings and summarized and presented in the tables below.

Table 4. 3 Correlation analyses

	Female members	Educational level	Work experience	Ind. Directors	Compensation	Share Value	Efficiency ration
Female Members	1						
Educational Level	0.79	1.00					
Work experience	0.16	-0.05	1.00				
Compensation	0.37	0.14	0.98	0.15	1.00		

Share Value	0.77	0.96	0.24	-0.71	0.40	1.00	
Efficiency Ratio	0.41	-0.12	0.80	0.13	0.83	0.06	1

Findings in the table above indicate that there was a weak positive correlation between improvement in operational efficiency and increase in the number of female board members. There was a weak negative correlation between improvement in operational efficiency and increase in the educational qualification of the board members. There was a strong positive correlation between improvement in operational efficiency and increase in the number of years work experience of the board members. There was a positive correlation between improvement in operational efficiency and increase in the number of independent directors. There was a strong positive correlation between improvement in operational efficiency and increase in compensation for the board members. There was a weak negative correlation between improvement in operational efficiency and the value of shares held by the board members.

Table 4.4. Chi Square-Tests

	Value	**Df**	**Asymp. Sig. (2-sided)**
Pearson Chi-Square	18.000a	17	0.037
Likelihood Ratio	17.094	17	0.024
N of Valid Cases	65		

According to the findings in the above table, the significance figure was 0.037, which shows that there was a statistically significant the effect of board composition on operational efficiency. This is because the significance figure was less than 0.05 ($p \leq 0.5$).

4.4 Regression Analysis

A regression model was applied to determine the relationship between board composition and operational efficiency of deposit taking SACCOs in Kiambu County. The dependent variable is operational efficiency of Deposit taking SACCOs in Kiambu County while the independent variable is board composition. The analytical model used in analyzing the relationship between the dependent and independent variables is:

$$\mathbf{Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \beta_7X_7 + \varepsilon}$$

Where

Y = Efficiency (Measured By Revenue to Expense Ratio)

X_1 = Size of the Board measured using member Number

X_2 = Gender balance measured by number of Female Members

X_3 = Educational Qualification of the board members

X_4 = Years of work experience by the members

X_5 = Value of remuneration for the board

X_6 = Percentage share ownership of the board members

The dependent variable is operational efficiency of the SACCOs whereas the independent variables are the board composition. Coefficient of assurance discloses the degree to which changes in the dependent variable can be clarified by the adjustment in the free factors or the level of variety in the dependent variable

(Operational proficiency proportion) that is clarified by all the four autonomous factors (board organization). The examination utilized factual bundle for sociologies (SPSS V 21.0) to code, enter and figure the estimations of the different relapses.

Table 4.5: Model Summary

Regression Statistics	
Multiple R	0.953
R Square	0.908
Adjusted R Square	0.881
Standard Error	0.249
Observations	65

The R-Squared is a usually utilized measurement to assess show fit. R-square is 1 less the proportion of lingering changeability. The balanced R2, likewise called the coefficient of various judgments, is the percent of the change in the ward clarified particularly or mutually by the free factors. 88 % of the operational productivity in deposit taking SACCOs in Kiambu County could be ascribed to the consolidated impact of the indicator factors.

Table 4.6 Summary of One-Way ANOVA

ANOVA

	Df	*SS*	*MS*	*F*	*Significance F*
Regression	7	35.56662	5.080946	95.29717	0.00004
Residual	58	3.607774	0.062203		
Total	65	39.1744			

The investigation utilized One-path ANOVA to set up the centrality of the relapse display from which a likelihood estimation of 0.00004 was built up. This demonstrates the relationship was exceedingly huge in foreseeing how board composition influences operational proficiency of deposit taking SACCOs in Kiambu County. The F figured at 5% level of criticalness was 95.29717. Since F ascertained is more noteworthy than the F basic, this demonstrates the general model was huge.

