USE OF CORPORATE GOVERNANCE AS A POST-LIBERALIZATION STRATEGY BY SACCOS IN KENYA;

A CASE STUDY OF SELECTED SACCOS IN NAIROBI AREA

BY

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DECLARATION

This research project is my original work and has not been presented either partially or wholly for any academic Program in any Institution or University.

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D61/7001/2002

The research project has been submitted for consideration with my approval as the University Supervisor

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DEDICATION

To my beloved wife, Judy, son Emmanuel, Daughter Emmaculate and my brother Isaiah.

ACKNOWLEDGEMENT

A research project of this kind is so involving and calls for concerted efforts from many stakeholders. While it may not be practical to acknowledge each player, minimum crediting will be in order.

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Any errors of either omission or commission is the responsibility of the author and not the entities mentioned above.

TABLE OF CONTENTS

Page

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

ACCA	Association of Certified Chartered Accountants
CCGS	Committee on Corporate Governance in Singapore
CEO	Chief Executive Officer
CG	Corporate Governance
FOSA	Front Office Savings Account
GOK	Government of Kenya
KCC	Kenya Cooperative Creameries
KFA	Kenya Farmers Association
KPCU	Kenya Planters Cooperative Union
KUSCCO	Kenya Union of Savings and Credit Cooperatives
OECD	Organization for Economic Cooperative and Development
PSDCG	Private Sector Development in Corporate Governance
SACCO	Savings Credit Cooperatives Societies
SAPS	Structural Adjustment Programs

OPERATIONAL DEFINITIONS

Corporate Refers to a well organized business unit that operates within set out plans and rules.

Governance Refers to management of institutions, business units or organization with regard to creating and safeguarding shareholders wealth.

Cooperative A group of people who have come together to pull and share resources for their common good and often demarcated within a specific geographical or professional boundaries.

Liberalization Refers to deregulation of an economy from the then protectionist tendencies.

Globalization Refers to the shrinking of the wider economy into a small and accessible unit disregarding national and international geographical boundaries.

Strategy Refers to a well laid down course of action aimed at solving a specific problem.

Movement Refers to a body whose members share a common course and have deliberated to pursue.

Environment Refers to both internal and external factors that impact directly or indirectly (constantly interact) to a business unit.

Insiders Refers to members of a corporate body who often access privileged information.

Agency Refers the principle of engaging one to act on ones' behalf (principal) on corporate matters especially when dealing with third party.

Inhibitors Refers to hurdles that deter implementation of competitive strategies in an organization

ABSTRACT

When globalization hit the economic market, it became inevitable for organizations to adopt new competitive strategies. With liberalization in the banking industry, many SACCOs found themselves in precarious position that demanded urgent but sound decision. Many adopted corporate governance concept as a strategy.

The study therefore utilized descriptive survey employing both qualitative and quantitative methods of data collection. The target population constituted all the SACCOs from all the sectors of the economy in Kenya. A sample of 120 respondents was selected from four randomly selected divisions in Nairobi. These were drawn from three sectors using the Ministry of Co-operatives categorization that is; Private, Public and Parastatals sectors. Simple random sampling was used to select 10 respondents from each of the four divisions. Of each of the selected SACCOs, two respondents from management, six employees and two members were selected at random. A self-administered open and closed ended questionnaire was utilized in soliciting primary data from the field

Data collected from the field was analyzed using both descriptive and inferential data analysis, consequently information presented in tables, figures and frequency distribution and measures of central tendency. In addition, cross tabulations and correlation were computed to determine the relationship between various variables in the study.

It emerged that despite adopting these strategies, many SACCOs were yet to reap maximum returns. Slow and apathetic approach to good corporate governance was still prevalent and that the management of these SACCOs seemed ill equipped to drive the entire industry into success.
Researcher recommended the SACCOs need to embrace change and allow for the autonomy by de-linking government interference.

CHAPTER ONE
INTRODUCTION

1.1 introduction

This chapter contains the background of the study, statement of the problem, objectives of the study, research questions and significance of the study. It also contains the scope, limitations and the operational terms used in the study.

1.2 Background of the study

The Kenyan economy has significantly witnessed a number of fundamental changes during the last four decades. The government of Kenya regulated the management of the economy upon attainment of independence. This was emphasized by the government in its sessional paper No. 1 of 1994. At the time, the economy suffered from scarce domestic savings. However, the government continued to regulate the economy even at a time when private sector was settings root in the land. This was as a result of the government’s lack of confidence in the role of private sector and market forces in the allocation of scarce resources. (Oyoo, 2002).

The cooperative movement incorporates a global membership approaching three quarters of a billion individual members spanning 93 countries and 236 federal member organizations. They cover full range of business sizes from micro level credit associations, community, fishing and worker cooperatives, to substantial players in the banking, insurance, agricultural marketing and supply sectors. (Ongore, 2001). Cooperatives have least performed due to protectionist (regulatory) policies and political interferences in many countries in Africa. For instance, there are adverse trade terms, foreign debt and civil war or tribal conflict and rivalry in the continent. As such, cooperative strategies are essential to the revival of many economies where the above negatively impacting variables are prevalent. (Bibangambah, 1993).

Ansoff (1987), pointed out that business environment is constantly changing and that organizations should continuously adapt their activities in the face of such changes. For instance, the Kenyan government in 1986 in her sessional paper No.1 on economic management for renewed growth appeared to embrace the Bretton woods policy on structural adjustment programmes (SAPs) thereby facilitating for drastic changes in its economic environment. (Aosa, 1998) argued that some of the changes in Kenya's business environment include the accelerated economic reforms and economic liberalization.

Because of this he argued for organizations to adapt to such external realities otherwise, their success would be jeopardized. Indeed, the government's commitment to economic liberalization was evident in her policy framework paper on economic reforms of February 1996 and through the sector policy paper of 1996/ 1998 which argued the government's position as that which encourages free market processes with sole aim of stimulating economic growth.

In the light of the government's change of attitude to the free market processes; the Kenyan economy has been undergoing the liberalized process since the advent of structural adjustment programmes (SAPs). The main aim of SAPs was to reduce the rigidies in business transaction and their subsequent retrogressiveness about one or two decades ago. (Marsabit Teachers Sacco; FOSA feasibility report, February, 2004.)
It was against this backdrop that many SACCOs adopted various strategies in order to survive. Corporate governance was one key strategy adopted by them.

1.2 Statement of the problem

Corporate governance has come to the centre of the international development agenda and has attracted public interest because of its apparent importance to the economic health of corporations and the society of late. The problem of increasing corporate failures, stagnations, fraud and corruption among top management, reduced competitiveness has been worrying the society. Governance as described by Caver (2001) involves the direction and control of organization.

According to the Committee on Corporate Governance in Singapore (CCGS, 2001) corporate governance is the process and structure by which the business and affairs of the company are directed and managed in order to enhance long term shareholder values through enhancing corporate performance and accountability, whilst taking into account the interest of other stakeholders.

The Cadbury report (1992) defines corporate governance as the system by which companies are directed and controlled. From the above definitions the study will adopt the definition of corporate governance as the direction, control and management of an organization in order to enhance transparency, accountability and improved performance.

Longeneck and Pringle (1981) documented issues of corporate governance in the 1970s where they highlighted that issues of governance came to the forefront as a result of rising business scandals in the U.S. This led to a number of initiatives like the Tread way commission of 1985, which reported that almost fifty percent of fraudulent financial reporting resulted in part from breakdown in the internal controls. The Commission recommended the integration of the different internal control philosophies.

Surbanes-Oxley Act (2002) was passed in the wake of corporate scandals in America under the Act, companies will not be able to obtain a listing unless they have an audit committee and prohibit non-audit services to client. The Act also requires disclosures requirements expanded. The Higgs report (2003) focused on the role and effectiveness of non-executive directors. The report contained a revised draft of combined code in which importance was placed on the role of non-executive directors.

In Kenya, issues of concern on corporate governance gained prominence in the late 1990s and by the year 2003, an office for the Permanent Secretary for Ethics and Governance was created. The office engineered the introduction of the Public Officers Act and other reforms, which has since transverse to local institutions including co-operatives.

In Kenya, various studies have been undertaken on corporate governance. For instance, Wambua (1999) researched on practices in the banking sector while Mwangi (2001) studied corporate governance issues in insurance. Mucuvi (2002) conducted a study that touched on corporate governance in the motor vehicle industry. However, no study has been undertaken to explore the practices and challenges faced by Kenyan SACCOs while implementing corporate governance policies.

This study therefore seeks to investigate the extent and the role of corporate governance as a post-liberalization strategy among SACCOs in Kenya.

1.3 Objectives of the Study

1.3.1 General objective

The general objective of this study is to determine the use and effectiveness of corporate governance as a post-liberalization strategy among SACCOs within Nairobi area.

1.3.2 Specific Objectives

To determine whether SACCOs use corporate governance practices to combat liberalization effects.

To determine the areas where corporate governance has registered positive and negative results.

To determine the challenges faced by SACCOs in implementing corporate governance policies and practices.

To make recommendations on how to promote its implementation among the SACCOs in Nairobi area.

1.4 Scope of the Study

The study will be limited to investigating the corporate governance issues among the SACCOs fraternity. The target population will constitute the staff and members of SACCOs from different three divisions in Nairobi area.

1.5 Justification and Relevance of the study

The existence of Co-operative societies is significant to any country's economy, since these societies generate huge proportion of the economy's GDP, employment and improves the living standards of its citizens through reduction of poverty.

This study will specifically focus on the role of corporate governance in mitigating liberalization problems of SACCOs. Directors and management would use the findings to influence decisions towards the success of their SACCOs.

The stakeholders (government, employees, suppliers etc.) in the co-operative societies will also find useful information concerning the direction and control of the SACCOs so that they can make informed decisions when handling issues to do with co-operative societies.

