THE RELATIONSHIP BETWEEN FINANCIAL PERFORMANCE AND CORPORATE GOVERNANCE: EVIDENCE FROM SAVINGS AND CREDIT CO-OPERATIVES BASED IN NAIROBI

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DECLARATION

I, **Kenneth .O. Opiyo**, hereby submit this research work and declare that this paper is a product of my original work and has not been submitted for an award of a degree in any university.

Signed.. **Date** 15/11/2011 ....

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

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DEDICATION

To my parents the late Vincent and mama Celestine for their unending love, sacrifice and efforts in making me be what I' am today as well as inculcating the culture of self-belief and confidence towards approach to life. To my spouse Rose, children Julia and Leonard for their perseverance, patience and support during the times I had to be away as I toiled to ensure I get through with my studies. To my late grandpa Oguok Leonard and late grandma Ogot Julia for setting on my academic aspirations through a formidable foundation at a tender age during my primary schooling and instilling in me self-discipline and the joy of Christianity life by putting God first in everything I do.

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LIST OF ABBREVIATIONS

ANOVA- Analysis of Variance

CCG- Centre for Corporate Governance

CEO- Chief Executive Officer

CFI- Cooperative Financial Institutions

FOSA- Front Office Service Activity

FSD- Financial Sector Deepening

GDP- Gross Domestic Product

PEARLs- Protection, Earnings, Assets, Return, Liquidity

KCC- Kenya Co-operative Creameries

MFI's- Microfinance Institutions

NSE- Nairobi Stock Exchange

ROA- Return on Assets

ROE- Return on Equity (Capital)

ROI- Return on Investments

SASRA- Sacco Societies Regulatory Authority

SACCO- Savings and Credit Co-operative Society's

UK- United Kingdom

US- United States

WOCCU- World Organization Council of Credit Unions

ABSTRACT

This study was about the relationship between Financial performance and Corporate Governance with specific reference to SACCO's operating in Nairobi. A sample of 98 SACCO's was selected from a population of 131 and a regression analysis was performed for purposes of data analysis to determine the relationship between the dependent and independent variables. Four dimensions of corporate governance practices (i.e. CEO duality, Gender diversity, Audit Committee, Board composition on gender, and Number of board meetings) were considered as independent variables and two on financial performance i.e. ROA as well as ROI as dependent variables in the regression model. The findings are that corporate governance did not have significant relationship on ROA but the same is reverse for ROI where it is revealed that there is significant relationship with dimensions of corporate governance used in the study. Specifically the corporate governance variable of Audit committee has higher positive relationship on ROI while that of Number of board committee meetings records a negative relationship.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

1.1.1 Financial Performance

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. It is a revelation of a firms overall financial health over a given period of time. It involves measuring the results of a firm's policies and operations in monetary terms based on allocated resources to most viable investment projects that can generate returns towards maximizations of its owners value of investments.

There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt. The most common ones are through financial ratios such as Returns on Assets (ROA), Returns on Investments (ROI) and Returns on Equity (ROE).

The financial reforms in Kenya and particularly in the SACCO sub sector through enactment of 'The Sacco Society's Act 2008 have opened up opportunities to SACCOs towards extending and expanding their product and services profile. The focus is on how they can play a role within the economic pillar of Kenya's Vision 2030 towards improving financial access to the low income group and savings mobilize savings while maintaining members' value through superior financial performance. The concept of corporate governance in Kenya therefore is receiving increased attention with the mindset that it leads sustainable growth and value adding financial performance of corporate institutions.

1.1.2 Corporate Governance

The Economist Intelligence Unit Limited (2002) defines corporate governance as a system by which corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders, and other stakeholders. It spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provide the structure through which the company's objectives are set, and the means of attaining those objectives and monitoring corporate performance. This is consistent with Capital Market Authority view of corporate governance as being a process and structure of directing and managing business affairs of a company in realizing shareholders value while taking into account interest of other stakeholders.

Betch et al (2002) observes that five reasons exist as to why corporate governance has become so prominent in the past two decades. These are the Worldwide privatization wave in terms of ownership and control; Pension fund reforms creating a large pool of investors that need value for their funds; The takeover wave of the 1980's in US and 1990's in Europe; Deregulation and Integration of capital markets creating need for foreign investments protection and at lastly Economic crises witnessed in Europe and Asia due to control by management and large investors.

In the works of Ross (1973), Jensen and Meckling (1976), and Fama (1980), the problem of incongruence of firm owners and managers has been addressed through the Agency theory. At the initial levels of the development of the agency theory of agency, especially as it relates to a firm, concern seemed to focus more on the relationship between the management and shareholders but ignores the interest of other categories of stakeholders. The stakeholder theory has therefore attempted to address this dimension of corporate governance that can also be found in the works of John and Senbet (1998).This theory argues that, a firm is viewed as contracts between management on the one hand and employees, shareholders, creditors, government and all other stakeholders on the other. Hence based on argument of the stakeholder theory, the traditional management-shareholder relationship is demystified to include all other stakeholders.

1.1.3 Savings and Credit institutions

SACCO's are quasi financial institutions that mobilize savings from voluntary organized groups of individuals who have a common interest for investments towards financial inclusion on access of affordable credit to finance business ventures. Their role in the financial sector in terms of intermediation is therefore critical to the Kenyan economy in terms of their contribution to national savings and financial access and as well as the impact of their operations to the country's GDP. According to Centre for Corporate Governance e. g. good corporate governance has therefore been identified as a key bottleneck in strengthening SACCO's financial performance and growth according to Vision 2030 Financial Sector Services Plan 2008- 2012. The general perception is that these institutions have poor management practices touching on weak governance systems. However, a good number have continued to record tremendous growth in deposits and loan portfolios as well as surpluses on their incomes according to Financial Sector Deepening Fin Access report on Kenya Financial sector 2009.

1.1.4 Financial Performance and Corporate Governance

A number of studies on relationship of corporate governance and financial performance of firms have mainly been done in developed economies in Europe with a few in Africa and Kenya in particular. Corporate governance however is increasingly gaining prominence in Kenya with corporate institutions re-engineering their management structures and adopting the best practices. SACCO's in Kenya therefore are believed to have had a history of poor governance system attributed to weak corporate governance practices, lack of internal controls, weaknesses in regulatory and supervisory systems, insider lending and conflict of interest which led to collapse of a number of them(CCG, 2004). The new regulatory regime aimed at reforming SACCOs through implementation of The Sacco Society's Act2008 by The Sacco Society's Regulatory Authority is meant first to address financial stability and secondly ensure good corporate governance mechanisms.

The study therefore attempts to lay ground for more empirical work in this area in as far as corporate governance has any role to play in shaping SACCO's strategy leading to impact on their s financial performance. This study therefore investigated the relationship of financial performance and corporate governance in SACCOs in with specific reference to those that have their operations in Nairobi Kenya.

1.2 Research Problem

The role SACCOs play towards financial access and inclusion in Kenya particularly the Economic pillar of Vision 2030 makes the sub sector a flagship project as envisioned in the Financial Services Sector Plan 2008-2012. The SACCO reform agenda as outlined in the Sector Plan is anchored under microfinance Initiative programme. Corporate governance therefore has been highlighted in the plan as a key challenge in SACCOs in terms of weak management systems as well as investments in non –core business being some of the factors impeding their financial performance and growth. This position has also been reinforced by the Kenya Government Agricultural Development Strategy 2010-2020 where corporate governance has been highlighted as a major challenge that affect service delivery in SACCO institutions.