Table 4.12Regression Coefficients results

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	2.03	1.31	1.55	0.13	-0.59	4.66
Female Members	-0.02	0.02	-0.69	0.49	-0.06	0.03
Educational Level	0.38	0.06	6.04	0.00	0.26	0.51
Work Experience	0.04	0.02	2.34	0.02	0.01	0.07
Independent Directors	0.01	0.02	0.57	0.57	-0.03	0.06
Compensation	0.0002	0.00	1.57	0.12	0.00	0.00
Share Value	-0.0001	0.00	-2.93	0.00	0.00	0.00

The established regression equation was;

$$\mathbf{Y} = 2.03 + \mathbf{0.02X_1} + 0.38\mathbf{X_2} + 0.04\mathbf{X_3} + 0.01\mathbf{X_4} + 0.0002\mathbf{X_5} - 0.0001\,\mathbf{X_6} + \boldsymbol{\varepsilon}$$

The regression equation above has established that holding all other factors constant (no board composition) Operational efficiency would be 2.03. The findings presented also show that taking all other independent variables at zero, a unit increase in female members would lead to an increase in operational efficiency by 0.002. A unit increase in Educational level would lead to an increase in operational efficiency by 0 .038. A unit increases in Work experience would lead to an increase in operational efficiency by 0.04. A unit increases in independency for directors would lead to an increase in operational efficiency by 0.01. A unit increases in compensation for directors would lead to an increase in operational efficiency by 0.0002. A unit share value held by directors would lead to a decrease in operational efficiency by 0.0001.

4.5 Discussion of the Findings

The findings indicate that the average annual growth rate or changes in operational efficiency ratio in the SACCOs was 16%. This improvement in efficiency was positively correlated with a corresponding average annual growth rate in number of female board members in the SACCOs which was 41% translating into a weak positive correlation between enhancement in operational efficiency and increase in the number of female board members. This improvement in efficiency was not positively correlated with a corresponding average growth rate in educational level of the board members in the SACCOs was at 13% resulting into a weak negative correlation between improvement in operational efficiency and increase in the educational qualification of the board members.

This improvement in efficiency was positively correlated with a corresponding average annual growth rate in year of work experience of board members at 32% translating into strong positive correlation between improvement in operational efficiency and increase in the number of years work experience of the board members. This improvement in efficiency was positively correlated with a corresponding average annual growth rate in number of independent directors at 41%. As such there was a strong positive correlation between improvement in operational efficiency and increase in compensation for the board members.

This improvement in efficiency was not positively correlated with a corresponding average annual growth rate in compensation for the board members at 7%. As such there was a weak negative correlation between improvement in operational efficiency and the value of shares held by the board members. This improvement in efficiency was however not positively correlated with a corresponding average annual growth rate in market value of shares held by the board declined by an average of 8% annually.

Regression analysis was utilized to find out the degree and nature of association within the independent and the dependent variable. The findings of the study show that the variables are statistically significant in controlling operational efficiency as indicated by the Regression analysis relationship coefficients. This implies that the board composition is relied upon to make conclusions about the operational efficiency of Deposit taking SACCOs in Kiambu County as shown by their strong relationship.

The findings indicate that independent directors enhance effectiveness by monitoring the shareholders wealth management and interests. In agreement with the theory of resource dependence, the findings illustrate that operational efficiency is prominent in organizations that have sizeable boards, a consistent representation of CEOs in boards, and an increase in the number of female board members, higher educational qualification and board members with more years of experience on its board. The finding on years of board member experience suggests that SACCOs with many years of board member experience are more likely to benefit from the diversity, knowledge, richness and the expertise required in promoting operational efficiency.

Directors who dual as company CEOs are competent and well equipped to advance advocate for implementation of sound governance practices –this being justified by their experience and business expertise. Directors with more years of work experience and higher educational qualification are more likely to effectively comprehend track and evaluate matters related to effective management of the organization. Collectively, these findings support the view that resource-rich boards can significantly enhance the firm's ability to attain strong operational efficiency. Furthermore, consistent we find that board independence play a significant role in decreasing the likelihood of SACCOs experiencing governance weaknesses.