To the academicians, this study will pioneer the match towards shading light into the grey areas in the governance of SACCOs in developing countries.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter highlights the major issues relating to liberalization and corporate governance in co-operatives societies. The study's main aim is to investigate the extent and challenges of implementing corporate governance policies and practices in the co-operative sector as a solution to post-liberalization challenges.

2.2 The Development of Kenya's Cooperative Movement

The Kenyan cooperative movement started at the beginning of the century. The first cooperative society was formed in 1908 by the European farmers at Lumbwa near Kericho to produce and market their agricultural produce; mainly cash crops and provide increased access to farm inputs. (G.o.K, 1996).

Government involvement in cooperatives started well in 1931 which witnessed the first formal registration of cooperatives societies. This was facilitated by the enactment of ordinance Act in order to regularize the operations of cooperative societies. (GOK, 1997).

In 1945, cooperative ordinance which gave cooperative societies a legal status was revised. By 1946, the first commissioner of cooperatives was appointed. 1950s witnessed the rapid registration of cooperative societies. They increased from 200 in mid 1950s to 1,030 cooperative societies at the time of Kenya's independence. (GOK, 1997).

After independence, the government promoted the cooperative movement through diversifying its focus. The government further recognized these societies by the sessional paper No. 10, 1965 titled: African socialism and its application for planning in Kenya.

The government of Kenya enacted an Act of Parliament Cap 490 of 1966. this positively impacted on the development of cooperative movement. For instance, the number of registered cooperatives increased from 1,030 in 1963 to 2,186 in 1983 and the membership from 200,000 to 1.8 million respectively. (Oyoo, 2002). The cooperative societies Act 1966 and the cooperative rules of 1969 gave the government emence powers to regulate the management of cooperative societies and even the power to control the cooperative movement. (Ongor, 2001).

The government introduced development strategies in the subsequent cooperative development policies and incorporated them into the national development plans. Through these strategies, cooperatives were given marketing and service monopolies in their areas of specialization. Government channeled extensive development assistance including donor aid to support the cooperative sector. This resulted to rapid growth making the sector one of the pillars of the economy (KUSCCO, February, 2004).

The major activity in the implementation of cooperative policy has been the revision of the cooperative Act, chapter 490 of the laws of Kenya. The revised Act has been carried out in such a way that the revised Act of 1997 has essentially captured the spirit of deregulation of the economy. It removed all the clauses that allowed government involvement in the day-to-day management of the cooperatives. It is noted that the cooperative Act is in the process of further amendments to incorporate other clauses that clearly define the cooperative principles and values and those that safeguard the interest of all stakeholders including members and creditors.

The government of Kenya in her session paper of 1997 on “Cooperatives in a liberalized economic environment” deregulated and liberalized the sector in to a somewhat:- private sector. Nevertheless, the number of registered cooperatives with its membership has not only been rising. A number of societies have equally gone under. Examples of cooperative societies there have been unable to compete for survival coupled with poor ineffective competitive strategies include the Kenya Farmers Association (KFA), Kenya Planters Cooperative Union (KPCU) and the Kenya Cooperative Creameries (KCC); now revived as New KCC limited.

By the year 2000, the number of cooperative societies had increased to 9,000 with a membership of 4.8 million and an output of 50 billion Kenya shillings per annum, thus contributing to 45% of national GDP (Musembi, 2002)

From the underlying literature, it is evident that the cooperative movement in Kenya is a significant sector in economic development. It thus will not go without mention.

2.3 SACCO Movement in Kenya

Kenya has been a success story in respect to the development of the Co-operative Movement. There are currently over 10,800 registered Co-operative Societies in Kenya with a membership of about 6 million. Out of this, 46% are Agricultural, 38% Financial based that is SACCOs and 16% are others. 63% of the Kenyan population depends on the Co-operative related activities for their livelihood with over 250,000/- benefiting through direct employment (Mudibo, 2005).

Co-operative Societies have mobilized savings/funds to the tune of Kshs.110 billion, (US$ 1.5 Billion) as at June, 2005 which is about 31% of National Savings. These funds have been used for members credit needs to meet provident and productive purposes.

It is the most suited avenue through which small-scale farmers can venture into value addition of their produce in order to earn higher returns. This is most critical especially in the agro-processing sector. The key areas that have been successful in the Kenyan Co-operative Movement include;

The Kenya Union of Savings and Credit Co-operatives (KUSCCO) Limited and the development of Savings and Credit Co-operatives (SACCOs). There are over 3,000 active SACCO Societies in Kenya and the SACCOs have mobilized more than 80% of the savings attributed to SACCOs in Africa. KUSCCO offers education and training, research and consultancy, corporate affairs and marketing services to SACCO societies. Other services are advocacy, representation, central finance facility and risk management.

2.4 Liberalization and the Kenyan Business Environment

The wind of economic liberalization in the 1990s in the Kenya unequivocally affected the cooperative movement such it now operates in a highly liberalized economy. The advent of liberalization has been embraced in almost all sectors of Kenya's economy. This was referred to as economic liberalization which is the introduction of policy shifts in the management of the country's economy that result in a free market based system. (Musan, 2002).

Liberalization has made the Kenyan business operational environment to be increasingly dynamic. This was coupled with the sudden emergence of regional economic integrations such as the East African economic Community and COMESA. The government's policy framework paper on "Economic Reforms" for the period of 1996 – 1998 (February 1996) opened the path for the government to liberalize the domestic market. This, the government undertook economic reforms to ease restrictions in business entry and operations. It is noted that this became a major challenge to organizations that have for long been enjoying monopolistic benefits especially those in the previously protected sectors.

Ansoff (1984) argued out that organizations need to adjust to external environment otherwise, he points out that they will suffer from what he called "serious strategic problem" characteristic of misfit between the organizations' strategies and the external environment. It is in the basis of the above that firms in Kenya have been changing their internal structures to match the demands of the external environment. The latest of this being the re-engineering, retrenchment and restructuring; all adopted by Kenyan entities. In the light of the above, joint ventures, strategic alliances, mergers and acquisition have become a boardroom names in most of the Kenyan organizations.

The structural adjustment programmes has not only contributed to the changes in the external environment from which organizations operate. They have equally negatively impacted on the rural and urban poor as well as vulnerable groups from whom the cooperatives rely on. The main effects have been the limitations to access to health, shelter, environmental sanitation and food security. Also in play is the advent of HIV/AIDS, which has impacted the cooperative movement negatively by reducing levels of savings and the number of co-operators. It is thus evident that the Kenyan business environment is quite turbulent and complex.

Kotler (1997) observes that company's organization consists of structure, policies and cultures all of which can become seriously dysfunctional in a rapidly changing business environment. It is in this perspective that Owiye (1999) pointed out that an organization can only survive challenges brought about by the external environment if it is able to anticipate change and be able to manage it. Cole (1995) however argued for organizations that change periodically because they have decided to change (proactive).

The Kenyan external environment has also been impacted by the political state (instability) both inside and outside the national boundaries. The country embraced multi-party democracy and had violence manifested elections in 1992 and 1997 amid hosting a number of refugees from Sudan, Somalia, Ethiopia and Tanzania. It is in the background of all these and the rapid economic reforms pushed through by the Bretton woods institutions that a number of studies have been done to assess the impact of changing business environment in Kenya on a number of organizations. Such studies include those carried out by: Shimba (1993) on liberalization in financial sector, Kombo (1998) on motor industry franchise holders, Chune (1999) on government owned sugar firms , Owuor (2002) SACCOs and Bett (1995) on liberalization in dairy sector.

They all indicate that there is a relationship between Kenyan business environment and the operations of the local firms.

2.5 Historical Development of Corporate Governance

Governance according to Caver (2001) is more akin to ownership than operation. CIPE and ACBF (2003) add to this definition by saying that governance involves direction and control of organization and that it addresses the leadership role in the institutional framework. Scholars and practitioners have defined corporate governance differently because it covers a wide scope of economies. However according to ACBF and CIPE (2002) the generally agreed on definition is that corporate governance refers to the processes by which organization are directed, controlled and held accountable.

According to Organization for Economic Co-operation and Development OECD (1999), there are six pillars to corporate governance which includes; accountability, efficiency and effectiveness, probity and integrity, responsibility and transparency and open leadership with accurate and timely disclosure of information relating to all economic and other activities of the corporation. Mucovi (2002) asserts that the central concern of governance is to add value to as many organizations, the long-term performance is raised and total shareholder return is enhanced. Several authors have pointed out to the relevance of corporate governance as; attracting a good deal of public interest because of its role in the economy of corporations and society in general (Kigondu 1989). In addition to these, good corporate governance will in the long run enhance prosperity and hence avail employment to the members of the society.

Stiles (1992) documents that the evolution of corporate governance has having been propelled by the need to impose and demand accountability by society that gives mandates to the existence of these commercial enterprises since the society has often suffered serious misfortunes because of responsibilities of managers. It is because of these that the society seeks to contain such agency problems through various governance channels. Corporate governance can be trace to Longneck and Pringles (1981) who studied corporate governance in the 1970's where they highlighted that governance issues came to the forefront as a result of raising business scandals in the United States of America. The growing importance of corporate governance in organizations owes much to the impressive study of the changing structure of companies carried out by Tricker that said that developments were mainly influenced by spectacular corporate collapse in the United States and Britain caused by fraud and mismanagement.

