EFFECTS OF THE IMPLEMENTAION OF CORPORATE GOVERNANCE PRACTICES ON PERFORMANCE OF SAVINGS AND CREDIT COOPERATIVE SOCIETIES –A CASE STUDY OF WANANCHI SACCO LIMITED

BY:

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Declaration

This project is my original work and has not been submitted any degree qualification in any other university

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To my family and friends

For their understanding and inspiration

Abstract

Corporate governance is an area that has gained a lot prominence in the last few years. Much attention to corporate governance issues in emerging markets among policymakers and academics has focused on the role that governance play in improving access for emerging market companies to global portfolio equity. An increasing volume of empirical evidence indicates that well-governed companies receive higher market valuations. Improved governance structures and processes help ensure quality decision-making, encourage effective succession planning for senior management and enhance the long-term prosperity of companies, independent of the type of company and its sources of finance. Improving corporate governance contributes to the development of the public and private capital markets. Poor standards of governance, particularly in the area of transparency and disclosure have been a major factor behind instability in the financial markets across the globe.

This study sought to assess the effect of the implementation of corporate governance practices on the performance of Savings and credit cooperative Societies. The broader objective of the study was however, to investigate the relationship between corporate governance practices and the performance of organizations. The Study revealed that good corporate governance has a positive effect on the performance of organizations. Lack of it therefore leads to poor performance and ultimate collapse of organizations. Similarly, the leadership organizations have a key role to play in corporate governance.

The study recommends that the organization should communicate the strategy to its members/shareholders so that they understand the direction which the organization is heading. The organizations should also hold regular education for members so that they can understand more on how the organization is run and managed. It is also important for the board of directors to conduct regular reviews of the performance of the SACCO and know where to adjust accordingly. Finally, the board must recognize that to survive and thrive it has to ensure that the technology, skills and systems used in the SACCO are adequate to run the organization. The SACCO should constantly review and adopt the same in order to remain competitive

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Acronyms

BIS	Bank for International Settlements
IASC	International Accounting Standards Committee),
ILO	International Labour Organization
IOSCO	International Organization of Securities Commissions
Ksh	Kenya shillings
OEC D	Organization for Economic cooperation and Development
SACCOs:	Savings and credit cooperative Society
WTO	World Trade Organization

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Corporate governance is an area that has grown rapidly in the last few years. It is now an integral part of everyday business life. The corporation on the other hand, has a vital role to play in promoting economic development and social progress. It is the engine of growth internationally, and increasingly responsible for providing employment, public and private services, goods and infrastructure. The efficiency and accountability of the corporation is now a matter of both private and public interest, and governance has, thereby, come to the head of the international agenda.

Corporate governance is not a new concept but it has got popularity in the last few decades due to various crises such as: East Asian crisis of the late 1990s and various other fraudulent activities in the corporate world. Now every country recognizes that the good corporate governance is essential for the efficiency and growth of domestic economy. Globalization has increased the volume as well as the complexity of business trade due to which the external control is becoming more difficult and thus the concept of corporate governance is getting popularity.

This study therefore provides an insight on corporate governance practice and their impact on performance of Savings and Credit Cooperative Societies in Kenya.

1.1.1 The Concept of Corporate Governance

Corporations have become powerful and dominant institutions. They have reached to every corner of the globe in various sizes, capabilities and influences. Their governance has influenced economies and various aspects of social landscape. Shareholders are seen to be losing trust and market value has been tremendously affected. Moreover with the emergence of globalization, there is greater deterritorialization and less of governmental control, which results is a greater need for accountability (Crane and Matten, 2007). Hence, corporate governance has become an important factor in managing organizations in the current global and complex environment. In order to understand corporate governance, it is important to highlight some of its definition.

For many, corporate governance is synonymous to solving the adverse selection and the moral hazard problems associated with this agency relationship: how to select the most able managers and to keep them accountable to the shareholders (Tirole, 2001)). This view of corporate governance as a collection of means to primarily protect the interests of the shareholders is perhaps best captured by the definition of Shleifer and Vishny (1997) who specify corporate governance as the ways by which suppliers of finance to corporations assure themselves of getting a return on their investment. However, diffuse shareholder ownership results in a separation of ownership and control. This leaves the majority of decisions up to agents with little or no stake in the economic fortunes of the company. Thus, central to assuring an investor' s return in the modern corporate system is the implementation of adequate controls, a corporate governance system to prevent rational self-interested agents from engaging in self-dealing (Monks & Minow, 2008).

According to the Organization for Economic Cooperation and Development -OECD 1999corporate governance is the system by which business 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, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance (OECD 1999)

OECD's definition is consistent with the one presented by Cadbury Report (1992,) which views corporate governance asthe system by which companies are directed and controlled. It is concerned with structures and the allocation of responsibilities within companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that appropriate governance structures in place in. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulation s and the shareholders in general meeting.

Kirkpatrick (2006) views corporate as a set of objectives between a company's management, its board, its shareholder and other stakeholders. Corporate governance also provides the structure though which the objectives (i.e strategy) of the company are set and the means of obtaining those objectives and monitoring performance are determined.

Sir Adrian Cadbury (1993) in his lecture on reflections on corporate governance summarized the concept of corporate as to do with power and accountability, meaning who exercises power, on behalf of 'whom, how the exercise of power is controlled.

This study focuses on the control and direction of organizations and tests their effectiveness in ensuring that management acts in shareholders' interests. It also documents the costs to shareholders when they fail to restrain management from engaging in self-dealing. The evidence provided herein reports the existence of sizeable agency costs associated with management's discretion over corporate resources. However, the internal and external controls studied play an important and effective role in curtailing these costs. Therefore the definition by Kirkpatrick (2006) will highly guide this study.