In addition, consistent with the resource dependency arguments, there is evidence to suggest that higher director tenure can also provide rich SACCO-specific expertise to minimize the occurrence of governance weaknesses. Moreover, by considering dependent variables that capture two categories of governance strengths, the findings show that agency and resource dependence theory-driven variables play a prominent role in promoting governance strengths represented under both categories. In a similar vein, the findings show that board characteristics motivated by both theories are just as effective in ensuring strong operational efficiency for SACCOs.

We do, find that CEO-director shareholding is positively related to strong operational efficiency while multiple directorships is also positively related to strong operational efficiency for three of the alternative operational efficiency measures. These findings are consistent with the agency theory- and resource dependence theory-based arguments. The former result suggests that CEO-directors with large share-based compensation are less likely to pursue sound governance practices, while the latter finding insinuates that directors who increasingly hold more responsibilities in other organizations become too busy to provide the requisite resources to promote strong governance practices. Finally, the findings remain robust to a variety of sensitivity tests including alternative methods of measuring the board characteristics, utilizing a matched sample design, using lagged measures of the board characteristics, employing year-by-year tests, and considering the marginal effects of our test variables.

These results provide confidence that the relationship between the board measures and strong operational efficiency is causal instead of simply an association. The results indicate a positively correlating relationship in regard to operational efficiency and board independence, and therefore provide evidence to suggest that operational efficiency is as a result of effective implementation of principals guiding adoption of effective management practices as evidenced by the findings on how the board changing characteristics impact on operational efficiency by increasing governance strengths and decreasing governance weaknesses.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this chapter, the study's summary, conclusion and recommendation are presented. In section 5.2, the summary of the key results found is presented whereas section 5.3 contains the conclusions drawn from the study. In section 5.4, the recommendations from the study's findings are presented. The outline of the limitation of the study is given in section 5.5 whereas the suggestions for further research is give in section 5.6.

5.2 Summary of the Findings

The study's objective targeted establishing the nature of the relationship between board composition and Operational efficiency in Deposit taking SACCOs in Kiambu County in Kenya. Descriptive and inferential statistics were utilized particularly using correlation, chi-square tests, regression and ANOVA to ascertain the significance /fitness of the model and also to establish the link between Operational efficiency with board composition in Deposit taking SACCOs in Kiambu County in Kenya. The research findings indicate that improvements in all aspects of board composition except increase in share value held by the directors enhances operational efficiency of Deposit taking SACCOs in Kiambu County in Kenya.

There was a weak positive correlation between enhancement in operational efficiency and increase in the number of female board members. There was a weak negative correlation between improvement in operational efficiency and increase in the educational qualification of the board members. There was a strong positive correlation between improvement in operational efficiency and increase in the number of years work experience of the board members. There was a strong positive correlation between improvement in operational efficiency and increase in compensation for the board members. There was a weak negative correlation between improvement in operational efficiency and the value of shares held by the board members.

Regression analysis was utilized to find out the degree and nature of association within the independent and the dependent variable. The findings of the study show that the variables are statistically significant in controlling operational efficiency as indicated by the Regression analysis relationship coefficients. This implies that the board composition is relied upon to make conclusions about the operational efficiency of Deposit taking SACCOs in Kiambu County as shown by their strong relationship.

The findings indicate that independent directors enhance effectiveness by monitoring the shareholders wealth management and interests. In agreement with the theory of resource dependence, the findings illustrate that operational efficiency is prominent in organizations that have sizeable boards, a consistent representation of CEOs in boards, and an increase in the number of female board members, higher educational qualification and board members with more years of experience on its board. The finding on years of board member experience suggests that SACCOs with many years of board member experience are more likely to benefit from the diversity, knowledge, richness and the expertise required in promoting operational efficiency.