As a result of the corporate collapse in the United States (US) and after some congressional hearings, the Harvard Business Review set up a working group on corporate governance in 1990 to investigate such matters as; investor's rights and management accountability and the role of executive and non executive directors in both monitoring management's performance and representing shareholders interests. In the United Kingdom (UK), the debate on corporate governance received a boost as a series of financial scandals were unearthed and reported. Several corporations collapsed in the late

1980s and early 1990s. Notable cases were, Polly Peck and Pensions Funds of Maxwell communications group. The impact on the economy and the society as a whole was indeed quite severe as shown in the Table 2.1

Table 2.1 Firms in UK that collapse as a results of poor corporate governance

Organization	**Approximate Value**	**Year of Collapse**
Polly Peck Business Empire	£1.3 Billion	1991
BCCI	£ 1.2	1991
Maxwell Group Pensions Funds	£480 Million	1991

Source: Muriuki (2004)

This led to a number of initiatives like the Tread Way commission of 1985, which reported that almost 50 percent of fraudulent financial reporting resulted in part from breakdown in internal controls and consequently, the commission recommended the integration of the different internal control philosophies.

This was followed by Cadbury report on the financial aspects of corporate governance in 1992 that studied the declining competitiveness of the United Kingdom's companies compared to those of Japan, Germany and other industrialised nations. It recommended a wide range of measure for companies with strict compliance to a code of best practice. The Greenbury Report on directors' remuneration in the 1995 and the preliminary final Hampel Report on corporate governance in 1997 and 1998 captured those practices.

The French equivalent of the Cadbury Report was published in 1995 and its Dutch equivalent, the Peter's Report was published in 1996. Belgium set up its corporate governance committee in the 1997.

Salmon (1995) points out that extensive discussions on corporate governance have since taken place to resolve these problems. Africa has also been in the forefront as discussed in the King's Committee report and codes for corporate governance in South Africa in 1994 which continues to stimulate corporate governance in Africa. OECD (2003) pointed out that the three east African countries resolved that each member state be encouraged to develop both a frame work and code of best practice to promote national corporate governance in 1998. The international corporate governance network was established in 1997 to promote and coordinate research and development in corporate governance. It was resolved that codes of good practice establishing standards of behaviour in public and private sector be agreed on to secure greater transparency and reduce corruption.

Interest in corporate governance issues within the Commonwealth countries whose membership include: Kenya, Botswana Tanzania, Gambia, Ghana Mauritius South Africa etc had its origin in performance improvement efforts and state enterprises privatisation. The Pan African consultative forum on corporate governance was established in Johannesburg, South Africa in 2001 following the recognition that corporate governance has a critical function in promoting growth and the long-term economic development of Africa. The primary purpose of the forum which brought together private sector, public sector and societies professionals and trade organizations, regulatory authorities, development partners and all parties interested in the promotion of good corporate governance in Africa was to;

1. Raise awareness of the significance of corporate governance to economic developments in Africa.
2. Forge consensus on concepts and methods of corporate governance that can usefully be deployed on the continent.
3. Develop action plans for implementation of good corporate governance, standards and practices across all sectors of enterprise in Africa.

4. Contribute to and learn from the global policy dialogue on corporate governance and its role in the international financial architecture.

An important conclusion of the inaugural meeting was that improving governance was important to all types and sizes of enterprises in Africa; not just the few large public listed companies but also unquoted companies and family firms, state owned enterprises and agencies, small and medium size enterprises, local subsidiaries of multinationals and also community based enterprises such as co-operatives, micro enterprise and the informal sector. The fundamental principle of good corporate governance in whatever form relevant to each type of the enterprise described are universal although their practical application may differ.

In Kenya, issues of concern on corporate governance gained prominence in the late 1990s and by the year 2003 an office for the permanent secretary for ethics and Governance was created. The office engineered the introduction of the Public Officers Ethics Act, reform of the Police force and search for taxpayer’s money stashed abroad. This effort by the government though initially a response to international demands has since transverse to local institutions including co-operative The private sector initiative for corporate governance continues to liase with Uganda and Tanzania towards the establishment of a regional centre of excellence in corporate governance.

2.6 Relevance of Corporate Governance in SACCO movement

According to Mudibo (2005), good corporate governance is important to the co-operative societies in that it facilitates strategic thinking and strategy setting. In addition it enhance balance of power and control within the society and also ensures efficiency and effective use of resources in the society through encouraging transparency and probity. Consequently it would lead to reduced number of staff turnover and resultant high costs attributed to repeated recruitment, training and replacement affect the image of the organization and the income levels. In addition to this, the environment for fraud will be prevented especially misappropriation of funds and loss of track of operations. Finally he points out that lack of good corporate governance may lead to reduced profitability to the organization thus affecting the reward level (dividends) to the member-owners thus weakening their confidence in the organization and the subsequent degeneration into possible oblivion.

2.7 The Concept of Corporate Governance

Corporate Governance is defined as the system by which a corporation is directed, controlled and held to account for the manner in which power is exercised in the stewardship of its assets and resources to increase and sustain shareholder value and satisfy the needs and interests of all stakeholders.

2.7.1 Governance Problems at Co-operative Level

At Board Level

The Board oversight and management operational responsibilities are inadequately defined in the by-laws of Co-operative Societies. Some major concerns include:

Key decisions on urgent matters such as change in interest rates, introduction of new products and services have to await approval by the Annual General Meeting.

Elected Board members are frequently non-professional volunteers yet they assume highly technical responsibilities such as loan analysis and disbursement, budgeting and financial expenditure control.

Board members succumbing to political pressure from external forces to implement activities that counter the management ethics and standards. Conflict of interest among Co-operative Officials.

Corruption, gross mismanagement and misappropriation of funds by some elected official who abuse the trust of the members and deny them the hard earned funds.

Financial considerations on the fact that some members are outspoken has at times led to the incompetent members being elected into leadership positions and at the detriment of leaders who are visionary, hardworking, honest and competent.

Leadership wrangles and endless litigations due to conflicts that end up leading to wastage of resources and loss of focus in terms of the sound development of the Co-operative. Illegal and unauthorized investments.

Reluctance to acknowledge need for change and competencies are unsuited to strategic challenges and leadership roles.

Board members and Supervisory Committee may collude to protect one another's interests, e.g. insider loans and high managers' salaries.

At Staff Level

Job insecurity due to changes in the Board members and weak terms and conditions of service lead to poor performance.

Unprofessional process of recruitment that encourages, favourism, tribalism, and nepotism sometimes attracts incompetent personnel. There have also been instances of illegal dismissal of employed staff.

Absence of appropriate personnel and administration policies and Accounting Procedures Manual, job descriptions and specifications and performance appraisal tools compound the problems of governance.

Lack of adequate controls leading to a fertile ground for fraud in some of the Co-operative Societies.

Lobbying and canvassing for the election of certain Board members who may be relatives, friends or appear to favour their working arrangements at the detriment of the functioning of the Co-operative Society.

Lack of direct control of the Organization by the members has led to a situation where some managers do business diversification that does not benefit the owners but meant for their own interests.

At Member Level

Inadequacy of resources, lack of Education and Training force members to exert pressure on the Board members to implement issues in a manner that abuses the spirit of good governance.

Salaries for the staff are not competitive as those paid to other financial institutions because members reject offering salaries that appear higher than what they earn from their employers, trade or businesses. Therefore attracting and retaining better qualified managers and staff is difficult.

Where a Co-operative is very large, members may fail to look closely at the prudential actions of their Board members. In some cases, where a Co-operative is under the delegates system as opposed to general membership, the delegates end up expressing their own views as opposed to those of their members.

The one member one vote principle at times undermines the genuine concerns of the minority. The academic and patronage criteria are at times overlooked for other minor considerations, physical confrontations of members in some Co-operatives and split of viable Co-operatives into small uneconomical units.

2.7.2 Aims and pillars of Good Corporate Governance

Good Corporate Governance aims at achieving the following:

1. Increased profitability and efficiency of business enterprises.
2. Enhanced ability to create wealth for shareholders.
3. Increased employment opportunities with better terms of workers.
4. Enhanced separation of ownership from control.
5. Viability in corporations for investment in a competitive global market.
6. Enhanced legitimacy, responsibility and responsiveness of the business enterprise.
7. Transparency, accountability and probity of business enterprises.

2.7.3 Importance of Good Corporate Governance Practices

They facilitate achievement of the following in the Co-operative Societies

1. Strategic thinking and strategy setting
2. Balance of power and control
3. Efficiency and effectiveness
4. Transparency and probity
5. Productivity and responsiveness
6. Responsibility and respectiveness
7. Creativity and innovativeness
8. Competitiveness and sustainability

2.7.4 Consequences of not Practicing Corporate Governance

High staff turnover and the resultant high costs attributed to repeated recruitment, training and replacement affect the image of the organization and the income level.

Environment for fraud, misappropriation of funds and loss of track of operations is created and reduced profitability to the organization thus affecting the reward level (dividends) to the member-owners thus weakening their confidence in the organization and the subsequent degeneration into possible oblivion.

2.8 Corporate Governance Issues in Kenyan SACCOs

2.8.1 Agency Theory and the Agency Problem

Agency theory was advanced by two American economists, Jensen and Meckling in the 1976 as a theory to explain relationships within corporations. It has been used to explain management control practices as well as relationships between management and investors. The two economist proposed that corporations be viewed as a set of contracts between management, shareholders and creditors, with management a agents and providers of finances as principals. Financial reports and external audits are two mechanisms by which the agents demonstrate compliance with their obligations to the principals.

Agency relationship arising from the separation of ownership from management is sometimes characterised by the 'agency problem'. For instance, managers who own no or little shares in the firm they are working for may ignore pursuing new profitable ventures/ investments, may work inefficiently or give themselves high salaries and perks. Agency theory therefore proposes that although individual members of the business team act in their own self-interest, the well being of each individual depends on the well being of other team members and on the performance of the team in competition with other teams.

2.8.2 Goal Congruence

Agency theory sees employees of businesses, including managers, as individuals, each with his or her own objectives. Within a department of a business, there are departmental objectives. If achieving these various objectives leads to the achievement of the objectives of the organization as a whole, there is said to be goal congruence. Goal congruence therefore is the accordance between the objectives of agents acting within an organization and the objectives of the organization as a whole. Goal congruence may be better achieved and the ‘agency problem’ dealt with by giving managers some profit-related pay, or by providing incentives, which are related to profits or share price.