1.1.2 The Concept of Organizational Performance

Performance of organizations, on the other hand has been perceived as a core objective and a result of corporate governance practices. The concept of organizational performance has been commonly referred to when discussing organizational effectiveness. Letts, Ryan and Grossman (1998) suggest four key capacities for organizational effectiveness. These capacities were suggested for nonprofit organizations. However, they also apply to organizations in general and, thus, their descriptions are modified in the following paragraphs to apply to organizations in general.

There are five components organizational performance. The first component of organizational performance is its adaptive capacity which is the ability of an organization to maintain focus on the external environment of the organization, particularly on performing (meeting the needs of customers), while continually adjusting and aligning itself to respond to those needs and influences. The second is the leadership capacity which is the ability to set direction for the organization and its resources and also guide activities to follow that direction. The third is the management capacity which is the ability to ensure effective and efficient use of the resources in the organization. The fourth is the technical capacity which is the ability to design and operate products and services to effectively and efficiently deliver services to customers. Finally is the generative capacity which is the ability of the organization to positively change its external environment.

The discussion on corporate performance has not been left in the area of financial and economic performance only. Most recently organizations are looking at social performance and its management. The latter measures how well an institution has translated its social goals into practice. For instance, the consultative Group to Assist the Poor (CGAP) defines social economic performance at the level which financial institutions serves the poor sustainable and the level at which such institutions improve the quality and appropriateness of financial services available to poor people. The outputs of such financial institution are therefore geared towards improving the lives of poor clients and their families and widening the range of opportunities for communities

In a nutshell, performance management has come to be associated with set of techniques and applications that review the success of business processes against a set of objectives. Business performance is managed through planning and budgeting to set expectations, and monitoring the actual business performance against the desired results. Managing business performance improves business acumen, ensures accountability, and raises investor confidence. This lies in the domain of corporate governance.

1.1.3 The Concept of Implementation of Corporate Governance

Despite the diversity of corporate governance systems, the globalization of markets is producing a degree of convergence in actual operations and governance practices.

In implementing corporate governance, uniform standards are gaining currency. Similarly, governments, which retain priority in protecting savers, investors, suppliers, and the broader interest of the economy, are increasingly requiring that corporations operate in a fair, transparent, and accountable manner. Numerous public and private bodies have responded by establishing standards and norms related to important aspects of corporate governance. Among them are the International Accounting Standards Committee (IASC), the Bank for International Settlements (BIS, for bank-ing supervision and prudential regulation), the International Organization of Securities Commissions (IOSCO), the World Trade Organization (WTO), and the International Labour Organization (ILO).

Moreover, agreement on basic principles for corporate governance is spreading. Through a consultative process involving OECD members and observers, the private sector, international organizations, and various stakeholders, the OECD has distilled from diverse national practices a set of principles of corporate governance. They deal mainly with internal mechanisms for directing the relationships of managers, directors, shareholders, and other stakeholders. They are also intended primarily for listed companies that function within an effective legal and regulatory environment with adequate competition.

The OECD recognizes these broad Principles as a starting point for debate and consideration by governments seeking to raise standards of corporate governance. In brief, the principles cover the following:

First are the rights of shareholders (and others) to receive relevant information about the company in a timely manner, to have the opportunity to participate in decisions concerning fundamental corporate changes, and to share in the profits of the corporation, among others. Markets for corporate control should be efficient and transparent, and shareholders should consider the costs and benefits of exercising their voting rights.

Second is the equitable treatment of shareholders, especially minority and foreign shareholders, with full disclosure of material information and prohibition of abusive self-dealing and insider trading; all shareholders of the same class should be treated equally. Members of the board and managers should be required to disclose any material interests in transactions. Third is that the role of stakeholders in corporate governance should be recognized as established by law, and the corporate governance framework should encourage active cooperation between corporations and stakeholders in creating wealth, jobs, and financially sound enterprises. Fourth is to have timely and accurate disclosure and transparency on all matters material to company performance, ownership, and governance and relating to other issues such as employees and stakeholders; financial information should be independently audited and prepared to high standards of quality. And finally, the corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and shareholders.

1.1.4 The SACCOs Movement in Kenya

Savings and Credit Co-operatives are forms of co-operative societies whose core business is to encourage thrift and easy access to credit to their members. These Savings and Credit Cooperatives or SACCOs as they are popularly known, are active in urban, pen-urban and rural areas. They have enabled members to save and many have also accessed loans while ensuring that loan resources remain in the communities from which the savings were mobilized.

In Kenya, there are more than 2.5 million members in Savings and Credit Co-operatives (SACCOs) out of the 5 million Co-operators while there are over 5,000 SACCOs out of the 10,000 registered Co-operatives. The savings mobilized by SACCOs in Kenya are Kshs.110 billion (US$1.5 billion) and the loans outstanding Kshs.95 billion (US$1.3 billion) Co-operatives have been involved in the provision of credit for the purchase of land, farm inputs, housing, education, medication and development of various business ventures (Wanyama, 2007).

This study involves a case study on the corporate governance in Wananchi Savings and Credit Co-operative Society.

1.1.5 Wananchi SACCO Limited

Wananchi SACCO is a capable and fast growing society located in Nyeri district, central province of Kenya. It was started in 1993 with only 827 members, two employees and a share capital of Ksh. 1.2 million. By December 2010, the SACCO's share capital stood at Ksh 55,568,300. With current staff of 102 the, SACCO's loan portfolio has grown to over Ksh 300,000 million and membership of 43,779.

The idea of forming Wananchi SACCO was mooted in 1991 by the then Nyeri District Tea Committee and Tea Officer of 1991 — 1993 periods. After the consultations with Tea Growers from the three tea growing areas namely Mathira, Tetu and Othaya Divisions, the society was formed with the aim of helping tea growers to improve their saving and enable them to borrow for different purposes such as development, school fees and funding micro enterprises. On 14th May 1992, the Society was registered by the Commissioner of Co-operatives in the Ministry of Co-operatives under the name 'Nyeri District Tea Growers SACCO Society Limited' under Certificate No. 6531. By then, an interim management committee of ten members manned the SACCO with the assistance of only 2 (two) employees.