Sanda et al (2005) contends that the global events leading to high-profile corporate failures have intensified debate on the efficacy of corporate governance as means of guaranteeing firms financial performance. The public policy debates imply that corporate governance is currently viewed as a critical factor in economic development and financial sector stability. Evidence on several studies have attempted to link firms that consistently perform well financially as having embraced good corporate governance. Rechner and Dalton(1991) contends that separations of the roles of CEO and a firms Chairperson results in higher Return on Equity(ROE), ROI and profit margins hence supporting the preposition linking good corporate governance and financial performance. According to Donaldson and Davis (1991), the independence of chair board structures and CEO's financial incentives has no effect on shareholder returns particularly on ROE contradicting the preposition held by Rechner and Dalton.

In Kenya, these institutions have continued registering good financial performance and growth over the years amid preposition perception of being poorly governed and having weak management structures. They continue offering higher returns in terms of interest and dividends to their membership despite alleged challenges of poor governance in the way these institutions are controlled. This however contradicts the findings of studies such as Rechner and Dalton (1991) where good corporate governance was observed as having positive impact on financial performance. It is therefore important to establish whether corporate governance is really worth the attention being given within the SACCO sub-sector in Kenya and its effect if any on their financial performance. This study therefore attempts to investigate the role and impact of corporate governance on financial performance SACCO's in Kenya with reference to those which have their operations based in Nairobi.

According to CCG(2004) in their study on corporate governance practices in commercial banking sector in Kenya, there exists positive relationship between financial performance and few dimensions of corporate governance while others practices does not show significant relationship. In view of the fact that this study focuses on the banking sector the researcher finds it necessary to undertake a study that specifically on SACCOs which have been very limited to address the existing knowledge gap. The key question that this study would seek to address is, 'Does corporate governance matter on financial performance of SACCOs after all in view of the mixed findings of the studies reviewed and if so to what extend or which dimensions of it have more impact?

1.3 Objective of the Study

To determine the relationship between corporate governance and Financial Performance of SACCO's in Nairobi.

1.4 Significance of the study

This study offer valuable knowledge to the stakeholders in the SACCO sub-sector on whether towards understanding good corporate governance has a major role towards financial performance of SACCO's in Kenya and whether much focus should be directed to it. This is in the context that SACCO's need to play key role in the financial sector on financial access and inclusion hence having good management practices for competitiveness.

The study will also act as policy guide towards recognition of the SACCO sub-sector as a key player in the Kenya's financial system in terms of its development plan. It will also act as an input to development of Vision 2030 Kenya Comprehensive Financial Sector Reform and Development (CFRSD) strategy currently under the guidance of Ministry of Finance. The issue will be whether the focus should be corporate governance in SACCOs sub sector or there could be other important factors that can improve their financial performance.

The study will also influence the role the Kenyan government needs to play towards corporate governance practices within the SACCO sub-sector and any intervention measures and strategies need to be put in place for continued growth. The focus will be on regulatory framework and areas emphasis towards ensuring that SACCOs are financially sound and can play a critical role in Kenya's financial system as they gain competitive advantage. The issue of sector resource allocation against contribution to the GDP in comparison to other sectors will be critical to note on budgetary matters.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This Chapter discusses the literature related to the relationship between Corporate Governance and financial performance. It is presented in two parts starting with conceptual literature that entails the theories that this study is anchored on the empirical literature on some of the earlier studies related to the subject of this research. However, the concept of corporate governance is still evolving within the SACCO sub-sector in Kenya .In this breadth, very few studies have been undertaken towards understanding the relationship between financial performance and corporate governance practices SACCO's have implemented. The researcher is never the less confident that the reviewed literature will provide justification in revealing the knowledge gap necessitating this study.

2.2 Conceptual literature

2.2.1 Agency Theory

Jensen and Meckling (1976) towards development of the Agency theory argues that in modern corporation in which share or equity ownership is widely held, managerial actions depart from those required to maximize shareholders returns hence the agency problem. The separation of ownership and control as an initiative of good corporate governance is therefore critical in ensuring good corporate financial performance that can translate in superior returns to shareholders. The theory therefore, holds the preposition that in the presence of information asymmetry the agent (in this case, the directors and managers) is likely to pursue interests that may hurt the owners. This position was also as confirmed by Ross (1973) and Fama,(1980). It was applied to the relationship between managers and equity holders but ignored recognition of other parties interested in the wellbeing or rather financial performance of a firm.

2.2.2 Stakeholders Theory

John and Senbet(1998) provides a comprehensive review of corporate governance focusing on the stakeholder theory with a mind-set that many parties are as well interested in the well-being of a firm and that these parties often have competing interests. While firm owners such as SACCO members might prefer investments in high yielding but risky projects, such investments might jeopardize the interests of debt holders more so on insolvency especially when the firm is on the edge of bankruptcy. The review also emphasizes the role of non-market mechanisms, citing as an example the need to determine an optimal size of the board of directors especially in view of the tendency for board size to exhibit a negative correlation with firm financial performance. Other non-market mechanisms reviewed by the study emphasises the need to design a committee structure in a way that allows the setting up of specialized committees with different membership on separate critical areas of operations of the firm. Such a structure would allow i.e. performance oriented committees and those with monitoring ability.

Jensen (2001) also recognizes that other than shareholders who are real owners, there are other group of stakeholders interested in institutional financial performance. Jensen, John and Senbet concur that certain actions of management might have conflicting effects on various classes of stakeholders. The implication is that that the managers have a multiplicity of objective functions to optimize shareholders wealth, yet Jensen observes that as an important weakness of the stakeholder theory. He suggests a refinement of the stakeholder theory to the enlightened stakeholder theory and proposes only one objective that managers should pursue the maximization of the long-run value of the firm and this can only be reflected in consistent superior financial performance. Therefore by protecting the interest of any major stakeholder, long-run value maximization would be achieved through superior financial performance.

Despite its appeal, the stakeholder theory of the variety proposed by Jensen has not been subjected to much empirical evaluation particularly in the context of how it impacts on corporate financial performance. Other factors might have contributed to the gap between theory and evidence are the existence of a monopoly situation where corporate governance may not really matter in as far as financial performance of an organization is concerned and how one will determine long term value that could be attributed to managerial initiative and effectiveness.

2.3 Empirical literature

2.3.1 Evidence from Kenya

Lishenga (2011) concludes that companies respond to declining firm performance by changing governance structures and practices in diverse ways. In his study, he investigated how corporate governance and practices of firms at NSE change as remedial action to persistent fall in financial performance. The study population was for all listed firms in the NSE from 1998 to 2005 where samples were drawn from calculated Tobin Q values of all listed companies at the end of 1998 to year 2004. The same were grouped into Winners for companies with persistent appreciation in financial performance, Losers being those companies with persistent decline in financial performance and Mixed depending on change in direction of company financial performance value i.e. appreciating or declining. Data analysis was via descriptive statistics by testing the significance differences in means between the three groups. He found that board meeting frequency increase with declining performance; insider ownership falls with falling firms' financial performance and finally CEO remuneration has nothing to do with a firm`s performance. The study however generate more questions than answers as to no optimal governance structure exists hence it all depends on different firms or market segments or sectors.

Mang'unyi (2011) observes that better corporate governance leads to better financial performance indicating that there is need to consider good corporate governance towards realization of better financial performance. The population of the study comprised of banks operating within Nairobi city in Kenya. A stratified sampling methodology was used to select the banks for purposes of the study to be studied where 40 banks were selected based on categories of state owned, locally owned and foreign owned through purposive sampling procedure. Data was collected through a semi- structured questionnaire administered to the selected bank managers and analyzed using descriptive methods. SPSS analysis tool was used to compute into frequencies and percentages and hypothesis tested using one way ANOVA. The findings were that, there is no significant difference between the type of ownership and financial performance and further, there is existence of significant difference between corporate governance and financial performance in Kenyan banking institutions. Based on evidence for this study, the linkage of corporate governance to financial performance is unclear as to which aspects of corporate governance leads to good financial performance.