2.8.3 Size and Composition of Directors

The board of directors is an important organ in the governance of modern corporations. Fama & Jensen (1983) view the board as “*the apex of internal decisions control systems of organisations.”* Johnson et al (1996) outline three widely recognised functions of boards of directors, namely the control, service and resource dependence roles. Most literature on the control function of the board draws on Agency Theory, which emphasises the separation of ownership (shareholders) and control (professional managers) inherent in modern corporations.

From the agency perspective, board represent the primary internal mechanisms for controlling managers’ opportunistic behaviour, thus helping to align shareholders’ and managers’ interests (Jesen 1993). Service role entails directors giving expert views and strategic advice to CEO (Dalton& Daily 1999; Lorsch 1995; Westphal 1999). Finally the resource dependence perspective (Dalton & Daily 1999) Aldrich 1979; pfeffer & Salancic 1978) views boards as an instrument for sourcing critical resources (for example financing) and information (for example on competitors and industry) to create sustainable competitive advantage (Conner & Prahalad 1996). In addition, a prestigious board may add legitimacy to newly established firms (Au et al. 2000). In Asia, Young et al. (2001) find that the resource dependence function of the boards of overseas Chinese firms in Hong Kong and Taiwan is more pronounced than control and service functions, which they attribute to the social norms and institutional environments facing these firms.

2.8.4 The Various Committees

Greenbury code published in 1995, which established principles for the determination of director’s pay and detailing disclosures to be given in the annual reports and accounts. According to the ACCA (2002), most of the Greenbury code principles have been adopted in the Stocks Exchange in its listing Rules. Evidently Greenbury code recommended a remuneration committee, which was vest with the role of determining the executive directors’ pay. The code also pointed out that the committee should be composed solely of non-executive directors. It further highlights that directors services contract should be limited to one year.

2.9 Challenges of Corporate Governance Practices

2.9.1 Enforcement Environment

In many developing and transition countries the general enforcement environment is very weak (Berglof and Claessens, 2003). These authors further add that the specific enforcement mechanisms do not function properly and few of the traditional corporate governance mechanisms prove effective. Gatamah (2004) supports these claims by confirming that in Africa regulatory and supervisory systems are generally weak. He claims that history and politics have combined to create a privileged few that resist efforts to promote good corporate governance. He particularly points out that corporate governance in financial sector in developing countries is much more influenced by political decisions than other corporate governance issues.

Private Sector Development and Corporate Governance (PSDCG), acknowledge the existence of policies, rules, regulations and institutions that deal with issues of corporate governance. However, it points out that there are weaknesses in the judicial systems, obstacles in the political, social, cultural and institutional capacity.

PSDCG recommends that African countries become fully conversant with various subtle elements needed to promote good corporate governance through establishment of necessary institutions, rules, policies and procedures. Mudibo (2005) indicates that one of the challenges facing the Kenyan SACCOs in good corporate governance practices is when the board members succumb to political pressure from external forces. He asserts that they are asked to implement activities that counter the management ethics and standards. Besides, another challenge is the over reliance on guidelines or circulars from the commissioner’s office that are obsolete or may not apply across the board for all types of cooperatives.

2.9.2 Ownership by Insiders

The United States Corporations Act 2001 makes it unlawful to deal in the shares of a company while in possession of material information about a company which has not become public (Berglof and Claessens, 2003). Employees in possession of information concerning a company that is not generally available to the public, and which would have a material effect on the share price are prohibited from buying, selling or otherwise dealing in such shares. It is also unlawful in those circumstances to encourage someone else to deal in that company's shares or to pass the information to someone who may use the information to buy or sell the company's shares. According to the authors, the penalties for insider trading are severe and can include imprisonment. He therefore recommends that employees and the management should never engage in short term trading of company securities and that they should not deal in the company’s securities while in possession of price sensitive information. His study however does not touch on the impact of insider trading on SACCOs.

In another study carried out in US by Lorsch (1995) the corporate governance committee recommended that the company’s insider trading policy shall impose mandatory ‘black out’ period during which directors and senior management of the company are prohibited from trading in securities of the company. Bris (2003) conducted an analysis of 4541 acquisitions in 52 countries and found that when laws governing insider trading are newly enforced the profits from insider trading will increase. Results from his study suggest that there must be additional institutional support beyond just new laws to eliminate incentives for insiders.

In the Kenyan scenario, Mudibo (2005) asserts that some board members and supervisory committees collude to protect one another’s interest. For example insider loan or high managers salary. In addition, he points out that there would be illegal and unauthorized investments.

2.9.3 Executive Power

Excessive executive power is a major challenge in corporate governance. An example in hand is the case of the World-Com Chief Executive and Chairman who opened a telephone board meeting involving directors in three US cities, lasting 35 minutes, and called at 2 hours notice, with no written materials and only a brief presentation, to win unanimous approval for a takeover bid for Inter-media Communications, a web hosting company, worth 6 billion dollars including its debts. The consequence of this was WorldCom that filed for the world's biggest ever bankruptcy. (Financial Times, 2003)

Enron's collapse was caused partly by off balance sheet special financial vehicles, or 'special purpose entities'. These were a myriad in number. Its board of directors had authorized the chief financial officer to run all and any necessary off balance sheet partnerships rather than bothering them with reports and decisions. (Financial Times, 2003)

The other challenges faced by Kenyan SACCOs according to Mudibo (2005) are that in most cases the board of directors is not completely trusted by employees. He further sights that key decisions on urgent matters such as change in interest rates, introduction of new products and services have to await approval by the Annual General Meeting. According to him, elected Board members are frequently non-professional volunteers yet they assume highly technical responsibilities such as loan analysis and disbursement, budgeting and financial expenditure control.

Additionally, there is lack of clear guidelines on the roles of the various stakeholders in SACCOs. For example where the Credit Committees authority ends, where the Executive Committee authority begins, and where the staff members authority begins hence delayed decision-making. This results in Conflict of interest among Co-operative Officials. Another serious challenge is corruption, gross mismanagement and misappropriation of funds by some elected official who abuse the trust of the members and deny them the hard earned funds.

2.10 Review of Past Studies

Jensen and Meckling (1976) asserts that managers who own no or little shares in the firms they are working for may ignore pursuing new profitable ventures, work inefficiently or give themselves high salaries and perks. Gatamah (2004) highlighted that the regulatory and supervisory systems for cooperatives in Africa are generally weak. He also asserts that financial decisions are influenced by politics.

Wambua (1999) pointed out that elected board members are sometimes non-professionals and may not be effective and efficient. This leads to uninformed decisions that may affect the profitability of the organisation. The cardbury Report (1992) highlighted that there were inability by the board of directors to control their organisation and inability by their auditors to provide an assurance required by the users of financial statements.

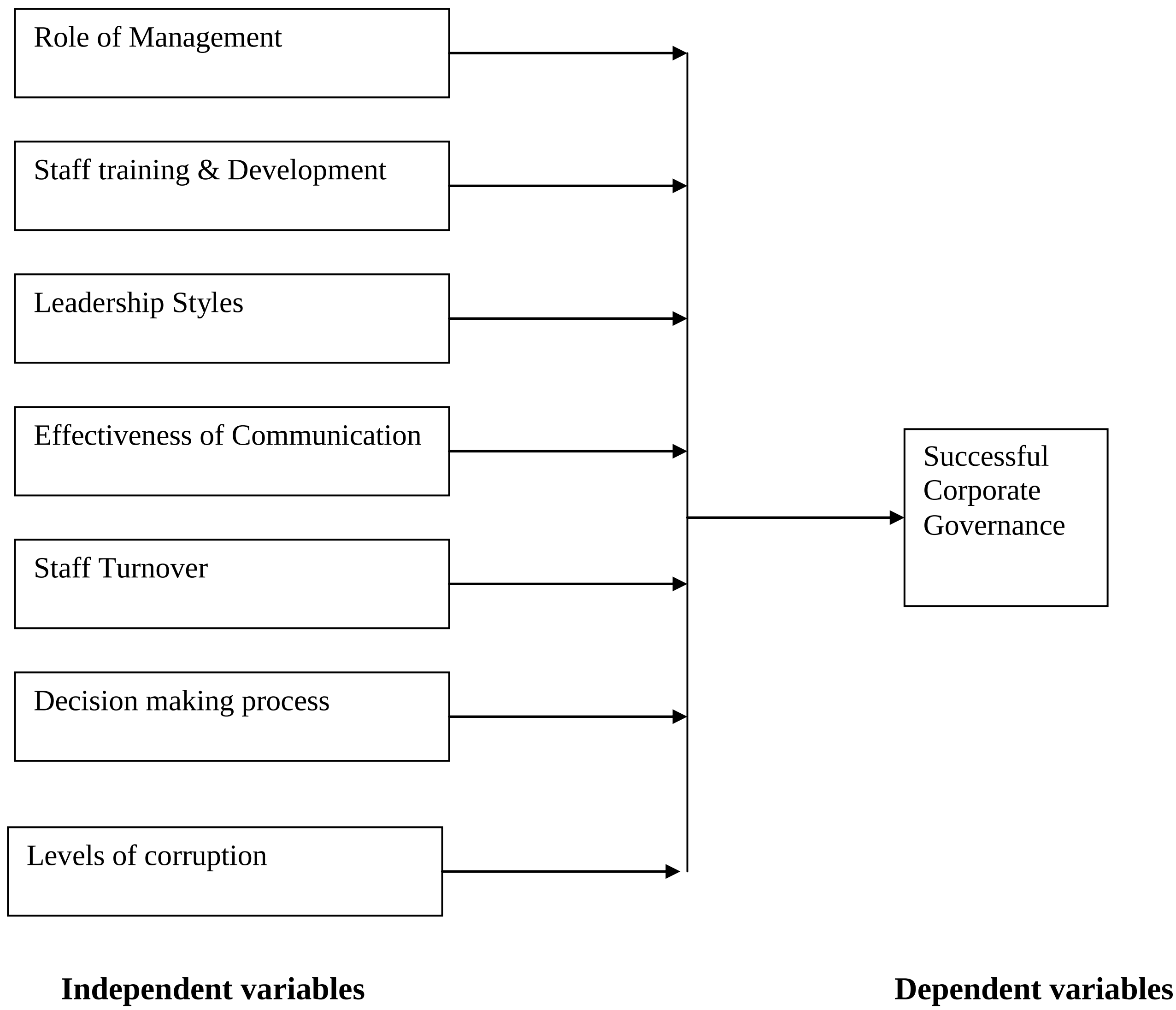
According to Muriuki (2004) the issues affecting corporate governance in cooperatives range for inadequate human resources, weak regulations and supervision and lack of financial standards. Among the problems encountered in the practise of corporate governance as highlighted by Mudibo (2005) are Unrealistic office tenure that ends up being costly in mainstreaming governance interventions in respect of training and instilling professionalism, Failure to convene general meetings and hold elections when due in some Co-operative Societies and the refusal of some officials to vacate office after being duly voted out by the members in their general meetings, Financial considerations on the fact that some members are outspoken has at times led to the incompetent members being elected into leadership positions at the expense of leaders who are visionary, hardworking, honest and competent, The members also encounter problems due to inadequacy of resources, lack of Education and Training forcing members to exert pressure on the Board members to implement issues in a manner that abuses the spirit of good governance. Where a Co-operative is very large, members may fail to look closely at the prudential actions of their Board members. In some cases, where a Co-operative is under the delegates system as opposed to general membership, the delegates end up expressing their own views as opposed to those of their members. This study will try to find out if the factors highlighted above are influencing implementation of corporate governance in the SACCO's.