Directors who dual as company CEOs are competent and well equipped to advance advocate for implementation of sound governance practices –this being justified by their experience and business expertise. Directors with more years of work experience and higher educational qualification are more likely to effectively comprehend track and evaluate matters related to effective management of the organization. Collectively, these findings support the view that resource-rich boards can significantly enhance the firm's ability to attain strong operational efficiency. Furthermore, consistent we find that board independence play a significant role in decreasing the likelihood of SACCOs experiencing governance weaknesses.

In addition, consistent with the resource dependency arguments, there is evidence to suggest that higher director tenure can also provide rich SACCO-specific expertise to minimize the occurrence of governance weaknesses. Moreover, by considering dependent variables that capture two categories of governance strengths, the findings show that agency and resource dependence theory-driven variables play a prominent role in promoting governance strengths represented under both categories. In a similar vein, the findings show that board characteristics motivated by both theories are just as effective in ensuring strong operational efficiency for SACCOs.

We do, find that CEO-director shareholding is positively related to strong operational efficiency while multiple directorships is also positively related to strong operational efficiency for three of the alternative operational efficiency measures. These findings are consistent with the agency theory- and resource dependence theory-based arguments. The former result suggests that CEO-directors with large share-based compensation are less likely to pursue sound governance practices, while the latter finding insinuates that directors who increasingly hold more responsibilities in other organizations become too busy to provide the requisite resources to promote strong governance practices. Finally, the findings remain robust to a variety of sensitivity tests including alternative methods of measuring the board characteristics, utilizing a matched sample design, using lagged measures of the board characteristics, employing year-by-year tests, and considering the marginal effects of the test variables.

These results provide confidence that the relationship between the board measures and strong operational efficiency is causal instead of simply an association. The results indicate a positively correlating relationship in regard to operational efficiency and board independence, and therefore provide evidence to suggest that operational efficiency is as a result of effective implementation of principals guiding adoption of effective management practices as evidenced by the findings on how the board changing characteristics impact on operational efficiency by increasing governance strengths and decreasing governance weaknesses.

5.3 Conclusions

Regression analysis was utilized in determination of the degree and nature of association within the independent variables as well as between independent variables and the dependent variable. The regression indicated that the variables under the model are important in determination of the operational efficiency of Deposit taking SACCOs in Kiambu County in Kenya. The findings indicate that Operational efficiency is positively correlated to risk and therefore conclude that improvement in aspects of board composition enhances operational efficiency of deposit taking SACCOs in Kiambu County.

The findings are in line with Malombe (2011) who found a positive correlation between operational efficiency and board composition in Commercial banks in

Kenya. Njoroge (2001) also discovered that there is a positive relationship between's board composition and execution for organizations that are recorded at the Nairobi Stock Exchange. Earlier research features the significance of firm operational productivity towards propelling investor riches (Dowell Klassen and McLaughlin, 2016; Russo and Fouts, 1997). Given this relationship, we place that adherence to sound administration constitutes a critical requirement of the top managerial staff. Investors will need to guarantee that the top managerial staff they select consistently seeks solid operational proficiency. While past authoritative operational effectiveness, there has been a scarcity of concentrates on how board attributes influence firm operational proficiency.

The agency hypothesis and resource reliance hypothesis anticipate interfaces between board administration and the zones of administration and execution that are important to investors. We distinguish potential office issues in administration seeking after solid operational effectiveness, which viable sheets can address with expanded observing. Administrators can likewise under-underline administration issues since they may need learning and resources. As per asset reliance hypothesis, the arrangement of experienced and learned executives can give administration guidance, access to administration openings, and administration authenticity.

We explore the connection between operational productivity and board attributes connected to the observing part of chiefs, as proposed by organization hypothesis, and to the asset arrangement part, as recommended by asset reliance hypothesis. The research findings confirm and provide consistency with the two theories anchored on this study of board composition. In particular, steady with the office theory– driven forecasts, we discover proof of higher operational productivity in SACCOs with higher board autonomy and lower relative energy of CEOs over the governing body.