The Vision of Wananchi SACCO is to be the leading and preferred SACCO of choice in mobilization of funds through well researched products and services in the Republic of Kenya"

1.2 Research Problem

According to Macey (2008) the purpose of corporate governance is to persuade, induce, compel, and otherwise motivate corporate managers to keep the promises they make to investors. Another way to say this is that corporate governance is about reducing deviance by corporations where deviance is defined as any actions by management or directors that are at odds with the legitimate, investment-backed expectations of investors. Good corporate governance, then, is simply about keeping promises. Bad governance (corporate deviance) is defined as promise-breaking behavior.

Corporate governance thus provides the structure through which the objectives of organizations are set, the means of attaining those objectives and monitoring performance are determined. It should provide quality administrative structures in order to pursue objectives that are in the interests of the shareholders and should facilitate effective monitoring, thereby encouraging the organization to use resources more efficiently. (Macey, 2008)

Tokei (2007) argues that corporate governance has its benefits if well cultivated and implemented. Corporate governance leads to efficiency, productivity reduced cost of production, faster decision making process and more important, increased wealth creation as the key pointers of effectiveness of corporate governance. However ability to enhance shareholders wealth is highly questionable by many stakeholders.

The many collapses and malpractices within Savings and Credit Cooperative Societies (SACCOs) sector suggest that, despite the financial markets being well-developed and relatively sophisticated, there have been sufficient weaknesses in management of SACCO's. This is the key reason that made the researcher investigate the corporate governance within SACCOs and how they in turn impact on their socio-economic performances.

However, there exists scanty literature in the field of corporate governance among savings and credit cooperative societies. This is an issue that warrants further investigation. Moreover, many studies in the field of corporate governance have concentrated on big corporations. It is however important to note that the issue of corporate governance is as importance for small organizations as it is for big organizations. This study will therefore aim to fill this gap in knowledge by investigating the impact of implementation of corporate governance practices and its impact on performance of SACCOs.

There are two research questions that will be answered by the study. First is how corporate governance impact on performance of SACCOs and second is what factors promote good and poor corporate governance in SACCOs.

1.3 Research Objective

The objective of this research is to carry out an investigation of implementation of corporate governance practices among SACCOs in Kenya and to its effects on both social and economic performance of SACCOs.

1.4 Value of the Study

This study will be of importance to the top management of Wananchi SACCO and other SACCOs who will gain an understanding of good SACCO corporate governance in Kenya. They will thus direct their efforts in putting in place structures and measure that ensure good corporate governance practices.

Academically, the study aims at filling the research gap in knowledge as to extent to how good and corporate governance affect the performance of SACCOs. This is because few studies have been done on corporate governance among savings and credit cooperative societies. This study will also form basis for further research

The study will be important to government and other stakeholders involved in the regulation of SACCO business since it will point out areas of corporate governance that need to be given attention in future regulation of these institutions.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter assesses the existing literature on corporate governance as well as its theoretical aspects some and narrows down on governance of SACCOs in Kenya.

2.2 Corporate Governance

Businesses around the world need to be able to attract funding from investors in order to attract and grow. Before investors decide to invest their funds in a particular business, they will want to be sure as they can be that the business is financially sound will continue to be so in the foreseeable future. Investors therefore need to have confidence that the business is being well managed and will continue to be profitable.

In order to have this assurance investor look to the published annual report and accounts of the business and to the information releases that the company might make. They expect that annual report and accounts will represent true picture of the company present position. However although annual report may give a reasonably accurate picture of the business activities and financial position at that point in time, there are many facets of the business that are not effectively reflected in the annual report and accounts. (Mallin, 2007)

There have been a number of high-profile corporate collapses that have risen despite the fact that the annual report and accounts seemed fine. For instance, a string of collapses of high profile companies such as Enron, the Houston, Texas based energy giant, and WorldCom, the telecom behemoth, shocked the business world with both the scale and age of their unethical and illegal operations. Worse, they seemed to indicate only the tip of a dangerous iceberg. Large and trusted companies from Parmalat in Italy to the multinational newspaper group Hollinger Inc., revealed significant and deep-rooted problems in their corporate governance. Even the prestigious New York Stock Exchange had to remove its director, Dick Grasso, amidst public outcry over excessive compensation. It was clear that something was amiss in the area of corporate governance all over the world.

These corporate collapses have had adverse effects on many people: shareholders who have seen their financial investment reduced to nothing; employees who have lost their jobs and, in many cases the security of their company pension which has also evaporated overnight, suppliers of goods or services to the failed companies and the economic impact on the local and international communities in which the failed company operated.

This raised many questions as to why such huge multinationals could collapse yet their annual reports and accounts seemed fine. The answers to these questions are linked to corporate governance: a lack of effective corporate governance meant that such collapses could occur; good corporate governance can help prevent such collapses happening again and restore investors' confidence (Mallin, 2007).

Naibo (2006) argues that the dilemma in implementation of corporate governance arises from the fact that it involves power sharing among various stakeholders and requires companies to take the broader outside view of the firm. Most corporate governance issues are complex and with apparent conflict between shareholders and directors.

Good corporate governance therefore is not just a matter of prescribing particular corporate structures and complying with a number of hard and fast rules. There is a need for broad principles. All concerned should then apply these flexibly and with common sense to the varying circumstances of individual companies. This is how the Cadbury (1992) and Greenbury (1995) committees intended their recommendations to be implemented. It implies on the one hand that companies should be prepared to review and explain their governance policies, including any special circumstances which in their view justify departure from generally accepted best practice, and on the other hand that shareholders and others should show flexibility in the interpretation of the code and should listen to directors' explanations and judge them on their merits.