Owuor (2008) argues that financial and operational performance of Kenya's state owned enterprises depend on best corporate governance practices implemented besides mere regulation. The objective of the study was to identify the extent to which state owned corporations in Kenya have implemented the corporate governance practices and the impact that has on their performance. A sample data of 122 corporations were studied and data analyzed. The period of the study was from 1998 to 2007. Results indicated that most of the organizations have fairly incorporated the three principles of corporate governance i.e. openness, integrity and accountability. His conclusion was that Government regulatory, control and supervision role that can best be described as being beyond the established guide of corporate governance practices as have been witnessed in the appointments of CEOs. Political interference was also a major deterrent to effective implementation of corporate governance policies in state owned corporations leading to poor performance of such state corporations. This study reveals that regulatory framework alone cannot guarantee firms good performance if it's not aligned to good corporate governance practices. This therefore reinforces the thought of both agency and stakeholders theories of interest of equity owners and other stakeholders must always come first to guarantee good financial performance.

Gitari (2008) observes that good corporate governance practices have a positive impact on financial performance of corporate institutions. He carried out a study whose objective was to establish the relationship between implementation of corporate governance practices and performance of organizations with New Kenya Cooperative Creameries as the case study. In this study, he sought to establish the Board of Directors role in the company towards steering it to good performance. The period of Study was 2003-2005.

Results indicated that New KCC has adopted practices of the Corporate Governance practices which are viewed to have improved over time and yielded improved performance hence supporting the agency theory. In the conclusion, corporate governance was found to have a positive effect on firms' performance justifying a case for its implementation. The limitation of the study is that it only looked at a single organization which may be specific to justify the evidence adduced. Based on the conclusions, it cannot be explained in view of this evidence considering variations in the operating environment and challenges that it could have faced.

Kerich (2006) observes that there is a positive relationship between the listed firms financial performance and frequency of board meetings, the ratio of outside directors to total directors, percentage of insider ownership and the executive compensation. He did a study Governance structures and performance of firms quoted in the Nairobi Stock Exchange (NSE). The aim of the research was to see if the listed companies on the NSE change their corporate governance structures when experiencing underperformance. The study followed a cross sectional survey design that sought to identify differences in governing structures between companies facing a decline in value, those with appreciating values and those with stable values over the period 2000 to 2005. The study used four governance structures that are favored by companies in sustained financial crisis that includes the CEO compensation, board composition, CEO and insider equity holdings and the frequency of board meetings with reference to financial performance of firms. The study population was all the 47 companies listed on the NSE for the period of five years from the beginning of the year 2000 through 2005. The data collected was analyzed using two approaches; first descriptive statistics were computed for the winners and losers over the test period for all the governance variables. The regression analysis was then applied to cross check the conclusion reached in the first approach. The study concluded that the way forward is examining the governing structures for the Kenyan firms. This may be through increasing the focus of shareholders' interests and concerns and identification of some widely accepted guiding principles.

2.3.2 Evidence from Africa

Kajola (2008) argues that there is a positive between profit margin and CEO status. He studied the relationship between Corporate Governance and firm financial performance among Nigerian listed firms. He examined the relationship between corporate governance mechanisms i.e. Board size and composition, Chief Executive Status, Audit Committee and two financial performance measures which are Return on Equity (ROE) and Profit Margin (PM) based on a sample of 20 Nigerian listed firms between year 2000 and 2006. Using a panel methodology, the results provide evidence of a positive significant relationship between ROE and board size as well as Chief Executive Status. He concludes that the board size should be limited to a sizeable limit and that the posts of the chief executive and the board chair should be occupied by different persons. The findings and conclusion therefore confirms that good firms' financial performance is linked to embracing good corporate governance. However only two perspectives which are board size and Chief Executive Status were investigated hence need find out the influence of other corporate governance principles.

Osiyemi (2006) contends that value based leadership to some extent is associated with organizational financial performance based on assessments and ratings of the organizations i.e. multinational and indigenous organizations. The study sample consisted of ten(10) organizations randomly selected from a cross section of twenty two organization rated as best or most valued in Nigeria which included both indigenous and multinational covering different sectors i.e. Banking, Telecommunications, Oil and gas among many others. Random sampling process was used in selecting participants and questionnaire administered. Data analysis was carried using SPSS which generated frequency distributions, means, standard deviations, variances, standard errors, chi square statistics and correlation of responses. The hypothesis was tested at 0.05 level of significance using chi- square statistics. The findings confirmed that there is a strong positive correlation between Corporate Governance and organizational financial performance. The differences were identified in the assessments and ratings of multinational and indigenous organizations as they relate to value based leadership, corporate governance and organizational financial performance. While the study points at this positive correlation between financial performance and corporate governance, it only considers value based leadership in the context of corporate governance in arriving at a conclusion but fails to test other aspects of corporate governance and their impact on organizations performance. The definition of value based leadership as a dimension of corporate governance and more so replicating the study in the context of Kenyan SACCO's would be important to undertake for purposes of understanding the implication.

2.3.3 Evidence from Europe

Bhagat and Bolton (2008) studied the relationship between corporate governance and performance taking into account the endogeneity of the relationships among corporate governance, corporate performance, corporate capital structure and corporate ownership structure. The period of the study was between 1990 and 2004 where sample size drawn from 11736 firms in US stock exchange and varied among governance variables, endogenous variables, performance variables and others such as assets, expenses, board size, CEO Age and tenure and risk. They found that stock ownership of board members, and CEO-Chair separation is significantly positively correlated with subsequent operating performance. Again, they found that financial performance and governance relationship do depend on whether or not one takes into account the endogenous nature of relationship between governance and stock market performance. Lastly that better governed firms are less likely to experience disciplinary management turnover in spite of their poor performance. They concluded that efforts to improve corporate governance should focus on stock ownership of board members since it is positively related to both future operating performance and to the probability of disciplinary management turnover to poorly performing firms. They also argued that if the purpose of board independence is to improve performance, then such efforts might be misguided but if it is to discipline management of poorly performing firms, then the board independence has a merit. The study narrows on only two aspects of corporate governance which are board stock ownership and CEO -chairperson role separation results. In the context of SACCO's it would also be important to investigate the value of shareholding of board members in relation to their financial performance.

Cuevas and Fischer (2006) examine Co-operative Financial Institutions in terms of governance issues, regulation and supervision. They looked at the effect of growth in Savings and Loans as well as number of membership in financial co-operatives (SACCOs) in Quebec USA due to governance issue. They used the data from WOCCU to do their analysis and presented them in form of graphs for a period from 1996 to 2003. Their findings were that the research identified agency conflicts between members and managers as the principal source of failures for CFI's. This presents quite a tricky perspective rather in the context of co-operative governance structures and especially elected board members. In particular, they point out that co-operatives can also be site of conflict between members and their boards in addition to member/manager tensions. Their boards can well pursue their interest at the expense of their members' interest leading to poor financial performance and affecting their growth. This study is therefore looked at the CFI's which are similar to the SACCO's in Kenya of which it would be worthwhile to carry out a similar study locally to interrogate whether the findings would be similar or different in view of varying environmental variation.