5.4 Recommendations of the Study

The Board of directors performs supervisory activities of a firm's management. Effective control from board of directors on management practices will enhance firm's efficiency. In embracing the administration and oversight roles, the board guarantees of irreplaceable check and adjustments without which investor's wealth and related framework couldn't work in a protected and sound way. To be reliable overseers, board individuals should have an essential comprehension of what dangers the organization is facing, and how those dangers are measured, checked, and controlled.

Placing managerial power on the board generally improves a firm's efficiency. The findings indicate that board of directors plays a key role in implementation of corporate governance because they posses relevant competences and skills that can positively influence a firm's efficiency. The study recommends that the composition for effectiveness should be characterized increase in gender balance of the board members, improvement education qualification, and increase in individual board member years of professional experience, increase in director's independence, increase/adequate compensation package to the board and reduction in share ownership of the board.

Administration costs in regard to the composition of the board do exist such but shareholders should bear the liability associated with such since it results in improved efficiency

Given the intensity of recent developments affecting the governance performance of SACCOs, the results are of interest to organizations pursuing a strategy of strong operational efficiency through their boards. The results identify the director and board attributes that may assist organizations and policy-makers, who operate in the interests of shareholders, to achieve significant progress on the operational efficiency and to the meet the objectives of public policy. Specifically, the findings show that high operational efficiency is related to SACCOs with more independent directors on the board, with a CEO who has less power on the board, and with having more female board members, higher educational qualification and board members with more years of experience on the board. As a result of the recent developments in the activism shareholders in the call for effective management of their resources; shareholders will find the results of this study useful in directing their activism and advocacy activities. The study contributes to academic literature by providing evidence of associations between strong operational efficiency and improvement of board characteristics, constituting of director independence, more female board members, higher educational qualification and board members with more years of experience on the board. '

5.5 Limitations of the Study

Since it was a census survey study using both primary and secondary data; data collection was extremely tedious and time consuming. The time period for the conduction of the research was limited thereby tiresome and totally comprehensive research could not be conducted. The study, however, minimized these by conducting in-depth analysis that significantly covers the shortcomings of the study. Further, the data was tedious to collect and compute as it was in very raw form. Further the presentation of the data in the different organizations was varied which made the data computation even harder.

It was difficult to access secondary data due to strict confidentiality exhibited by most organizations. The annual financial statements are also prepared under the fundamental assumptions and concepts which are subjective and therefore not be consistently applied particularly in terms of provisions and estimates. Lastly, majority of the financial statements are reaffirmed in the previous years hence misstatements of the material of the performance of the firm can lead to adjustment of the previous year's and this may not be revealed to the public. This means that the depicted pattern may have an effect on the correlation created.

Securing face to face interviews was a challenge due to the senior managers' busy schedules and the limited stipulated time to carry out the research. To counter this, appointments had to be sought and scheduled, sometimes outside the official working hours. The respondents approached were hesitant in giving data expecting that the data looked for would be used by competitors or print a negative picture of the SACCOs. This was resolved by conveying a presentation letter from the University and guaranteed them that the data they would offer would be dealt with privately and it was to be utilized only for scholarly purposes.

5.6 Recommended areas of further research

Other studies on the effect of government policy environment should be undertaken to get insight on the effect of fiscal and monetary policy adjustments on the performance of financial institutions in Kenya. This is in light to fiscal and monetary policy instability witnessed recently in Kenya that has seen the shilling depreciate fast against the dollar and rising interest rates .This greatly inform the process of formulating policies that that would lead to better policy improvements and management of the financial institutions in Kenya and eventual economic condition improvement and enhancement of business competitiveness.

Due to the turbulent nature of the business environment it will be appropriate to replicate this study after duration of ten years and establish the relationship between board composition and business performance as at that time then determine whether there are areas of commonalities or unique factors. The fact that this study limited itself to Deposit taking SACCOs in Kiambu County in Kenya, I suggest that comparative study should be conducted in other Savings and Credit Society in order to assess whether there are any similarities or differences from the results of this study. These results be useful in to the in benchmarking themselves with other organizations in the finance sector.