2.11 Conceptual Framework

From the available literature the factors that influence the implementation of corporate governance as a post-liberalization strategy are said to be determined by the role of management, staff training and development, leadership styles, effectiveness of communication, staff turnover, decision making process and the levels of corruption.

This is explained in Figure 1 below.

Figure 1: Conceptual framework



Source: Author

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter discussed the kind of research design that was adopted in the study, area of study, target population, sampling procedure, data collection instruments and procedures and finally how the data was analysed.

3.2 Area of Study

The selected area of study was Nairobi, which was divided into four divisions. It was chosen because it has the highest number of SACCOs' and many decentralized SACCOs have their headquarters based in Nairobi. The researcher viewed the area as a sufficient representation of the cooperative movement in Kenya hence the findings adduced could be inferred for other areas.

3.3 Research Design

This study utilized descriptive study research in soliciting information on the use and effectiveness of corporate governance as a post-liberalization strategy in the SACCO sector. The descriptive study was ideal for this study because it described the current status of corporate governance practices and the challenges faced during its implementation process.

3.4 Population

The population constituted all the directors, managers, employees and members of all SACCOs from all sectors of the economy based in Nairobi area.

3.5 Sample and Sampling Procedure

The research adopted the sample frame shown the figure below

Figure - Sample frame

Sector / Division	Private	Public	Parastatal	Total
Northern	10	10	10	**30**
Central	10	10	10	**30**
Industrial Area B	10	10	10	**30**
Western	10	10	10	**30**
Total	**40**	**40**	**40**	**120**

Source: Research data

A sample of 120 respondents was selected from SACCOs based in Nairobi area. Using simple random sampling method, four divisions were selected in the study. The researcher used the Ministry of Co-operatives categorization of SACCOs to classify these institutions into clusters namely; private, public and parastatal. Stratified random sampling method was then used to select the 10 respondents from each cluster i.e 2 from management, 6 employees and 2 members.

3.6 Data Collection Instrument

In this study, questionnaires were used to access data on practice and challenges of implementing corporate governance policies by SACCOs as a post-liberalization strategy. The questionnaires consisted of the use open and closed ended questionnaires. This was because it would result in original primary data that would not be subject to manipulation. A pilot study was conducted first to test the validity and reliability of the questionnaire. Secondary data concerning the practice and challenges of corporate governance were gotten from journals, company reports, books and magazines. Interviews and focus discussions were used for confirmation and clarifications.

3.7 Data Collection Procedures

An introductory letter was obtained from the University's School of Business .The researcher then obtained lists of all SACCOs within Nairobi from the Provincial Co-operative Officer. This eased identification and facilitated simple random sampling process. Questionnaire were then administered to the respondents during working hours. After the stipulated period, the filled questionnaires were collected ready for analysis.

3.8 Data Analysis and Presentation

The data was analysed by employing both descriptive and inferential statistics such as percentages, frequencies tables, graphs, measures of central tendencies, cross tabulation and means. Statistical Package for Social Sciences (SPSS) was used to aid in analysis because it could perform many statistical calculations easily and quickly. Computation of frequencies in tables, chi-square, charts and bar graphs were used in data analysis and presentation (Obure 2002).

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATION AND PRESENTATION

4.0 Introduction

The chapter highlighted the findings of the study in respect to the 120 respondents' details and responses on the use of corporate governance as a post-liberalization strategy.

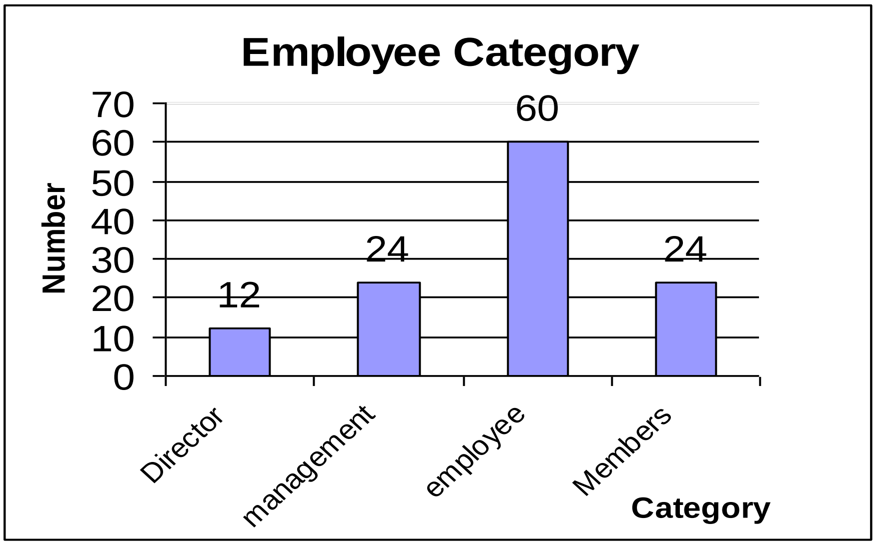
4.1 Respondents' Details

Table 4.1.1 Gender of Respondents

Gender	Frequency	Percentage (%)
Female	48	40
Male	72	60
Total	**120**	**100**

Table 4.1.1 above showed that 60% of the respondents were male while 40% were female.

Figure 4.1.2 Employee Categories



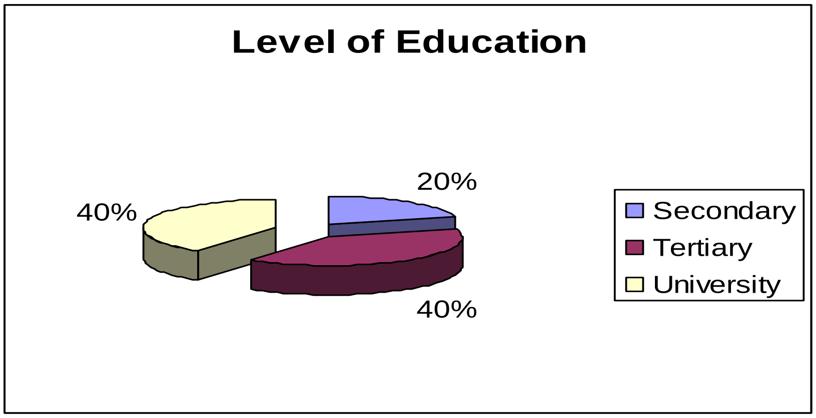
Half (50%) of the respondents were employees while 20% each were drawn from management and SACCO members. Only 10% of the total number of respondents were directors.

Table 4.1.3 Age of respondents

Age	**Frequency**	**Percentage (%)**
< 20 years	12	10
21-30	48	40
31-40	36	30
41-50	24	20
Total	**120**	**100**

From the table above, 40% of the respondents were aged between 21-30 years followed by 30% who were aged 31-40 years. Another 20% were aged 41-50 years whereas 10% were less than 20 years.

Figure 4.1.4 Level of education



According to the findings majority of the respondents, 40% each had either tertiary level of education or university level. Only 20% had secondary level of education.

Table 4.1.5 Type of SACCO

Type	**Frequency**	**Percentage (%)**
Public	60	50
Private	36	30
Parastatal	24	20
Total	**120**	**100**

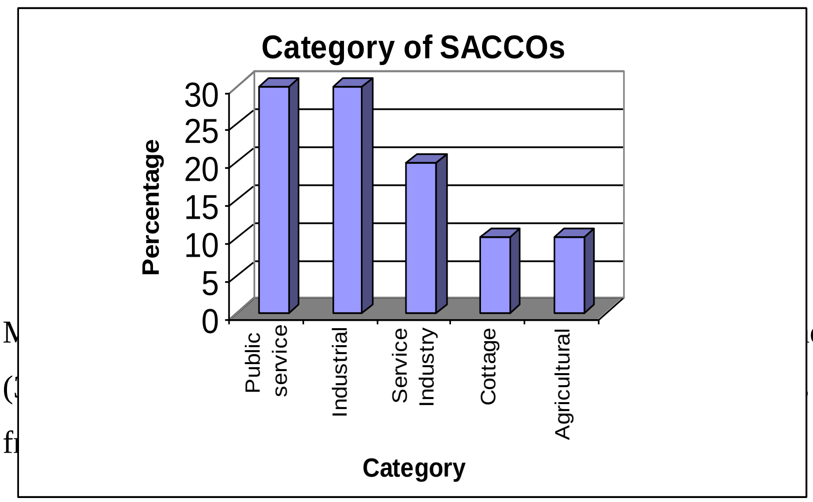
Findings indicated that 50% of the respondents were drawn from public sector whilst another 30% were from the private sector. Only 20% of the sampled respondents were from parastatals.