Larcker et al (2006) argues that there exist 14 dimensions to corporate governance that explains a firm's performance. The study was carried out via empirical examination between typical measures of corporate governance and various accounting and economic outcomes which failed to produce consistent results. This was attributable to the difficulty in generating reliable and valid measures of complex construct of corporate governance. Using a sample of 2106 firms and 39 structural measures of corporate governance e.g. board characteristics, stock ownership, institutional ownership, activist stock ownership, existence of debt holders, mix of executive compensation and anti-takeover variable, the principal component analysis suggests 14 dimensions of corporate governance. The conclusion was that the dimensions identified had to some extent ability to explain future operating financial performance and future excess stock returns hence a hint that good corporate governance can be associated with good firms performance. However, it should be noted that the 14 dimensions may not have the same effect on a SACCO's financial performance hence need to evaluate them through a study as to their impact.

Hartarska (2005) investigates the relationship between governance mechanisms and financial performance utilizing three surveys of rated and unrated east European MFI's from three random samples in the priod1998 to 2002. However, the number of observations is low. Upon regression, the ranges are from 46 to 144 in a data set, depending on the samples used in the study. Financial performance and outreach constitutes dependent variable dimensions, and governance mechanisms included board characteristics, CEO compensation and ownership type. Other institutional variables as well as firm control were included. The results indicate that performance based compensation of managers is not associated with better performing MFI's ,lower wages suggested for mission driven organizations worsen outreach, while manager's experience improves performance. The results also identify tradeoffs between MFI outreach and sustainability depending on stakeholders' representation on the board and provide strong support for independent boards with limited employee participation. In the region of the study, external governance seemed to play a limited role. In contrast to the proposed study, the data utilized is from East European MFI's but it would be of important if similar study is replicated for the Kenyan SACCO's with a view to corroborate these findings.

Brown and Caylor (2004) observe good governance has positive impact on a firm's financial performance. The study was based on a Gov-Score being a composite measure of 51 factors encompassing eight corporate governance categories i.e. audit, board of directors, charter or by-laws, director education, executive and director compensation, ownership, progressive practices and state of incorporation. The study related Gov-Score to operating performance, valuation and shareholder payout for 2327 firms and found out that better governed firms are relatively more profitable, more valuable and pay out more returns to their shareholders. They examined that the eight categories underlying the Gov- Score are mostly associated with good performance particularly when measured using executive and director compensation. They also found out that good governance measured using charter or by- laws are most highly associated with bad performance. They therefore observed that through examination of the 51 factors underlying Gov-Score are mostly associated with good firms performance explains the positive contribution of good corporate governance. However some factors representing good governance such as consulting fees less than audit fees paid to auditors and absence of a staggered board have contributed to bad performance. Their conclusion was that a firm's financial performance depends on factors of corporate governance adopted and it's upon each firm to prudently embrace the right factors to succeed. The issue therefore is which of these corporate governance factors can be unique to SACCO's in Kenya that would lead to their superior or poor financial performance.

Gompers et al. (2003) postulates that good governance has a positive effect on firms' returns. They examined the relationship between corporate governance practices such as cumulative voting and poison pill provisions and stock price for 1,500 U.S. companies. The period covered was September 1990 - December 1999. The aim was to analyze the relationship between corporate governance and long-term equity returns, firm value and accounting measures of performance. They constructed portfolios consisting of firms with numerous anti-takeover amendments ("Dictatorship Portfolio") and portfolios including firms with very few amendments ("Democracy Portfolio"). Subsequently, they examine the returns to holding a long position in the Democracy Portfolio and a short position in the Dictatorship Portfolio. They also built factor portfolios consisting of well-governed versus poorly governed firms. The results of the study reveal that returns tend to be higher and positively increase in well governed companies as opposed to poorly governed counterparts. They further found that well governed companies have higher equity returns, are valued higher and their accounting statements show a better operating performance. The study concluded that good governance has positive correlation with firms' financial returns. The study only examined equity returns, firm value and accounting measure to define financial performance leaving out other measures that can also reflect firms' performance. The study presents the need to investigate financial performance of Kenyan SACCO's in the context of returns on members' shareholding and valuation of the institutions in relation to corporate governance,

Rob et al (2003) examined the effect of corporate governance on stock returns, firm value and performance. The study covered the period from 2000 to 2001. The study sample was drawn from 269 firms on Deminor Corporate Governance Ratings for companies in Eurotop 300.They constructed value-weighted corporate governance factor portfolios. All firms were ranked on the basis of their corporate governance rating for the European Monetary Union. The key findings were that there was no significant relationship between the governance and firm valuation for better governed firms in UK market but stronger relationship between governance and firm value in Eurozone markets where the latter tends to have poorer governance standards. They concluded that the lower governance standards the stronger relationship between governance and firm value. The study therefore presents evidence that corporate governance and financial performance in well governed firms have no relationship. It would be worthwhile to examine this preposition in understanding how this is relevant within the Kenya Sacco sub- sector.

Hydman et al (2002) studied the structure, growth and accountability of Credit Unions in UK. They picked a sample of 120 credit unions from Great Britain and Northern Ireland and analyzed their annual reports other than traditional financial information to ascertain quality of the financial statements and types of information that were frequently and routinely made available to members. In addition, in order to obtain a more in-depth understanding of the issues, a series of interviews with key stakeholders were undertaken, focusing on the accountability of credit unions through the medium of the annual report. The findings were that governance in both financial and non-financial terms, including that relating to wider social accountability was weak hence poor therefore negatively impacting on their financial performance due to inherent risks. This was basically attributed to poor governance structures that existed in most of these institutions posing a challenge to their performance and growth. This study confirms evidences adduced by other research work that good corporate governance does have a positive effect on organizations performance whether financial or non-financial. The question therefore is does it matter to SACCOs more so in the local context.

2.3.4 Evidence from Asia

Ponnu (2008) asserts that there is significant relationship between good corporate governance and firms' financial performance. The aim of the study was to investigate the effect if any of corporate governance structures particularly board structures and CEO duality as corporate governance dimensions on financial performance of Malaysian public listed companies. The samples used were 100 Bursa Malaysian companies consisting of 30 large and 70 mid-sized companies. Data was obtained via the web page of Bursa Malaysia Securities for the published annual reports for financial year 1999 to financial year 2005. The variables used were ROA and ROE as dependent variables and Duality of CEO Chairman position and proportion of independent directors as independent variables. SPSS package was used to analyze relationship between dependent and independent variables. Results showed there is no significant relationship between corporate governance compliance on duality and board independence on company performance. The conclusion was that CEO duality and independent directors on company performance has received close attention by researchers on corporate governance in recent times. This study therefore generates an interesting perspective on the role of corporate governance on a firm's financial performance in that neither CEO duality nor independence of board directors has any effect. It would be worthwhile particularly in the SACCO's where issues of duality and board independence have been a challenge.

2.3.5 Evidence from Latin America and Other Regions

Cornett et al (2007) examines effect of corporate governance and pay- for- performance particularly for the executive management. The study sample is derived from classification of standard and poor 100 firms which represented a large sample of aggregate market capitalization and commanding greatest interest among institutional investors to test their impact of both financial performance and earnings management. The variable measured representing firm performance is ROA and shareholding proportions of institutional investors of each firm based on the parameter of performance and also sensitivity of CEO's wealth to firm's performance. Two sets of regression analysis are carried out where the first one examines earnings management and the second financial performance variables. They found that earnings management is lower where there is more monitoring of management discretion from sources such as institutional ownership of shares, institutional representation on the board and independent outside directors on the board. Earnings management therefore increases in response to the option compensation to the CEO's. They conclude that outside monitoring other than pay for performance compensation elicits superior firm performance hence the quality of reported earnings improves dramatically with monitoring but greatly declines with option compensation. The study narrows in on one aspect of corporate governance i.e. Management compensation in view of their positions as agents which has been a challenge in Kenyan SACCOs in view of other financial sector players. The question therefore what would be the effect of management compensation to SACCO's performance i.e. if they can match market price in terms of skills and talents.