Sound corporate governance principles are the foundation upon which the trust of investors is built. These principles are critical to growing the reputation that we have established over decades as a company dedicated to excellence in both performance and integrity.

2.3 Theoretical Aspects of Corporate Governance

The development of corporate governance is a global occurrence and, as such, is complex area including legal, cultural, ownership and other structure differences. And given that many disciplines have influenced the development of corporate governance, the theories that have fed into to it are quite varied. The main theories that have affected the development of corporate governance are mainly agency theory, transaction cost economics, stakeholder and stewardship theory.

The agency theory identifies the agency relationships where one party, the principal, delegates work to another party, the agent. The agency relationship can have a number of disadvantages relating to opportunism or self-interest of the agent: for example the agent misusing his power for pecuniary or other advantage, and the agent not taking appropriate risks in pursuance of the principals interest because he (the agent) vies those risks as not being appropriate (he and the principal may have different attitudes to risk). In the context of corporations and issues of corporate control, agency theory views corporate governance mechanism, especially the board directors, as being an essential monitoring device to try to ensure that any problems that may be brought about by the principal-agent relationship are minimized. Blair (1996) states that 'Managers are supposed to be agents of corporation owners but managers must be monitored and institutional arrangements must provide some checks and balances to make sure they do not abuse their power. The costs resulting from managers misusing their positions as well as all costs of monitoring and disciplining them to try to prevent abuse have been called agency costs.

Transaction economics theory (as expounded by work of Williamson -1975, 1984) on the other hand views the firm as a governance structure while agency theory views the firm as a nexus of contracts. The latter means that there is a connected group or series of contacts among the various players arising because it is seemingly impossible to have a contract that perfectly aligns the interest of principal n agent in corporate control situation. Coase (1973) examines the rationale for firms' existence in the context of a framework of the efficiencies of internal, as opposed to external, contacting. He argues that the operation of a market costs something and by forming an organization and allowing some authority (an entrepreneur) to direct the resources, certain marketing costs are saved. The entrepreneur has to carry out his function at less cost, taking into account the fact that he may get factors of production at a lower price than the market transaction which he supersedes.

Williamson (1984) builds on the earlier work of Coase, and provides a justification for the growth of large firs and conglomerates, which essentially provide their own internal capital market. He states that the costs of any misaligned actions may be reduced by judious choice of governance structure rather than merely realigning incentives and pricing them out.

The stewardship theory draws on the assumption underlying agency theory and TCE as expounded by Donaldson and Davis in 199, who cautioned against accepting the agency theory. The thrust of Donaldson and Davis paper was that agency theory emphasizes control of managerial opportunism by having a board chair independent of the CEO and using incentives to bind CEO interest to those of shareholders. Stewardship theory stresses the beneficial consequences on shareholder returns of facilitative authority structures which they unify command by having roles of CEO and chair held by same person. The safeguarding of returns to shareholders may be along the track not of placing management under great control by owners but empowering mangers to take autonomous executive action.

The stakeholder theory takes account of a wider group of constituents rather than focusing on shareholders. A consequence of focusing on shareholders is that the maintenance or enhancement of shareholder value is paramount, whereas when a wider stakeholder group such as employees, providers of credit, customers, suppliers, government and the local community, is taken into account, the overriding focus on shareholder value becomes less self-evident.

In conclusion, corporate governance is a relatively new area and its development has been affected by theories from a number of disciplines, including finance, economics, accounting, law, management, and organizational behavior. The main theory that has affected its development and that provides theoretical framework within which its most naturally seems to rest is agency theory. However, stakeholder theory is coming more into play as companies increasingly become aware that they cannot operate in isolation and that, as well as considering their shareholders, they need also to have regard to a wider stakeholder constituency.

2.4 SACCO' s Corporate Governance

The Savings and Credit Co-operatives (SACCOs) like any other Co-operative Organizations are guided by the practices, philosophy, fundamental principles and values of the Co-operative Movement world over. SACCOs are not ends in themselves but means to an end in the Co-operative Movement. That's why they must operate alongside other types of co-operatives e.g. Producer and Marketing co-operative.

The role of cooperative societies in the economy need not be overemphasized. Cooperative societies are important vehicles for economic growth and development globally. National economies have benefited from well-governed cooperatives. The converse is true. Good corporate governance in cooperatives would lead to the realization of the objectives of the cooperative movement, which is the creation of wealth for sustained economic growth and development. However, despite the great potential of cooperative societies as agents for national development in the country, they have performed poorly. This poor performance is attributable concisely, to poor corporate governance practices by the Management committees or other bodies entrusted with the responsibility of governing the cooperative societies. There is therefore the need to get the cooperative sector back on the track to sustainable prosperity.

However, most of SACCOs often suffer from poor management and governance. Where members are less well educated, the skills and experience to run these organizations effectively is often lacking and powerful members may manipulate them to individual advantage. Moreover, the more complex the products on offer, the more sophisticated the skills required for effective management and oversight. The question arises as to whether it is possible to provide low cost support and supervision services to improve the management and governance of these types of organization.

In all fields of human endeavor, good governance is founded upon the attitudes, ethics, practices and values of the society. Goddard (2000) on good corporate governance thus premised on the following:

First is that the major role of the government is to provide a conducive and an enabling environment in which business activities can thrive. The enabling environment encompasses the legal framework, which controls business activities and the effectiveness of public governance in enhancing investor confidence. Second is that the society, within which corporate entities operate, upholds the highest moral values and business ethics; requires accountability, legitimate representation, democracy, fairness; and demands efficient and effective use of resources. Third is that the license to operate granted to corporate entities by the society carries with it the important caveat that the corporate entity will be responsible, responsive and accountable to the society within which they operate. Fourth is that those entrusted with the governance of these corporate entities will act in a socially responsible manner and exercise their focused intelligence with discipline, loyalty and integrity. And finally is that those corporate entities, which do not operate efficiently and effectively for the benefit of society, will be sanctioned through market forces or by the Government.