Table 4.1.6 Length of Service or Membership

Length of Service	Frequency	Percentage (%)
1-4 years	48	40
5-8 years	36	30
9-12 years	12	10
> 12 years	24	20
Total	**120**	**100**

According to the findings, 40% of the respondents had been in the SACCO either as employee or member for less than 4 years. Those who were over 12 years in the SACCO were 20%.

Figure 4.1.7 Category of SACCO



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4.2 Knowledge and attitude on Corporate Governance

Table 4.2.1 Whether they had heard of Corporate Governance

Response	Frequency	Percentage (%)
Yes	108	90
No	12	10
Total	**120**	**100**

The above table indicated that 90% of the respondents had heard of Corporate Governance in their SACCOs. All of them confirmed that their SACCOs use it as a management tool.

Table 4.2.2 Influence of Corporate Governance on management

Response	**Frequency**	**Percentage (%)**
Positive	48	44.4
No change	36	33.3
Negative	12	11.1
Don't know	12	11.1
Total	**108**	**100**

Majority of the respondents (44.4%) pointed out that Corporate Governance had positively influenced management practice. 33.3% of them said that there has been no change. Others (111.1% each) pointed out that Corporate Governance had negatively affected and others said they don't know.

Table 4.2.3 – State of Corporate Governance Indicators in departments

Indicator	**Mean**	**SD**
Decision Making Process	2.90	1.14
Division of Labour	3.10	1.04
Job analysis	3.10	0.95
Change Management	2.87	1.40
Investment decisions	2.70	1.42
Communication	3.30	1.27
Addressing Complaints	3.30	1.10
Adhering to existing laws	2.40	1.29
Overall Mean/SD	**2.95**	**1.20**

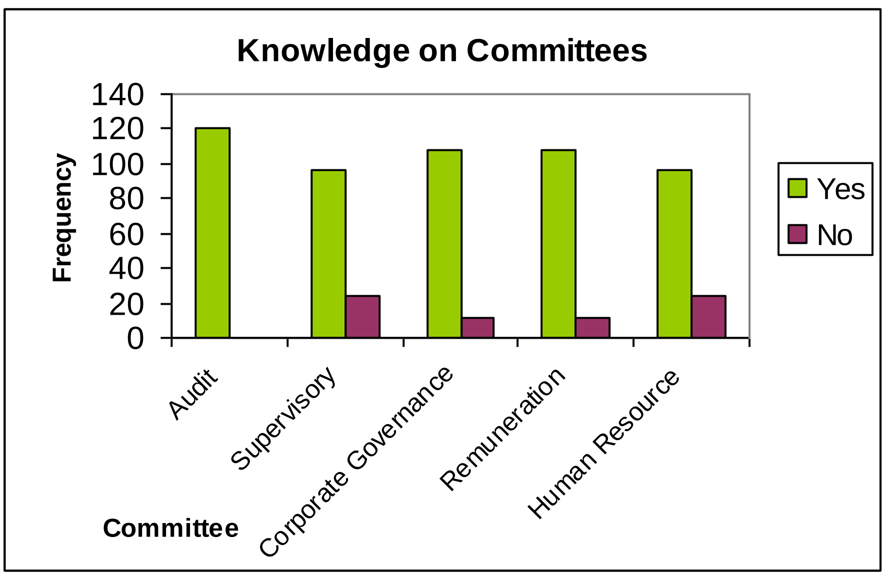
Respondents had varied opinions (1.14) that decision making processes were to a moderate extent. Responses were also varied as to addressing complaints, (1.10), communication (1.27), Investment decisions (1.42), change in management and (1.40) division of labour.These were rated as to a moderate extent (3.30, 3.30, 2.70, 2.87 and 3.10 respectively).Adhering to existing laws was viewed a being to a small extent (2.40) and similarly, the responses were also varied. There however, seemed to be joint agreement (0.95) that division of labour was to a moderate extent. In general, state of corporate governance indicators in departments was rated to a moderate extent, though there were varied responses (1.20) on this issue.

Table 4.2.4 frequency of using laws and by-laws

Response	**Frequency**	**Percentage (%)**
Not used at all	12	10
Rarely used	48	40
Often used	36	30
Frequently used	12	10
Optimally used	12	10
Total	**120**	**100**

According to the findings, 40% of the respondents were of the opinion that laws and by-laws were rarely used. This supported the 10% who claimed that it was not used at all. 30% of the respondents felt that they often used these laws.

IFigure 4.2.5 Knowledge on SACCO Committees.



From the findings above, knowledge on various types of committees that exist in the SACCO was good. All respondents had heard of the audit committee whereas 90% each of the respondents had heard of the other committees except supervisory and human resource committees.

Table 4.2.6 Prevalence of Corporate Governance Inhibitors

Inhibitors	**Mean**	**SD**
Use of rules and guidelines	1.19	0.91
Conflict of interest	2.22	1.21
Political Interference	2.00	0.78
Corruption	1.80	1.01
Leadership wrangles	1.91	0.99
Insider dealings	1.78	1.00
High staff turn over	1.90	0.89
Overall Mean/SD	**1.82**	**0.97**

In terms of prevalence of corporate governance inhibitors, analysis revealed that use of rules and guidelines was viewed as not prevelant (1.19) and to most respondents this was the general opinion.High staff turnover was also agreed upon (0.89) to be prevelant (1.90),and so was leardership wrangles (0.99) to some extent (1.91), political interference was also viewed as prevalent (2.00)and this according to most respondents,was the general option (0.78). Responses were varied in respect to insider dealings (1.00), corruption (1.01) and conflict of interest (1.21) as being prevalent

(1.78,1.91 and 2.22 respectively).In summary,prevelance of corporate governance inhibitors was prevalent (1.82) and this was the general view of respondents (0.97).

Table 4.2.7 Constraints to Good Corporate Governance

Constraints	Mean	SD
Inadequate resources	3.80	1.17
Board's incompetence	4.50	0.67
Unmotivated staff	4.20	1.08
Communication Breakdown	4.20	1.08
Poor delegation of authority	3.40	0/67
Ill-equipped Human resources	3.70	1.10
Overall Mean/SD	**3.96**	**1.02**

I II-equip Human resources, Communication breakdown, unmotivated staff and inadequate resources were viewed by most respondents as having relative influence (3.70,4.20, 4.20 and 3.80 respectively),and though this was not the general view of most respondents (1.10,1.08,1.08 and 1.170)respectively. There was however general agreement that Boards incompetence influenced greatly (4.50) and poor delegation influenced moderate (3.40).and on the two issues, respondents had no varied responses (0.67 and 0.67 respectively).In general ,constraints were observed as influencing to a large extent (3.96) though this opinion varied amongst respondents (1.02).

Table 4.2.8 Measures used to evaluate effectiveness of corporate governance

Measures	Mean	SD
Staff training and development	2.2	0.92
Staff Welfare and remuneration	1.9	0.97
Transparent and open leadership	1.8	1.05
Corporate social responsibility	2.6	0.53
Human resource planning	2.2	0.78
Overall Mean/SD	**3.57**	**1.42**

According to table 4.2.8 respondents agreed that stafftraining and development measures (.92) ,staff welfare and dennumeration (0.97) and human recourse planning (0.78) were at times applied (2.2,1.9 and 2.2 respectively).Responses however varied that transparent and open leadership (1.05) as a measure was applied at times.(1.8).There was strong agreement (0.53) however that corporate social responsibility was exercised.Always (2.6). In general,there were similar responses (0.85) that measures used to evaluate effectiveness at corporate governance were exercised at times (2.14).

Table 4.2.9 – Benefits of good corporate governance as a competitive strategy

Benefit	**Mean**	**SD**
Enhance productivity and efficiency	3.1	0.84
Enhance Shareholder's Wealth	2.7	1.32
Increase employment opportunities	2.9	1.11
Eliminates agency problem	2.7	1.01
Enhances transparency and accountability	3.1	0.98
Improves decision making	3.2	0.71
Overall Mean/SD	**2.95**	**0.99**

According to table 4.2.9,though responses showed relative variances on enhancing of shareholder's wealth (1.320,Increase in employment opportunities (1.11) and Eliminating agency problem (1.01) as benefits of corporate governance as a corpetitive strategy,there was agreement that enhancing of productivity and efficiency (0.84) was agreed upon.This was also the case in enhancing of transparency and accountability as a benefit (3.1) and improving decision making (3.2),and on both the two,this was the general view of respondents (0.98 and 0.71 respectively).In general,most respondents rated the benefits of good corporate governance as a competitive strategy moderately (2.95) and this was the general view of respondets (0.99).

From the findings above, it is noted that there is a general acceptance that good corporate governance as a strategy benefits SACCOs. Its ability to enhance shareholder's wealth is high accepted among the respondents as reflected by the standard deviation of 6.9. The above feeling is also reinforced by the mean of 46 and standard deviation of 11.3 which argues for a times and never respectively. Infact a small percentage and indeed average of 12 does not have any idea to the above benefits and so do not qualify to make qualitative and binding judgements.