Mcrsland and Strom(2007) argues that internal mechanisms of top management and ownership together with external mechanisms competition and regulations influence the financial and outreach performance of MFI's. They also hold that separation of roles between CEO and a firms Chairman is key to defining financial performance indicators that managers should pursue towards serving the interest of the shareholders. The study attempted to investigate the relationship of a firm's performance and corporate governance in Micro Finance institutions using a self-constructed global data set on MFI's collected from third party rating agencies. It focused on the effects on board characteristics, ownership type, competition and regulation on MFI's outreach to poor clients and their financial performance. The findings were that outreach measured by the number of credit clients served and poverty level is improved with group lending based on split roles of CEO and Chairman. However, there is no effect of board size and composition on average loans and credit clients served yet the loan methodology is important determinants of these outreach variables. They conclude that there is no difference between nonprofit organizations and shareholder firms neither in financial performance nor outreach in terms of the role played by corporate governance. The study does not reveal however the effect of board structure and gender composition on financial performance of the MFI's which would be important to evaluate in the context of SACCO's in Kenya.

Boubakri et al (2004) contends that liberalization and corporate governance has an effect on performance of privatized firms. They used a study sample of 230 privatized firms with headquarters in developing countries classified within four geographical regions of Asia, Pacific, Latin America and the Caribbean. They performed a multivariate regression analysis in which changes in profitability, efficiency, investment and output were regressed on three groups of independent variables and the firm and industry characteristics. The findings were that corporate governance variables as well as those of macro-economic reforms and environment appear to drive the performance improvements of newly privatized firms in developing countries. They conclude that corporate governance drives performance improvements of firms. The issues is whether firms performance can only be limited within the context of profitability, efficiency, investments and output if not also on ne returns on shareholding in form of dividends as far as SACCO's are concerned.

2.4 Conclusion

It can therefore be concluded that based on the reviewed literature, the effect of good corporate governance on financial performance is not consistent and vary with the firms and dimensions of corporate governance adopted. While some of the studies revealed that good corporate governance lead to good corporate financial performance, others contradict this preposition. Studies focused on SACCO's towards understanding the effect of corporate governance are very few if not available locally. The literature reviewed therefore presents a strong justification towards addressing the knowledge gap on relevant studies the Kenya SACCO sub-sector of which this research seeks to investigate. The new regulatory regime under the Sacco Society's Act, 2008 attempts to also address governance issues in SACCOs towards enhancing their financial performance and stability. The question is whether corporate governance is a major issue in this sub-sector and worth the attention

Many studies have therefore examined the relationship between a number of governance mechanisms and their effect on financial performance on corporate institutions. However some examined only the impact of a single governance mechanism on financial performance while others investigated the impact of several mechanisms together on financial performance. The evident shortcoming is none of such studies have specifically covered the effects of corporate governance on financial performance of SACCOs with specific reference to Kenyan situation. Many unpublished work done in Kenya focused on corporate governance in other corporate sectors or public entities with no attention directed to the case of the SACCO sub-sector being an important player in the financial sector. It is against this background that the researcher finds it necessary to focus this study by investigating the relevance of financial performance and corporate governance with specific reference to SACCOs operating in Nairobi.

CHAPTER THREE
RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter presents a detailed plan in terms of methodology and tools on how this study will be conducted. It entails description of a collection of procedures and steps that would be used to answer the research questions. It discusses the methods of carrying out this study starting starts with Research design describing the pattern this study will follow in terms of the plan or strategy. It also defines the target population where samples will be drawn from, sampling methodology to be used, data collection and data analysis methods and tools as well as systematic procedures.

3.2 Research Design

This study was conducted using descriptive survey design. Mugenda and Mugenda(1999) defines survey method as an attempt to collect data from a representative sample of population in order to determine the current status of the population with respect to one or more variables and generalise its findings. It involves finding out how one variable affects changes in the other one or more variables by portraying their characteristics or situations. Barbie (2004) contends that a survey includes cross-sectional and longitudinal studies using questionnaires of structured interviews with intent of generalising from a sample of population.

The emphasis of the descriptive study is the determination of frequency of occurrence or extent to which variables are related. It concerns a univariate question or hypothesis in which the researcher asks about the size, form, distribution or existence of a variable. The choice of this design is appropriate in that based on the study objectives, there is need to establish how corporate governance which is the independent variable affect changes in the dependent variable financial performance. The design therefore is expected to address the research objectives for purposes of this study.

3.3 Population of the study

According to Mugenda and Mugenda (1999), population is a complete set of individuals, cases or objects with some common observable characteristics. The target population was the at least 131 SACCOs registered and are active whose operations are based in Nairobi. The population of the study has been settled for based on the research objectives and scope of geographical location of the researcher where it will be desirable for purposes of data collection. The schedule of the target population is provided under ***Appendix I***

3.4 Sampling

Cooper and Schindler(2002) defines a sampling as the process of selecting elements in a population for purposes of drawing conclusions on specific characteristics from the identified population. The researcher employed proportionate stratified sampling technique to select the SACCOs for purposes of the on study population based on asset size as at the end of year 2009.

Proportionate stratified sampling is appropriate since it identifies subgroups in the population and their proportions and selects from each subgroup a sample. It ensures each stratum is properly represented in that the sample drawn from it is proportionate to stratum share of total population. The groups of population have been separated into homogeneous subsets on the basis of their asset base to account for the difference in subgroups.

The researcher's conviction is that the target population has varying scales of operations in terms of asset sizes justifying the selection of the sample design. The reasons are first, It has higher statistical efficiency than will a simple random, secondly, it is much easier to carry out other than stratifying methods and lastly, it provides self-weighting sample i.e. the population mean or proportion can be estimated by simply calculating the mean or proportion of all sample cases eliminating the weighting of the responses(Cooper and Schindler, 2002).The fact that some SACCO's are in different stages of their growth, it is critical to categorise them based on size of their assets to be able to understand the impact of corporate governance on their financial performance on level platform. This will ensure each subgroup charactertics are represented in the sample thus raising the external validity of the study.

For purposes of determining the sample size out of the population of 131 SACCOs which operate in Nairobi as per Appendix I, proportionate stratification method will be used. The sample size for each stratum shall be proportionate to population size of each stratum. The strata's will be based on the total asset size of the SACCOs as at 31st December, 2009 financial data obtained from SASRA and categorised as Ksh 0-500m, Over Ksh 500-Ksh 1 billion and over Ksh 1 billion. The strata sample sizes to be used for the purposes of the study shall be calculated as follows;

$$\mathbf{n_h = (N_h / N) * n}$$

Where $\mathbf{n_h}$ is the sample size for stratum h. $\mathbf{N_h}$ is the population size for stratum h. N is total population size, and **n** is total sample size estimated 75% of the 131 SACCOs being the entire target population i.e. 98.

3.5 Data Collection

The collection of data was both quantitative and qualitative through structured questionnaires, interviews and document analysis. This allowed the researcher to collect both primary data as well as secondary data that was necessary for purposes of this study.

Questionnaires and interviews were used to collect primary data by obtaining responses from management of the SACCOs sampled for the study recording responses to the questions focussed on addressing the study objectives. The semi structured instruments were used in this study to enable the researcher strike a balance on more of quality than quantity and quality of data collected to ensure adequate explanation of the study phenomena.