There must be an effective body, responsible for governance, which is separate and independent of management to promote accountability, efficiency and effectiveness, probity and integrity, responsibility as well as transparency and open leadership.

Corporate governance is a straightforward agency perspective, sometimes referred to as separation of ownership and control for example, to know how investors get the managers to give them back their money (Shleifer and Vishny, 1997)

This view derives from the notion of agency theory as developed by Jensen and Meckling (1976). This perspective is important because expropriation, self-dealing and abuse of minorities are common manifestations of the agency problem in East Asia (Cheesman, 2001; Lague, 2001; Wilhelm, 2001). Second, this view resonates with lawyers from a common law background because it reminds them of shareholder and creditor remedies. Third from an agency perspective, the principal reason that investors provide external financing to firms is that they receive control rights in exchange (Shleifer and Vishny, 1997, p. 750). If firm managers violate these rights (voting, duty of loyalty, creditor remedies and so on) then financiers can ask courts to enforce them. Thus, legal protection of financiers (shareholders and lenders) is a central issue in corporate governance and this varies from country to country.

Shleifer and Vishny (1997) observe that much of the difference in corporate governance systems around the world stems from the differences in the nature of legal obligations that managers have to the financiers, as well as in the differences in how courts interpret and enforce theses obligations.

Corporate values can be defined, in a classical sense, as beliefs that help companies make choices among available means and ends (Rockeach, 1973), or more technically, as the weight which corporate decision makers attach to alternative goals when making their decisions. Alternative goals could be accounting profitability, stock returns, customer value, market share, company growth, employee satisfaction, supplier surplus or measures of corporate social performance (like image, environmental impact, tax revenue). They could be present or future values of these variables to capture a tradeoff between the short and the long run (Fama and Jensen, 1985). They can be probabilistic to capture different attitudes towards risk (Sitkin and Pablo, 1992; Sitkin and Weingart, 1994; Wright et al., 1996). Effectively, they can even encompass the weight, which managers attach to their personal goals (Jensen and Meckling, 1976). For example, if the managers of a company value empire building, and if this inclination is not checked by shareholders or stakeholders, growth and diversification goals may effectively belong to the corporate value system.

2.5 Summary

In summary, companies have developed a solid institutional environment can generally offer a better legal framework. Nevertheless, this alone is not enough to provide investors and minority shareholders with adequate protection agains abusive behaviors. The sound environment needs to be coupled with a cor[orate governance framework in line with international standards ands with an effective civil procedure framework. Corporate governance is essential to society's success and that improves efficiency and productivity of the society. Good corporate governance framework provides an enabling environment within which its human resources can contribute and bring to bear their full creative powers towards finding innovative solutions shared problems

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methodology that will be used in the research project. It gives details of the research design, study population, data collection and data analysis methods or techniques.

3.2 Research Design

This is a case study in order to give an in-depth understanding on corporate practices among savings and credit cooperative societies. According to Mugenda and Mugenda (2003), a case study is an in depth investigation of an individual, group, institution, or phenomenon. The primary purpose of a case study is to determine factors and relationships among the factors that have resulted in the behavior under study.

3.3 Data collection

Both primary and secondary data was collected during the research. The primary data will be collected through interviews and questionnaires. Structured and unstructured questions were administered in order to collect the primary data. This was in order to give the respondent a chance to think about the questions as well as giving the suggestions that are appropriate to the study. These interviews were administered to 100 members of the SACCO and 12 members of supervisory committees and management/board. The secondary data was collected from the preliminary study of journals, reports and periodical from Wananchi SACCO. This data collected helped the researcher to have a deeper understanding on corporate governance practices among savings and credit cooperative societies.

3.4 Data Analysis Method

The data was analyzed using qualitative data analysis techniques. Content analysis was used to analyze both secondary and primary data. Content analysis is a systematic description of the composition of the objects or materials of study. It involves observation and detailed description of objects, item that comprise the study (Mugenda, 1999).

CHAPTER FOUR: DATA ANALYSIS

4.1 Introduction

This chapter presents data analysis and presentation on the research study on the effect of implementation of corporate governance practices on performance of Savings and Credit Cooperative Societies. This chapter provides an analysis of the respondents' details with regard to the organization.

A total of 100 questionnaires were distributed to respondents selected randomly from the members of Wananchi SACCO, 9 board members and three members of the supervisory committee. 107 questionnaires were received back making the response to be 95.5.5%. Out of the 107 questionnaires received, 103 were complete and 4 incomplete. The table below summarizes the responses:

Table 1. Responses from Questionnaires

Response type	Number	Percentage
Completed	103	92%
Incomplete	4	3.5%
Unreturned	5	4.5%
Total	112	100%

4.2 Description of the Corporate Governance Structure and Practices in Place

4.2.1 Governance Structures

The study found out that the SACCO is governed by the Co-operative Act and the Rules and the established By-Laws. The management structure is well established to ensure democracy, transparency, accountability and return on investments to members. The members have the supreme authority. The members elect delegates who discuss and give the SACCO mandate of operations in the annual delegates meeting (ADM) which is held at the end of every year or can be held as special annual delegates meeting for special agenda.

There is a full Board that comprises of 9 members which is sub-divided into various sub-Committees namely the Executive committee, the Credit Committee, the education committee and the Assets and Liability management committee.