Table 4.2.10 Relationship between level of education and position held

Education level	**Position held**				
	Directors	**Management**	**Employee**	**Member**	**Total**
Secondary	-	-	24	-	24
Tertiary	-	-	36	12	36
University	12	24	-	12	48
Total	**12**	**24**	**60**	**24**	**120**

From the table above, top management position such as the directors and the management team had university level of education. Respondents holding directorship or management positions had university level of education. No employee had university level of education. This showed the attachment given to education with regard to promotions.

Table 4.2.11 Relationship between position held and the perception on impact of corporate governance

Perception	**Position held**				
	Directors	**Management**	**Employee**	**Member**	**Total**
Positive	12	24	12	-	48
No change	-	-	24	12	36
Negative	-	-	-	12	12
Don't know	-	-	12	-	12

Total	**12**	**24**	**36**	**24**	**108**

It emerged from the findings that 12 directors and 24 management level officers were of the opinion that corporate governance has had positive impact on the SACCOs. Only 12 employees thought so. On the other hand, 24 employees felt that it had no change, similarly to 12 members. 12 employees admitted ignorance by declaring that they don't' know.

Table 4.2.12 Relationship Between Type of SACCO and the Perception on Corporate Governance Influence on Management

Type of SACCO	**Positive**	**No change**	**Negative**	**Don't know**	**Total**
Public	12	24	-	12	48
Private	12	12	12	-	36
Parastatals	24	-	-	-	24
Total	48	36	12	12	108

From the findings above, parastatals were seen to have received the concept of corporate governance positively (24). Though public also received it positively, (12), another 24 felt that there was no change while another 12 didn't know. Equally, private sector registered 12 respondents who felt that corporate governance had brought positive impact on their SACCO. Equal number felt that there was no change and negative impact.

4.2.13 Extent to which factors can be attributed to liberalization

	VG		**G**		**M**		**L**		**NAA**	
Factor	F	%	F	%	F	%	F	%	F	%
Loss of income	36	30	48	40	12	10	12	10	12	10
High employee turnover	24	20	12	10	12	10	36	30	36	30
High customer turnover	60	50	36	30	24	20				
Increased competition	72	60	36	30	12	10				
Increased costs of operation										

Key: VG – Very Great; G – Great M – Moderate
L – Little NAA – Not at all

From the findings above it emerged that respondents attached liberation to happenings in the SACCO sector. 60% of them felt that increased competition had been greatly influenced by liberation. Another 50% cited high customer turnover to liberation. It also emerged that 30% of the respondents felt that increased competition and high customer turnover were greatly affected by liberalization.

Only 10% of the respondents though that loss of income was not at all related to liberalization.

Table 4.2.14 Recommendation on how to enhance corporate governance concept

Recommendation	**Frequency**	**Percent (%)**
Training and development of staff	95	79.2
Professional hiring process	42	35
Customizing Corporate Governance	74	61.7
Using participatory leadership	85	70.8
Select competent members	22	18.3

From the findings above, 79.2% of the respondents called to enhanced training and development of staff to improve their competence. Another 70.8% argued for participatory form of leadership to ensure that all the stakeholders were brought on board during all the phases of development.

61.7% wanted Corporate Governance be customized to suit the SACCOs individual needs rather than adopting a standardized/generalized one. This would help the organization know how to deal with specific industry needs.

A minority (18.3%) wanted board members competence to be reviewed. They called for thorough scrutiny. This supports the 35% who called of adoption of professional and competitive hiring process.

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter highlighted the key findings of the study thus captured how SACCOs used corporate governance to counter negative effects of Liberalization. The chapter discussed the findings of the study, made conclusions and recommendations.

5.2 Summary of the Findings

The research study was carried out in Nairobi Area targeting 4 divisions. In these divisions, three categories of SACCOs namely: Public, Private and Parastatal were identified for sampling. A total of 120 respondents drawn from rank and tile of the SACCOs were sampled leading to 12 directors, 24 management level officers,60 employees and 24 SACCO members. Majority of the Respondents (40%) were aged between 21-30 years an indicator that SACCOs had young and energetic staff that if well utilized, can drive the sector to greater heights. It also emerged that 40% of the respondents had university level of education and the same applied to those with tertiary level of education. Only 20% had secondary level of education. This gave a strong pointer that Majority of SACCOs staff are well trained hence can be said to be well prepared for efficient and effective performance. Out of these staff, those who hold positions of Directorship were all University graduates whereas a greater percentage of employees had secondary school level of education.

On the leadership of SACCOs it emerged that all the directors were holders of university education whereas the employees were either secondary school or tertiary college graduates. This phenomenon indicated that the institution pays serious attention on meritocracy. Incidentally, all the directors had faith in Corporate Governance philosophy by agreeing that it had had positive impact on management practices.

It also emerged that 40% of the respondents had been in the SACCO for a period less than 4 years. Of these, only 20% had been there for more than 12 years. This indicated the level of staff turnover in the SACCO movement or the possibility of expansion of the sector. Majority of the SACCOs (30% were drawn from either public service or Industrial sector. Agricultural SACCOs were few (10%). This could be attributed to the kind of set up of Nairobi which is more of industrial-cum- commercial centre than agricultural.

On implementation of corporate governance as a post-Liberalization strategy, 90% of the respondents pointed out that their SACCOs do use it. Out of these, 44.4% posted that it has had positive impact on management practices while another 11.1% said the contrary. It became also apparent that 33.3% of these respondents did not see any form of change as regards this strategy. This means that the success of the strategy was yet to be felt.

On the same breath, 60% of the respondents attributed greatly increased competition to Liberalization as 50% attributed it to high customer turnover. Sizeable number of respondents 30% did not see the role played by Liberalization in influencing staff turnover whereas 30% Of them did not see how Liberalization let to loss of income for the SACCOs.

On implementation of corporate governance in the SACCOs, there was a glaring problem with regard to all indicators. 40% of the respondents thought divisions of labor was fairly handled. Equally, 40% decried the fact that investment decisions were fairly handled yet these decisions are fundamental in influencing the SACCO performance. It also emerged that 30% of the SACCOs poorly honoured change management as adherence to existing laws as well as by-laws. This kind of laxity indicts the SACCOs in that they could not reap maximum benefits of corporate governance. Additionally, 40% of the respondents admitted that SACCOs rarely used existing laws and by-laws. This complemented the response of the 10% respondents who felt that SACCOs do not use laws at all.

While probing on knowledge about existing committees, majority of them confirmed that they were aware of their existence. 100% had heard of Audit committees, while 90%

each had heard of corporate governance and remuneration committees. This findings indicated that the staff were aware of the existing committees. Of importance is the corporate governance committee that was well know.

On inhibitors of Corporate Governance, respondents cited various of them with varying degrees. It emerged that 40% of them thought that conflict of interest was very prevalent followed by leadership wrangles (22.2%).Political interference was also registered as prevalent (60%) while insider dealings (50%) high staff turnover (50%) and use of obsolete rules and guidelines were also deemed prevalent. Based on the above, it emerged that SACCOs have not grasped the role of Corporate governance in ironing out these sticking points.

For SACCOS to effectively implement Corporate Governance, 60% of the respondents felt that unmotivated staff and communication breakdown could greatly influence. Another 50% pointed out boards' incompetence as 40% pointed their accusing finger on lack of resources. These findings confirms the fact that corporate governance can succeed not because of financial resources but due to the ability of management staff to handle entire human resource team through motivation and proper channels of communication. While applying measurement yardsticks, it was apparent that 70% of the SACCO had not embraced the concept of corporate social responsibility. Additionally, 40% of the respondents concurred that staff training and .development were offered similarly to another 40% who claimed that their SACCO don't do human resource planning.

It was only the concept of transparent and open leadership that was seen to be implemented always (40%). This scenario confirmed that these institution may have implemented Corporate Governance as a post-liberation strategy but the results are yet to be seen.

Findings also indicated a unanimous agreement that Corporate Governance had its benefits if well cultivated and implemented. Accordingly, 50% of the respondents

strongly agreed that it improves decision making, so to 40% who felt that if well implemented, can lead to increased employment .30% each of the respondents were in agreement that well implemented Corporate Governance as a strategy would enhance productivity and efficiency, increases shareholders wealth and enhances transparently, accountability and probity. These sentiments posited the fact that as a strategy, corporate governance can help institution, SACCOS included, tame competition and other consequences/challenges attributed to liberalization.

5.2 Limitations and Assumptions

It is focused that the study will experience challenges in getting the directors and the managers to fill the questionnaire because of their busy schedule. The researcher will address this by dropping the questionnaires and picking later or booking an appointment with the selected directors and managers for an interview.

It is also expected that the respondents may not co-operate. The researcher will strive to initiate good relationship with the selected subjects before commencing the survey.

5.3 Conclusion

Based on the above summary findings, it was clear that after liberation, many SACCOs found themselves in unfamiliar zones. The banking industry became an open market where firms could hawk their products/services freely. The past stringent measures that were synonymous with mainstream banks were relaxed leading to mass exodus of cooperators to banks borrowing among SACCOS dividend as many members find convenient to borrow from banks that demand little conditions. The net effect was that SACCOs had to devise ways of making them not only remain afloat but competitive in the market. Liberalization came with many threats to SACCOs, according to the findings, it lead to increased level of competition within the industry. The banking industry, especially mainstream banks, came with attractive products that wooed SACCO members clearing membership to be very fragile. This led to loss of revenue/income among the SACCOs. Another problem was high customers turnover with existence of substitute cheapproducts in the market, many SACCO members shifted their loyalty hence big loss to the sectors.