Document analysis technique were used to collect secondary data from the financial statements of SACCO's selected under the study specifically for the financial performance ratios such as Return on Assets, and Return on Investments. Other survey reports from the new regulatory body of SACCOs SASRA and the Ministry of Co-operative Development and Marketing on prudential guidelines as far as governance is concerned.

The selection of these tools have been guided by nature of data to be collected to carry out the study, time limitation to the study as well as the objectives of carrying out this study to reasonably answer the research questions. A sample study questionnaire has been provided under as ***Appendix II*** of this research report.

3.6 Data Analysis

The data collected was verified coded and be grouped in consistent with the study objectives. The analysis was done through Statistical Package for Social Sciences (SPSS) into frequencies and percentages based on descriptive statistics for both dependent and independent variables.

Using descriptive analysis, frequencies and percentages were calculated were determined for the four independent variables to understand the characteristics of each of them measured in terms of varying parameters on the study questionnaire. The findings were then presented in tables for purposes of indicating the described characteristics based on the number of respondents to the questionnaires.

The researcher also performed a correlation analysis on the independent variables to find out if they had significant relationship among them at 5% level. The purpose was to ensure that no multi colllinearity exist between them for purposes of including them in the multiple regression analysis as well as determine which had significant influences on financial performance dimensions used in the study.

A linear regression was developed to enable researcher find out the nature of relationship of financial performance and corporate governance on SACCOs based in Nairobi. The regression model was specified as;

$$Y = a + b1x1 + b2x2 + b3x3 + b4x4 + \Sigma$$

Where **Y** represents financial performance which is dependent variable.

a = Constant factor value of the intercept of variables Y and Xi measuring average value of Y when Xi = 0

xi = represents values of independent variables, CEO duality as x1, Board gender diversity as x2, Audit committee as x3 and No of board meetings as x4

bi = Coefficients of the independent variables b1, b2, b3 and b4 to be determined

Σ = Error term being the difference in value between the i th observation and the model expected to be equal to 0.

Financial performance used for the purposes of the study constituted Return on Assets (ROA) and Return on Investment (ROI) being the dependent variables on the regression model. For purposes of measuring The measurement independent variables, in order to determine their values, the following criterion was used;

i. Duality- where there is no duality the value assigned was 1 and where duality existed the value was recorded as 0.

ii. Board Gender diversity- Where at least 30% of either gender was represented in the Board, the value assigned was 1 and where this threshold was not met the value assigned was 0.

iii. Audit committee- Where there was an audit committee in place, the value assigned was 1 and where there was no such committee constituted, the value assigned was 0.

iv. No of Board/Board committees meetings, where the number of meetings in a year were twelve (12) and below which is ideal the value assigned was 1 and where it meetings exceeded 12 the values assigned was 0.

The presentations of data are in form of tables that depict results on the level of association between the two variables, in the context of analysed questionnaire responses. The results and deductive reasoning are used to interpret the data based on research objectives given under Chapter one of this study.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter presents the results of the study. The study is carried out on 36 SACCOs which responded to the questionnaires. From the 98 SACCOs selected for the sample, this shows that the response rate is 36%. This is fairly adequate for the study given that a number of studies using this data collection procedure have had lower response rates.

The chapter is organized as follows. Section 4.2 presents the descriptive analysis results. Section 4.3 presents the multivariate analysis results using correlation and regression analysis.

4.2 Descriptive Analysis

The results showed that 2.8% of the SACCOs held their board committee meetings weekly while 97.2% held their meetings monthly. The results also showed that all the SACCOs held their full board meetings monthly. This means that most of the SACCOs frequently hold their board committee and full board meetings as depicted on Table 1 below.

Table 1: Frequency of meetings

	Frequency	Percent
Weekly	1	2.8
Monthly	35	97.2
Total	**36**	**100.0**

On the CEO duality, it was noted that this was present in 27.8% of the SACCOs while it was not the case in 72.2% of the SACCOs. Thus, most of the SACCOs do not have their CEO doubling up as chairpersons of the board of directors which is a good indicator of increased practices of corporate governance in the sector. These results are shown in table 2.

Table 2: CEO duality

	Frequency	Percent
Duality	10	27.8
No duality	26	72.2
Total	**36**	**100.0**

The results also showed that 91.7% of the boards had women in the board while 5.6% of the board did not have female board members. One SACCO did not respond on this variable. These results reveal therefore that SACCOs boards are diverse as far as the inclusion of both genders in the board is concerned with very few failing to meet this requirement. These results are shown in table 3.

Table 3: Board composition (Gender diversity)

	Frequency	Percent
Gender diverse	33	91.7
No diversity	2	5.6
Total	35	97.2
System	1	2.8
Total	**36**	**100.0**

The study also looks at board composition in terms of educational levels. It reveals that 27.1% of the board members had master's degrees, 35.4% had bachelor's degrees, 31.3% had diplomas and 6.3% had O or A level qualifications. These results show that most of the boards of SACCOs have good academic qualifications of at least a first degree. This also shows that the board members are very educated and are therefore able to make value adding decisions regarding management and strategic issues in their SACCOs. These results are shown in table 4.

Table 4: Board composition (Education levels)

	Responses	
	N	Percent
Masters	26	27.1%
Bachelors	34	35.4%
Diploma	30	31.3%
O/A level	6	6.3%
Total	**96**	**100.0%**

4.3 Correlation Analysis

The correlation results are shown in table 5 and table 6. Table 5 presents the results of the correlation between the independent variables used in the study. Only four independent variables; CEO duality, Board composition on gender diversity, audit committee and number of committees are used for purposes of this analysis. Two variables namely frequency of committee and board meetings was left out since they were unitary in terms of measurement i.e. both had meetings held monthly and thereby was coded as 1 hence no significant influence would be able to be tested given no differences in the same.

As shown in table 5, the study found that none of the independent variables had a significant relationship with each other at 5% level. This also means that there was no multicollinearity between the independent variables hence the variables could be included in the multiple regression analysis.

Table 5: Correlation matrix for independent variables

	CEO duality	Gender diversity	Audit committee	No. of committees
CEO duality	1			
Board Comp(Gender diversity)	-.037	1		
Audit committee	-.055	.067	1	
No. of committees	.219	-.107	.138	1

Table 6 shows the correlation between the four independent variables and two dependent variables used in the study. As shown, CEO duality had a negative and significant influence on ROA at 5% level (p = -0.338). The results also show that audit committee had a positive and significant impact on ROI at 5% level (p = 0.381). These results mean that CEO duality and audit committee have significant influences on the financial performance of SACCOs in Kenya.

Table 6: Correlation between dependent and independent variables

	ROA	ROI
CEO duality	-.338*	-.271
Board Composition(Gender diversity)	-.072	-.194
Audit committee	.270	.381*
No. of committees	-.097	-.297

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

4.4 Regression Analysis

The study performed a regression analysis with two models of performance – ROA and ROI. These results are shown in table 7 and table 8. Table 7 presents the results on the relationship between corporate governance and ROA while table 8 presents the results on the relationship between corporate governance and ROI.

As shown in table 7, the study found that the corporate governance explained 8.9% of the variance in financial performance as shown by adjusted R^2 with an F ratio of 1.860 which was not significant at 5% level ($p>.05$). The model predicted 19.4% of variance in performance ($R^2 = .194$). None of the independent variables had a significant influence on ROA at 5% level. From the Durbin Watson test statistic of 2.214, it is concluded that no serial autocorrelation in the data existed.