The division of the full board into sub committees is for ease of administration and management of the SACCO and the subcommittees have specific duties. There is a supervisory board that comprises of 3 Members. Staff Structure has top, middle and lower levels whereby the chief executive officer is the top most and acts as the link between the board of directors and the staff. The departments in the SACCO are Administration, finance, marketing, microfinance, loans, information and computer technology, internal audit and operations and they are all headed by qualified and competent staff. The SACCO has By-laws and policies as well as procedures and manuals that govern the management and running of the Society affairs.

4.2.2 Board Meetings

From the study it was found out the board meet every quarter to discuss matters pertaining to the SACCO. The board meetings are held periodically so that directors can discharge their responsibility to control the company's overall situation, strategy and policy, and to monitor the exercise of any delegated authority, and so that individual directors can report on their particular areas of responsibility. The chair of the meeting ensures that the meeting is conducted in such a way that the business for which it was convened is properly attended to, and that all those entitled to may express their views and that the decisions taken by the meeting adequately reflect the views of the meeting as a whole. The chair also very often decides upon the agenda and sign off the minutes on his or her own authority

4.2.3 Division of Responsibilities for the Board of Directors

From the study it was found out that there is clear division of responsibilities for the board members. This is for, as mentioned earlier, for ease of administration and management of the SACCO and the subcommittees have specific duties. These include the finance and administration committee that reviews and make recommendation to the board on the financial plan of the SACCO among other advice and recommendations on financial undertaking of the SACCO; the credit committee that is mandated to review and approve the loan application from members; the audit committee that ensures the establishment and review of the internal control system; the education committee that is mandated to review, recommend and monitor implementation of education programmes for members, the board members and general public.

Individual directors have only those powers which have been given to them by the board. Such authority is specific and sometimes inferred from past practice. However, the board as a whole remains responsible for actions carried out by its authority and therefore ensures that executive authority is only granted to appropriate persons and that adequate reporting systems enable it to maintain overall control.

4.2.4 Appointment of Board Members

The members of the board are appointed in line with the by-law of SACCO with a third retiring annually. The ultimate control as to the composition of the board of directors rests with the shareholders, who always appoint, and more importantly, sometimes dismiss a director. The election/appointment of the board of directors happens every year at the annual general meeting during which elections are conducted.

4.2.5 Communication

It was clear from the study that communication within the organizations is fair. The policies made by the board are communicated to members via special notices or communicated during the annual general meeting and special general meeting. Most of the communication that takes place from the upper echelon of the SACCO that is from the board of directors to the manager and ultimately towards its employees is in the shape of some policies, orders and instructions that are required to be followed. The communication that comes from the board to the shareholders is more on the performance of the SACCO, challenges and policies put in place by the board of directors to achieve the set objectives.

4.2.6 Accountability and Responsibility to Stakeholders Members

The members interviewed felt that the board is very accountable to its members. This is reinforced by the work of the supervisory committee that checks the conduct of the board and reports to the members during the annual general meeting. The board also meets and with stakeholders during the annual general meeting, the special general meetings to agree on policies and seek approval. Respondents felt that the relationship between the management board and the shareholders had improved significantly over the last few years.

4.2.7 Leadership of the Board

Most of the respondents felt that the board exercised skills and decision making in the best interest of the SACCO and its stakeholders. The selection of the board members is done in a democratic manner that reflects an effective process to ensure that a balanced mix of proficiency is made in such a way that those appointed are able to add value and bring independent judgment to decision making process.

4.2.8 The Organization Strategy

It was found out that the board members determine the strategy of the organization and how to achieve the objectives set in it. The board members interviewed were found to understand the strategy of the organization clearly. They also indicated that is need for the strategy to be reviewed regularly in line with the changing needs of the SACCO. It was not clear whether the ordinary shareholders understood the organizational strategy

4.2.9 Adherence to the By-Laws

From the analysis of the responses, it was found out that most members of the board and management committees do adhere to the guidelines set in the by-laws. Some of those interviewed viewed some deviations in the adherence to the by-laws and hence a room for improvement.

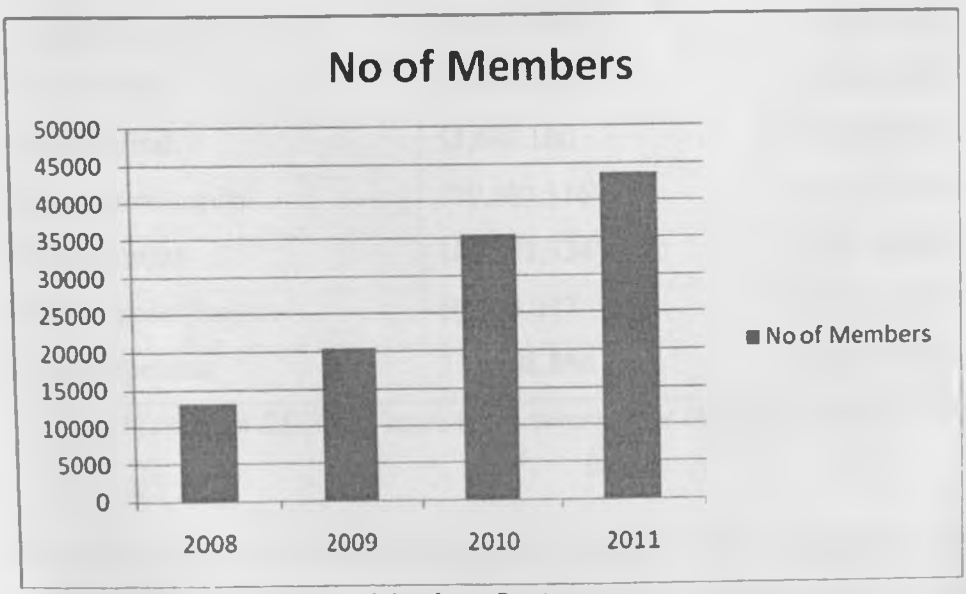
4.2.10 Adoption of Technology and Skills

The respondents interviewed felt that the organization has made positive strides to adopt new technology. However s they felt that the organization is lacking in appropriate technology to serve the members better and more quickly.