Corporate governance though a new phenomenon was adopted by many SACCOs as a way of guiding them to efficient and effective management practices. Though new, it was acknowledged by all respondents that Corporate Governance had positive impact on management practices. They cited enhanced efficiency, productively, reduced costs of production, faster decision making process and more importantly increased wealth creation as the key pointers of effectiveness of corporate governance. . However, the respondents cited various constraints and inhibitors to the attainment of this state. They pointed out that the quality of human resources, availability or lack of resources, perennial communication breakdown and unmotivated staff were some of the constraints that derail implementation of Corporate Governance. Equally, conflict of interest, political interference, leadership wrangles among others pose a serious threat to effective Corporate Governance. The respondents cited the level of prevalence of these inhibitors thus comprising the possible gains that may have been made towards entrenching sound Corporate Governance culture. According to the findings, it emerged that many SACCOs still do business within the context of these inhibitors. In the final analysis, the results reflected low gains of Corporate Governance.

On Corporate Governance evaluation, respondents felt that the SACCOs were no; serious. They felt that indicators of good Corporate Governance were not paid the attention it deserves and that much was left unattended. Majority said that SACCOs don't offer staff training and development, staff welfare and remuneration, corporate social responsibility and human resource planning. To this end, it was evident that these SACCOs were not willing to fully embrace Corporate Governance perhaps due to financial implications.

Based on the findings, it emerged that the staff and members of these SACCOs had good educational qualifications. They had attained at least secondary level of education. It also emerged that all the directors had university level of education and majority had served in the SACCO for more than 9 years. This indicated that seniority as well as ability were the two key strengths used by the SACCO with regard to promotions.

As earlier mentioned, the staff and management comprised of qualified persons. Sadly, the implementation of the Corporate Governance strategy has not been good. Many respondents, especially employees, depicted that the management was not apt in applying these measures. They called for management to address the issue by giving some recommendations.

Consequently, many respondents called for staff training and development, use of competitive and professional hiring process and selection of competent board members. Also, they recommended, use of home grown or customized corporate governance strategy. In doing so, abstract and irrelevant issues are eliminated leaving issues that directly combat the emergent problems. They also cited use of participatory method of administration. They argue that members and staff across rank and file be involved in processes such as decision making SACCOs autonomous. They wanted the government to cease string pulling events within the sector.

Based on the above, it was evident that the Corporate Governance strategy adopted by SACCOs in Nairobi to combat post-liberalization strategy has not succeeded. Much ought to be done to ensure that sticking issues are ironed out to ensure that SACCOs develop competitive strategies in order to remain alive and relevant in the market.

5.4 Recommendations

Based on the above findings, the research recommends thus:-

SACCOs to strengthen the use and practice of Corporate Governance strategy in curbing post -liberalization negative impacts. Staff training and development be enhanced to ensure that new concepts such as Corporate Governance are easily comprehended and embraced.

SACCOs should use professional competitive hiring process in order to tap talents, SACCOs to learn how to customize corporate governance strategies so that it captures inherent salient needs and SACCO should be delinked from government especially with regard to policy formulation.

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APPENDICES

APPENDIX 1: QUESTIONNAIRE FOR ALL RESPONDENTS

Dear Respondent

I am a student pursuing a Master of Business Administration (MBA- Strategic Management Option) at the University of Nairobi (UON), carrying out a project entitled '*The use of Corporate Governance as a Post-Liberalization Strategy by Savings and Credit Cooperative Societies (SACCOs) in Nairobi area*'. I kindly request your assistance in filling this questionnaire, which is meant purely for academic purposes.

Your responses will be treated with utmost confidentiality.

Thank you

Tokei J.C

Section 1 Demographic Information

(Please circle/ fill in as appropriate)

1 Gender of the respondent

Male [ ] Female [ ]

2. Age	
18-26 years	
27-36 years	
37- 44 years	
45 years and above	

3. Highest Education level Completed	
No formal education	
Primary School not completed (< std 7/8)	
Primary School Completed (Std 7/8)	
Secondary school not completed (< form 1-4)	
Secondary School completed (Form 4/6)	
College not completed	
College completed (Certificate Diploma/ Degree)	

Adult Education	

4. Category of SACCO	
Agricultural	
Health	
Financial	
Education	
Housing	
Civil service	
Others (specify)	

5 a) In which type of SACCO are you a member?

Public [ ]

Private [ ]

Parastatal [ ]

b) What position do you hold in the SACCO?

[ ] Director

[ ] Management

[ ] Employee

[ ] Member

c) For long have you worked in the position (read out the mention position in 5b)?

Less than a year (specify the months)……………………….

[ ] 1-3 years

[ ] 3-6 years

[ ] over 6 years [ ]

Section 2 Knowledge and Attitude on Corporate Governance

6 a) Have you heard of corporate governance and code of best practices?

[ ] Yes

[ ] No

b) If yes, does your SACCO apply them?

[ ] Yes

[ ] No

c) How has it influenced your SACCOs management?

[ ] Positively

[ ] No change

[ ] Negatively

[ ] Don't know

7 To what extent can each of the following factors facing your SACCO be attributed to liberalization:

	Very Great	Great	Moderate	Little	Not at All
Loss of Income					
High employee turnover					
Increased level of competition					
Increased cost of operation					

8 The following factors are critical when implementing a sound corporate governance policy. Indicate by ticking (√) their state in your department using the scale given below.

E- Excellent; G- Good; S- Satisfactory; F-Fair and P – Poor

	Factor	E	G	S	F	P
a	Decision Making process					
b	Division of Labour					
c	Job Analysis					
d	Change Management					
e	Investment Decisions					
f	Communication					
g	Addressing complaints					
h	Adherence to existing laws					

9 a) Are there any laws or by-laws that guide operations in your SACCO?

[ ] Yes

[ ] No

b) How would you rate the usage of these laws in SACCOs?

[ ] Not used at all

[ ] Rarely used

[ ] Often used

[ ] Frequently used

[ ] Used optimally

10. Which SACCO committees are you aware of? ***Tick(√) where appropriate***		
Committee	**YES**	**NO**
1. Audit Committee		
2. Supervisor Committee		
3. Corporate governance Committee		
4. Remuneration Committee		
5. Human resources and compensation Committee		
6. Others (Specify) ……………………….……………………………………..		

11 The following are some negative practices that inhibit good corporate governance. Tick (√) where appropriate based on the scale given below.

VP – Very prevalent

P - Prevalent

NP Not prevalent

	Practice	**VP**	**P**	**NP**
a	Use of obsolete rules and guidelines			
b	Conflict of Interest			
c	Political Interference			
d	Corruption among members			
e	Leadership wrangles			
f	Insider dealings			
g	High staff turnover			

12 Below are constraints that inhibit the success of corporate governance practice in cooperative movement. Rank them based on the scale provided below.

1	Little Influence	**2**	A bit of influence	**3**	Neutral
4	Influences	**5**	Greatly influences		

	Constraint	1	2	3	4	5
a	Inadequate Resources					
b	Board's Incompetence					
c	Unmotivated Staff					
d	Communication Breakdown					
e	Poor delegation of Authority					
f	Ill-equipped human resources					

13 The table below contains measures that can be use to evaluate the effectiveness of corporate governance practices in an institution. Using the scale provided, indicate by ticking (√) their levels according to your department.

	Measure	Never	At times	Always	Don't know
a	Staff training and development				
b	Staff welfare & remuneration				
c	Transparent & open leadership				
d	Corporate Social Responsibility				
e	Human Resource planning				

14 The following are benefits that accrue to firms that practice good corporate governance. Indicate by ticking (√) your level of agreement.

SA - Strongly Agree **A** – Agree **N** – Neutral

D – Disagree **SD** – Strongly Disagree

	Statement	**SA**	**A**	**N**	**D**	**SD**
a	Enhances productivity and efficiency					
b	Enhances creation of shareholders wealth					
c	Increases employment opportunities					
d	Eliminates agency problem					
e	Enhances transparency, accountability and probity					
f	Improves decision making process					

15 What suggestions would you give to improve on corporate governance in your SACCO?

i)………………………………………………………………………….

ii)…………………………………………………………………………

iii)………………………………………………………………………..

APPENDIX 2

BUDGET

S/NO.	Items description	Sub total	Total
1.	**Proposal Writing** Desk Research – from various libraries Stationary, computer, photocopy, printing and binding	 **1, 500.00** **3,000.00**	 **5,500.00**
2.	**Research Instruments** Questionnaire (typing & Copies) Discussion guide	 **2,000.00** **100.00**	 **4,100.00**
3.	**Data Collection** Hiring of 4 research assistants	 **18,000.00**	 **18,000.00**
4.	**Data Analysis (SPSS)** Data analysis fee	 **20,000.00**	 **20,000.00**
5.	**Final draft Printing and binding** Typing, photocopy, Binding	 **4,000.00** **2,500.00**	 **6,500.00**
6.	**Transport /Miscellaneous** Transport Accomodation Telephone Stationery Computer service/ internet services	 **4,000.00** **6,000.00** **1,000.00** **500.00** **1,000.00**	 **12,500.00**
	Grand Total		**63,600.00**

APPENDIX 3

TIME PLAN AND SCHEDULE

TIME PLAN

Proposal Writing	4 weeks
Proposal Defence	1 day
Proposal Correction	1 week
Data Collection	1 week

Data Analysis	2 weeks
Report Writing	1 week
Defence of Report	1 day
Correction of Report	1 week
Submission of Report	1 day
Total	$\boxed{\textbf{10 weeks 3 days}}$

TIME SCHEDULE 2006

Activity	**Mar**	**Apr**	**May**	**Aug**	**Sept**	**Oct**	**Nov**
Proposal writing							
Proposal defence							
Proposal correction							
Data collection							
Data analysis							
Report writing							
Defence of report							
Correction of Report							
Submission of report							

APPENDIX 4

LIST OF SACCOS

<u>Private</u>

- NK Sacco
- Sameer Sacco
- Orkise Sacco

<u>Public</u>

- Harambee Sacco

- Ukulima Sacco
- Afya Sacco

Parastatals

- Stima Sacco
- Ushuru Sacco
- Wanandege Sacco