Table 7: Corporate Governance and ROA of SACCOs

	Coefficient	**p-value**
Constants	11.772	.000
CEO duality	-1.686	.071
Gender diversity	-.971	.503
Audit committee	1.327	.109
No. of committees	-.602	.647
R	.440	
R^2	.194	
Adjusted R^2	.089	
Durbin Watson	2.214	
F	1.860	.143

Table 8 below shows that corporate governance explained 28.8% of the variance in performance as shown by adjusted R^2 with an F ratio of 4.548 which was significant at 5% level ($p<.05$). The model predicted 37% of variance in performance ($R^2 = .370$). Audit committee had a positive and significant impact on ROI at 5% level ($p = .005$). Further, the study revealed that the number of audit committees had a negative and significant impact on ROI at 5% level ($p = .027$). From the Durbin Watson test statistic of 1.696, it is concluded that no serial autocorrelation in the data existed.

Table 8: Corporate Governance and ROI of SACCOs

	Coefficient	**p-value**
Constants	18.964	.000
CEO duality	-1.410	.226
Gender diversity	-3.376	.072
Audit committee	3.063	.005
No. of committees	-3.837	.027
R	.608	
R^2	.370	
Adjusted R^2	.288	
Durbin Watson	1.696	
F	4.548	.005

CHAPTER FIVE:
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary and discussion of findings in section 5.2, conclusions of the study in section 5.3, recommendations for policy and practice in section 5.4, limitations of the study in section 5.5 and suggestions for further research in section 5.6.

5.2 Summary and Discussion of Findings

This study was designed to determine the relationship between corporate governance and financial performance of SACCO's in Nairobi. The descriptive results showed that 97.2% of SACCOs held their committee meetings monthly while all the SACCOs studied had their full board meetings monthly too. The results showed that most of the SACCOs (72.2%) do not have their CEO doubling up as chairpersons of the board of directors. The results also showed that 91.7% of the boards had women in the board revealing board gender diversity. The educational levels showed that 27.1% of the board members had master's degrees, 35.4% had bachelor's degrees, 31.3% had diplomas and 6.3% had O or A level qualifications.

The correlation results are show that none of the independent variables had a significant relationship with each other at 5% level hence the absence of multicollinearity between the independent variables. From the correlation results, CEO duality had a negative and significant influence on ROA at 5% level ($p = -0.338$) while audit committee had a positive and significant impact on ROI at 5% level ($p = 0.381$).

The multiple regression analysis showed that corporate governance did not have a significant impact on ROA at 5% level. The results also noted that corporate governance had a significant impact on ROI and specifically with reference to existence of Audit committee had a positive and significant impact on ROI ($p = .005$) and the number of board committees had a negative and significant impact on ROI ($p = .027$)

5.3 Conclusions

The study reveals that the SACCOs boards of directors in Nairobi meet regularly and so are the committees. The study also concludes that CEO duality is not prevalent in most SACCOs in Nairobi. Further, the boards are gender diverse as a number of them have women board members hence embracing involvement both gender in management of SACCO's affairs. It is also revealed the most of the board members also are well equipped in terms of good academic qualifications positioning them to steer these institutions towards playing a major role towards financial intermediary role within the financial sector to enhance access and inclusion.

The study concludes that corporate governance of SACCOs in Nairobi does not affect return on assets but does affect return on investment. Specifically, audit committees positively impact on ROI while having higher the number of board committees negatively impact on ROI. These results mean that the existence of an audit committee in a SACCO will leads to better SACCO financial performance in terms of ROI. The results also mean that the higher the number of board committees, the poor the performance as measured by ROI.

The finding that Corporate governance dimensions studied has no effect on financial performance of SACCO's in Nairobi in terms of ROA contradict the conclusion on its effect on ROI. The question that still remains unanswered is does corporate governance really matter towards financial performance and more so what would be its impact if relationship with other measures of financial performance such as ROE, Earnings ratio are considered?

The overall conclusion therefore in this study is yes corporate governance has a positive impact on financial performance of SACCO's but is not the major factor going by the mixed findings as revealed by this study.

5.4 Recommendations

The study recommends that there is need for the SACCOs to control the number of board committees based on value addition perspective to overall SACCO's growth other than following tradition as laid down by the Ministry of Co-operative Development and Marketing on what types of committees to be put in place. At the moment, most of the SACCOs have many committees that are note based on functional mandate such as Executive of which act as cost drivers hence poor financial performance as far as ROI is concerned. There is therefore need for SACCOs to keep the board committees thin and lean for purposes of focus on their strategic goals other than holding the herd mentality of following what other SACCO's do.

Some of the SACCOs do not have audit committees yet this is a very important organ as far as corporate governance issues are concerned. Given that evidence in this study support the positive role of audit committee on financial performance, the SACCOs that do not have such committees should constitute one as a matter of priority.

Some of the SACCOs also had their board chairpersons and some board members executing management roles through Executive committees resulting in conflict of roles. Since this leads to duality and may impact negatively on performance – as anecdotal evidence from correlation matrix showed the SACCOs with duality issues should embrace separation of roles by ceasing to exercise executive powers by engaging in day to day operational matters in SACCO's by engaging competent CEO's and let them run the show. The new regulator within the sector SASRA regulations clearly emphasize this point but there is need for stakeholders buy in to enable change be implemented.

Some of the SACCOs also had only male boards. Since gender diversity is important in any organization and compliance with the current constitutional dispensation, such boards with no female board member should be reconstituted by having at least one female board member on the board of directors.

The study also recommends that the regulator should enforce corporate governance regulations and monitor the same in SACCOs. This would greatly improve the corporate governance in SACCOs in Kenya hence better performance of SACCOs.

5.5 Limitations of the Study

One major limitation is the explanatory power of the model. The only significant model was for ROI yet it only explained 37% of variance in performance (R^2 = .370). This means that there are a number of variables which were not included in the model and which would have explained more variance in performance.

Secondly, the data collection phase faced numerous challenges as the respondents were unwilling to take part in the study citing other managerial commitments. The collection period therefore took a longer time than was envisaged and this came with financial costs. This can also be seen from the low response rate.

Thirdly, through review of the literature, not so much studies have been carried locally and globally in the SACCO sub-sector on how corporate governance practices affect their financial performance. This inhibited the researchers' ability to evaluate sector specific studies to understand the argument widely held that these institutions experience poor performance due to poor or weak governance structures. No corroborating evidence seems to have confirmed this preposition hence this could be one of the studies to unlock this matter.

5.6 Suggestions for Further Research

The study suggests that more studies need to be done on corporate governance in SACCOs in Kenya in view of the mixed findings as to whether it really matters or other important factors could be ignored. Such studies should use a combination of methods such as in-depth interviews to find out more corporate governance issues in SACCOs. Further, future studies should include more variables in the model in order to enhance the predictive power of the models. In addition to the use of ROI and ROA as performance measures, more measures can be used.

Also, the study should be extended to other SACCO's outside Nairobi to find out if the same findings could be replicated to strengthen the objectives of this research. The Kenyan government should embrace continued research within the SACCO subsector as a major player in the financial system in its role of financial intermediation.

Finally a study on impact of corporate governance on enhancing financial inclusion and access to both rural and urban Kenyan citizens through SACCO's would be ideal towards understanding SACCO's as flagship vehicles of achieving Economic pillar of Vision 2030. The focus would be what will be the impact in terms of outreach and types of loans/credit advanced and the utilization aspect in empowering the Kenyan citizens. The analysis could also go to the extent of contribution of SACCOs the growth of economy sectors i.e. Agriculture, Education and many others.