4.3 Performance Analysis

Trend analysis was carried out to establish the financial performance of the SACCO. The trend analysis enabled the researcher to establish whether there was increase or decline in the performance of the SACCO over the years.

Figure 1: Membership growth



Source: Wananchi SACCO Members Register

From the graphs above it is adequate to conclude that the SACCO membership has grown rapidly in the last couple of years. The membership when the SACCO was started in the year 1993 was 827. By the end of 2010 the membership stood at 35,498 and by mid 2011 the membership of the SACCO had grown to 43,779. This reflects good corporate governance of recruiting and retention of shareholders. It also means that the SACCO has a good reputation in the community therefore able to attract many members.

Table 2. Statistical Information and financial Performance

	2009	2010
Financials	KES	KES
Total assets	689,688,402	638,672,331
Members deposits	290,658,202	425,298,278
External Borrowings	144,938,264	129,124,780
Loans and advances to members	216,30,811	261,324,040
Investments		
Deposits with other institutions	41,211,409	111,705,570
Shareholding investments	281,721,460	28,837,760
Core capital	233,751,616	72,981,678
Share capital	54,649,100	55,568,300
Institutional capital	179,102,516	17,413,378
Total revenue	106,983,924	150,785,934
Total Interest income	60,588,037	57,639,670
Total Expenses	115,698,866	128,606,924

Source: Wananchi SACCO Financial Statements for the year ended 31st December 2010

From the above table it is able to observe that the SACCO improved in some areas and declined in others- has been having mixed results over the years. For instance the total assets declined from Ksh 689,688,402 in 2009 to Ksh 638,672,331 in 2010. This is an indication of pronounced drop in the sales of services and products of Wananchi SACCO. The share capital grew from ksh 54,649,100 in year 2009 to Ksh 55,568,300 as an indication of more members buying shares from the SACCO. On the other hand, Wananchi SACCO has improved in terms of investment for instance deposits from other institutions grew from 41,211,409 in the year 2009 to Ksh 111,705,570 in the year 2010. This means that more people were depositing money and hence increased activity in the from office activities. Finally the total expenses of the SACCO grew from Ksh. 115,698,866 in the year 2009 to Ksh 128,606,924 in the year 2010. This is an indication of increased cost of operations such as hiring of more staff.

The above analysis indicate that there has been mixed performance of Wannanchi SACCO in various aspects. However the SACCO seems to make some substantial revenue from its operation. It also mean that some of the strategies put in place by the management especially the financial aspect of it are working while others seem not to works as intended for instance strategies how to improve the total assets of the organization.

Table 2: Ratios

Key Ratios	**2009**	**2010**
Core capital/Total Assets	33.89	11.43
Core Capital/total Deposits	80.42	17.16
Institutional capital/total assets	25.97	2.73
Liquidity ratios		
Liquidity asset/total deposit & long term liabilities	42.0	48.02
Operating and efficiency ratios		
Total expenses/total revenue	108.15	85.29
Total delinquency loans/ gross loan portfolio	7.46	7.46

Source: Wananchi SACCO Financial Statements for the year ended 31st December 2010

As indicated in the table, Wananchi SACCO continues to experience a mixed performance. In terms of institutional capital to total assets ratio, Wananchi SACCO substantially improved in 2010 meaning that they were able to handle more risk in 2010 as compared to. If you the assets would have dropped in value in 2009, there could have been substantial losses. Core capital to total deposits dropped substantially in 2010 from the previous year. While Wananchi SACCO remained capital adequate comparing with the 8% ratio put forward by the central bank of Kenya for financial institutions, the drop in the ratio is a warning sign. There was also a drop in capitalization from 33.89% in 2009 to 11.43% in 2010.

Looking at liquidity asset to total deposit & long term liabilities ratio, it is adequate to conclude that the SACCO was more liquid in 2010 than in 2009. This meant that in 2010 the SACCO was more able to meet its expected and unexpected demand for cash than in 2009. It also meant that in 2010 the SACCO would have withstood shocks to their balance sheet better than in 2009.

An analysis of the efficiency ratios indicates that there was no improvement on the delinquency management. This is indicated by the total delinquency loans on the total loan portfolio which stood at 7.46for years 2009 and 2010. This is an indication of lack of adequate measures to manage delinquency. The total expenses to total revenue ratio remains high meaning that the SACCO had little to save. This is an indication that the organization has not done a lot in defining measure to reduce the expenses of running the SACCO.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter provides the summary of the findings, conclusion of the study and makes recommendation emanating from the research findings covered in the previous chapter. The chapter also includes suggestions for further research

5.1 Summary

Good corporate governance ensures profitability and long term sustainability is achieved by the organization one of the key structures of corporate governance is the board. Good Corporate Governance seeks to promote efficient, effective and sustainable corporations that contribute to the welfare of society by creating wealth secondly it promotes employment and solutions to emerging challenges as well as responsive and accountable corporations. Moreover, good corporate governance promotes legitimate corporations that are managed with integrity, probity and transparency as well as recognition and protection of stakeholder rights. Finally it promotes an inclusive approach based on democratic ideals, legitimate representation and participation.

This study sought to assess the effect of the implementation of corporate governance practices on performance of Savings and credit cooperative Societies. The study revealed existence of corporate governance practices which are implemented by the management board of the SACCO to ensure that they achieve the set objectives. The tables that depicted trend analysis indicated that there is a relationship between corporate governance practices and financial performance.