The study suggests further survey on study corporate governance practices and performance in other industries. This research should be replicated in other industries in order to establish whether there is consistency among them on corporate governance practices and business performance. Other studies should also supplement the findings of this study by providing information on the strength and weaknesses experienced in the implementation of corporate governance practices. Further research to be done on the factors affecting corporate governance implementation in organization by focusing on other sectors other in order to depict reliable information that illustrates real situation in across all sectors.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

Part A: General Information

1. Name of the organization: (Optional)……………………………………………

PERSONAL INFORMATION

1. Gender

Male ☐

Female ☐

2. Age Brackets

Below 20 yrs. ☐

Between 21-30 yrs. ☐

Between 31-40yrs ☐

Between 41-50yrs ☐

Above 50yrs ☐

3. Highest Education Level Attained

Primary Level ☐

Secondary Level ☐

Tertiary / Collage Level ☐

University Level ☐

4. Work Experience

Less than one year ☐

Between 1-4 years ☐

Between 5-10 years ☐

Above 10 years ☐

2. Years of experience in the SACCO industry?

Below 5 Years…………………………………..…………………………..…[ ]

6 - 10 Years………………………………..……….……..……………….[ ]

11 - 15 Years……………………………………..………………….……..[ ]

Over 15 Years………………………………..…..…………………………[ ]

PART B: THE EFFECT OF BOARD COMPOSITION ON OPERATIONAL EFFICIENCY

	2012	2013	2014	2015	2016
No.of board Members					
Gender Parity	No.of female Board.M( )	No.of female Board. M( )	No.of female Board.M( )	No.of female Board.M( )	No.of female Board.M( )
Educational Qualification of the board members	Primary ----- Secondary ----- Collage ----- Degree ----- PhD-----	--------- --------- --------- --------- ---------	--------- --------- --------- --------- ---------	--------- --------- --------- --------- ---------	--------- --------- --------- --------- ---------
Work experience of board members	<than one year --------- 1-4 years ---- 5-10 years --------- > 10 years ---------	--------- --------- --------- ---------	--------- --------- --------- ---------	--------- --------- --------- ---------	--------- --------- --------- ---------
Independency of the Directors	No.of non-participating board members ---------	No.of non-participating board members ---------	No.of non-participating board members ---------	No.of non-participating board members ---------	No.of non-participating board members ---------
Board compensation	Annual total cost of Board compensation-----------------------	Annual total cost of Board compensation---------------------	Annual total cost of Board compensation--------------------	Annual total cost of Board compensation--------------------	Annual total cost of Board compensation--------------------
Total share value held by the board members	Value of shares held by board members ----------------	Value of shares held by board members ----------------	Value of shares held by board members ----------------	Value of shares held by board members ----------------	Value of shares held by board members ----------------

OPERATIONAL EFFICIENCY TREND

Year	Profit for the Year	Total Assets	Total Liabilities	Total Shares	Operational efficiency Ratio
2012					
2013					
2014					
2015					
2016					

Thank You

APPENDIXIII: LIST OF DTSs IN KIAMBU COUNTY AS AT DECEMBER 2016

1. ALL CHURCHES SACCO SOCIETY LTD
2. DIMKES SACCO SOCIETY LTD
3. FARIJI SACCO SOCIETY LTD
4. GITHUNGURI DAIRY & COMMUNITY SACCO SOCIETY LTD
5. JACARANDA SACCO SOCIETY LTD
6. KENYA CANNERS SACCO SOCIETY LTD
7. K-UNITY SACCO SOCIETY LTD
8. METROPOLITAN NATIONAL SACCO SOCIETY LTD
9. TAI SACCO SOCIETY LTD
10. BANANA HILL SACCO SOCIETY LTD
11. GOOD FAITH SACCO SOCIETY LTD
12. KINGDOM SACCO SOCIETY LTD
13. ORIENT SACCO SOCIETY LTD
14. JOINAS SACCO SOCIETY LIMITED
15. FUNDILIMA SACCO SOCIETY LIMITED