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APPENDIX -I

REGISTERED AND ACTIVE SACCOS OPERATING IN NAIROBI

	CS NO	NAME OF SACCO
1	3991	AFCO
2	1981	AFYA
3	2001	ARDHI
4	2077	ASILI
5	2169	CHAI(KTDA)
6	2466	CHUNA
7	2686	COMOCO
8	2032	ELIMU
9	1916	HARAMBEE
10	2044	JAMII
11	3468	KENPIPE
12	2483	KENVERSITY
13	2299	KENYA BANKERS
14	2092	KENYA POLICE
15	9208	KINGDOM
16	10718	LENGA TUMAINI
17	3212	LOMPASAGO
18	1946	MAGEREZA
19	2248	MAISHA BORA
20	7877	MATER
21	2265	MWALIMU
22	3047	MWITO
23	2406	NACICO
24	6919	NAKU
25	2280	NASCA
26	6070	NASSEFU
27	2386	NATION STAFF
28	11181	NEST
29	9227	NGP BAMBURI
30	9326	NJIWA
31	10120	ORTHODOX DEVELOPMENT
32	2563	RELI
33	2102	SHERIA
34	2207	STIMA
35	1872	TELEPOSTA
36	2022	TEMBO
37	2365	TRANSCOM

38	2149	UFANISI
39	2085	UFUNDI
40	10541	UKRISTO NA UFANISI
41	2026	UKULIMA
42	2375	UNITED NATION
43	3110	WANA ANGA
44	2700	WANANDEGE
45	3302	WAUMINI
46	4,627	MHASIBU
47	1,991	HAZINA
48	2,357	BALOZI
49	2,736	NYATI
50	4,217	CO-OPERATIVE BANK
51	4,264	BANKI KUU
52	5,000	PARLIAMENTARIANS
53	3,947	AMREF
54	2,234	UKAGUZI
55	4,053	KENTOURS
56	8,047	HORTIFLO
57	8,916	EQUITY BANK
58	7,310	KENCOM
59	2,333	BAT
60	2,475	BIBLIA
61	8,643	KENYA MEDICAL ASSOCIATION
62	3,626	FUNDI LIMA
63	1,990	JOGOO
64	9,202	KENYATTA MATIBABU
65	3,342	VISION
66	9,459	N.H.I.F
67	2,747	NAFAKA
68	3,440	POST BANK
69	7,779	BOB MORGAN
70	4676	LAW SOCIETY OF KENYA
71	1,971	SHELOYEES
72	3,695	KIRUNGII

73	2,918	EXAMS
74	9,069	FAMILY SIZE
75	2,671	KINGSIZE
76	2,442	NAIROBI HOSPITAL
77	6,053	MITA
78	4,877	FARMERS CHOICE
79	8,764	FAMILY
80	2,642	MAKTABA
81	2,101	TOPEES
82	4,483	PCEA SACCO
83	3,553	BANDS
84	8,512	BROOKSIDE
85	2,821	HUDUMA
86	2,419	PORTLAND
87	4,331	DHAMINI
88	9,643	YES
89	3,883	GERTRUDE'S
90	6,681	RELIEF
91	5,780	KARI
92	6,532	M.T.K
93	10,589	DELGA
94	2,809	MATER
95	3,012	UBORA
96	9,461	COMMUNICATION
97	2,990	HOECHEM
98	3,021	GENERAL MOTORS
99	2,280	NASCA SACCO
100	2,051	JISAIDIE
101	3,960	PARENTS PLAN
102	2,322	STANDARD NEWSPAPERS
103	3,718	PEGASUS
104	3,950	RADIO GUARD
105	3,360	QUEENSWAY
106	2,672	DUDU

107	6,557	CIC
108	4,833	CENTRAL KENYA ADVENTIST
109	6,846	UOKOAJI
110	3,859	SAWA
111	9,093	FOUNTAIN
112	6,271	GURUDUMU SACCO
113	2,261	CHEVRON
114	2,331	ACCEL
115	6,202	BESCO
116	3,539	ENERGY
117	2,402	AGDECO
118	3,959	PICEA
119	2,463	NASERIAN
120	5,246	TARDA
121	3,690	MAWAZO
122	2,103	SAUTI
123	2,333	B.A.T
124	3,429	ACTION AID
125	4,212	MACHO
126	4,660	COSMOS
127	5,509	BACISTA
128	8,246	DEVCO
129	4,220	USIU
130	5,508	EASTEL
131	11,202	NEW MILIMANI

SOURCE: Ministry of Co-operative Development & Marketing

APPENDIX II - STUDY QUESTIONNAIRE

PART A: DEMOGRAPHIC DATA:

Name of the Sacco --	CS/No. ----------------------------	Year of Registration ------------------------
Physical Location (Head Office) Town ……………………………………….	County ……………………..	District ……………………..
Address: P.O. Box……….. Code………..	Street………..Name of Building…………….	
Telephone……………………………………. ………..	Mobile………………… …….	Email…………….. ……

PART B: FINANCIAL PERFORMANCE

This section seeks to address financial data to measure performance. Tick the applicable threshold for all the years.

1. Kindly tick on the relevant threshold for the financials as per the table below;

	2010	**2009**	**2008**	**2007**	**2006**
Share capital					
Ksh 0- Ksh 10m					
Over Ksh 10m≤ Ksh 50m					
Over Ksh 50m					
Deposits					
Ksh 0- Ksh 10m					
Over Ksh 10m≤ Ksh 50m					
Over Ksh 50m					
Turnover					
Ksh 0- Ksh 10m					
Over Ksh 10m≤ Ksh 50m					

Over Ksh 50m					
Total Assets					
Ksh 0- Ksh 10m					
Over Ksh 10m≤ Ksh 50m					
Over Ksh 50m					

2. What rate of interest on members deposit has the Sacco paid over the last 5 years?

	Year	**Interest Rate paid (%)**	**Dividends rate paid (%)**
1.	2006		
2.	2007		
3.	2008		
4.	2009		
5.	2010		

NB: Kindly attach the extracts of Statement of Comprehensive Incomes and Financial Position based on latest audited financial statements.

PART C: GOVERNANCE

Board committee's meetings frequency and types of committees in place

1. Kindly indicate number of board Committees in place and total meetings held by each

Board Committee types	Year constituted(Tick ASAP)				
	2010	2009	2008	2007	2006

2. How frequently do the board committees meet?

Weekly ☐ Monthly ☐ Quarterly ☐

Others (specify)

....

Board of Directors

3. How frequently does the full board meets?

Weekly ☐ Monthly ☐ Quarterly ☐

Others (specify)

....

....

PART D: OPERATIONS

Duality of CEO/Board Chairperson

1. Who is responsible for day to Day management of the SACCO operations? (Tick ASAP)

CEO ☐ Board Chairperson ☐

2. For how long has the SACCO had a CEO? Indicate No in years..........................

PART E: BOARD COMPOSITION

1. Indicate gender, and qualifications level of your SACCO board.

Educational Level	Gender	
	Male	Female
Masters		
Bachelors Degree		
Diploma		
"O"/ "A" Level		
Other professional qualifications		

PART K: GENERAL

1. Are there any challenges that the Sacco faces in the course of its operations?

Yes ☐ No ☐

2. If yes in what form.

....

....

....

3. Where does the Sacco draw its membership from?

....

....

PROJECT PLAN

	Phase / Activity	Time (months)	Dates	Dependency
A	Development of proposal	2	June – July 2011	A
B	Development & piloting of instruments	1	August 2011	B
C	Data collection	1	September 2011	C
D	Data organization, analysis and interpretation	1	October 2011	D
E	Typing/ Editing / Report writing/ Submission	1	October 2011	E