The study found out that the key to improved financial performance lies within the domain of corporate governance and implementation of sound corporate governance practices. It is also importance to review the performance of the organization regularly and to adjust the corporate governance practices regularly in order to enhance performance of the organization

It is however should be clear that good governance is an ideal which is difficult to achieve in its totality. The study found out that the SACCO lacks in some areas such as adoption of the right technology and skills. Another area that the SACCO is lacking is total adherence to the by-laws which means that some guidelines are not followed to the latter. The ordinary members also did not seem to understand the organizational strategy. Most importantly, the governance of the SACCO has not put in place adequate measures to address the issue of delinquency management as well as reducing the expenses/cost of running the organization

5.2 Limitations

The study experienced some limitations such as limited time to allow a deeper study into the implementation of corporate governance practices. The fact that the intended mode of data collection was to furnish the respondents with questionnaires and get them back immediately was not possible. Therefore the questionnaires were dropped and picked after some days and this meant that the control of who filed the questionnaires could not be verified. Scarcity of funds was also another limitation. The limitations therefore dictated the number of respondents, research methodology and duration of the study.

5.3 Conclusion

From the findings of the study it is adequate to conclude that implementation of corporate governance has an influence on the performance of an organization. Sound corporate governance practices ultimately leads to positive performance of an organization. It was also clear that Wananchi SACCO has implemented good corporate governance structure and hence the good performance over time. There is however a basis upon which good corporate governance thrives.

First, participation of stakeholders in the running of organizations is a key cornerstone of good governance. Participation could be either direct or through legitimate intermediate institutions or representatives. Secondly, transparency in governance is important and paramount for positive performance of the organization. Transparency means that decisions taken and their enforcement are done in a manner that follows rules and regulations. It also means that information is freely available and directly accessible to those who will be affected by such decisions and their enforcement. It also means that enough information is provided and that it is provided in easily understandable forms and media. Third is that good governance requires that institutions and processes try to serve all stakeholders within a reasonable timeframe. Fourth is that good governance requires mediation of the different interests in society to reach a broad consensus in society on what is in the best interest of the whole community and how this can be achieved. It also requires a broad and long-term perspective on what is needed for sustainable human development and how to achieve the goals of such development. This can only result from an understanding of the historical, cultural and social contexts of a given society or community. Fifth is that good governance means that processes and institutions produce results that meet the needs of society while making the best use of resources at their disposal that is efficiency and effectiveness. Most importantly, accountability is a key requirement of good governance. All organizations must be accountable to the public and to their institutional stakeholders. Who is accountable to who varies depending on whether decisions or actions taken are internal or external to an organization or institution. In general an organization or an institution is accountable to those who will be affected by its decisions or actions.

5.4 Recommendations

There are a number of things that the organization needs to do in order to ensure sustained positive performance. First it is important for the organization to communicate the strategy to its members/shareholders so that they understand the direction which the organization is heading. The organizations should also ensure there is a hundred percent adherence to the by-laws. The organizations should also hold regular education for members so that they can understand more on how the organization is run and managed. It is also important for the board of directors to conduct regular reviews of the performance of the SACCO and know where to adjust accordingly. Finally, the board must recognize that to survive and thrive it has to ensure that the technology, skills and systems used in the SACCO are adequate to run the organization. The SACCO should constantly review and adopt the same in order to remain competitive.

5.5 Suggestions for Further Research

While there is need for deeper and further research on the implementation of corporate governance practices and its effect on the performance of organizations, there are also a number of suggestions for further research. There need for further research the relationship between implementation of corporate governance practices and customer satisfaction, the relations between corporate governance and employee retention among other studies.

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APPENDIX : INTERVIEW GUIDE

DEAR RESPONDENT,

My name is John Njoroge and I am a Master of Business Administration Student at the University of Nairobi. I am conducting an academic research on corporate governance in SACCOs as partial fulfillment of the requirements for the master's degree. I am therefore requesting you to assist me in filling in this interview guide to enable me finish the research. The information you give is for academic purposes only and will be treated with utmost confidentiality. Thank you for your cooperation

Kind Regards, John Njoroge

PART ONE: BACKGROUND

1. Respondent category/Position
   - Ordinary member
   - Board Member
   - Supervisory Committee
2. Gender
   - Male
   - Female
3. Level of Education
   - Primary
   - Secondary
   - College
   - University
4. How long have you been a member of the board or member of the SACCO or member of the supervisory committee?______________________________

PART TWO: BOARD MEMBERS

5. Please describe the governance structure that is in place for the Wananchi SACCO________________________________

6. How often do the board members meet?________________________________

7. How is the division of responsibilities the head of the company? Please explain________________________________

8. How are board members appointed to the board and what is the term limit for the executive directors________________________________

9. Who decided the remuneration for the board members?________________________________

10. How are the accounts prepared and presented in the annual general meeting________________________________

11. How is information and communication relayed to member of the SACCO________________________________

12. What is the general strategy of wananchi SACCO?________________________________

13. How is the board accountable and responsible to the members and stakeholders of the SACCO? ________________________________

14. What internal controls have the board put in place to check the management of the SACCO?________________________________

PART THREE: GENERAL MEMBERS

15. What are your obligation and rights and a member of the SACCO?____

16. Does your institution have bylaws or such internal guidance document? And if so, is it available to all stakeholders?______________________________

17. How would you rate your SACCOs by-laws in enhancing governace practices within your SACCO?____

18. Do you think the board members and staff respect the internal governance documents such as by-laws and loan policy? Please explain____

19. What would you say on the ability, skill, dedication of board members to take the SACCO forward? Please explain____

20. Do you think the board provided accurate information to members of the public? Please explain____

21. Do you think the board and management are accountable for their decisions and actions towards the SACCO? Please explain____________________________

22. Does your SACCO have training calendar on corporate governance? Please explain---

____

23. How can you rate the performance of the board in general leadership of the SACCO____

24. Does your SACCO have relevant technology and skills to compete with other organization in the same sector? Please explain______________________________

25. Other general comment____

____