CORPORATE GOVERNANCE PRACTICES AND SOLVENCY OF DEPOSIT TAKING SACCO'S IN KISUMU COUNTY KENYA

BY

LENCER ADOYO ODHIAMBO

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTERS OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

OCTOBER, 2016

DECLARATION

I declare that this is my original work and hasn't been presented in any other institution or forum for any other award prior to this declaration.

Sign: ____________________ Date: ______________

NAME OF STUDENT: LENCER ADOYO ODHIAMBO

REG. No: D61/77433/2015

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

Sign:…………………………………….

Date…………………………………………

Dr. Joshua Wanjare
Lecturer,
Department of Finance and Accounting,
School of Business,
University of Nairobi.

ACKNOWLEDGEMENT

I wish to convey my gratitude to Dr Joshua Wanjare, my supervisor and also a lecturer at the University of Nairobi SOB, Kisumu Campus, for agreeing to supervise this research project. I am grateful to my family for giving the invaluable support to concentrate on this research. Last but not least I thanks to the Almighty God who was my source of inspiration during the entire period of my studies.

ABSTRACT

The purpose of the study was to examine the effect of corporate governance on solvency of deposit taking SACCOS licensed by SASRA in operating in Kisumu County, Kenya. Specifically, this study examined accountability and transparency, audit committee and board formation and their effects on solvency of the savings and credit cooperative societies that take deposit in the county of Kisumu, Kenya. The study employed descriptive survey research design. The target population for this study was 11 deposit taking SACCOS licensed by SASRA in Kenya for the period 2011- 2015. Data collected from SASRA i.e. financial statements in their custody was used. Collected data was analysed using both descriptive and inferential statistics. Mean and frequency was used for analysis, while correlation and regression analysis was used to analyze the degree of relationship between the variables in the study. The study realised that corporate governance is key in the financial health of SACCOS and firms in general. The research further showed through regression, that the firm's performance was dependent on the predictor variables i.e. accountability and transparency, audit committee and board formation. Results show that good accountability and transparency practices, effective audit committee and transparent and efficient board formation enhance corporate governance and performance and that when such factors are capitalized, it enhances firms' solvency.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

ATM:	Automated Teller Machine
CEO:	Chief Executive Officer
CMA:	Capital Markets Authority
DTS:	Deposit Taking SACCO's
FOSAs:	Front Office Service Activities
KFA:	Kenya Farmers Association
KNFC:	Kenya National Federation of Cooperatives
OECD:	Organization for Economic Cooperation and Development
SACCOS:	Savings and Credit Cooperatives
SASRA:	SACCOS Society Regulatory Authority
SMEs:	Small and Medium Enterprises
USAD:	United States Academic Decathlon

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Corporate governance, over the last decade has become an interesting topic of discussion worldwide and the history is now well documented. According to Ngugi (2007), the African continent has not been left behind and corporate governance has assumed highest propositions. Kamau and Baweti (2013) further confirms that SACCO associated established under emerging economies are discounted in fiscal markets due to poor governance. Consequently, perfection of corporate governance would increase investor confidence and enhance these firms' access of funds to the stakeholder (Wambora, 2003). According to Matengo (2008) corporate governance is an internal system comprised of processes, policies and people, which address the shareholders' needs and other stakeholders, by governing and controlling management activities for good business know-how, accountability, objectivity and integrity.

The need to promote the financial strength of the SACCO subsector and encouraging proper corporate governance provide an explanation for the need of the prudential regulatory framework that SACCO Societies Regulatory Authority (SASRA) is obliged to implement (Kamau, 2008). The basic problem addressed by the agency theory with regard to the benefit of corporate governance towards stakeholder and solvency of such institutions. SACCOs, which are licensed, should observe the minimum regulations of operations and standards (Young, 2000). Most of the problems impeding proper performance of the co-operatives are attributed to bad governance and unsound economic management. While leaders control the organizations, and managers direct and run them, members have mandate to demand and enforce proper governance in their organizations (Klapper and Lover, 2002).

Corporate governance is one of the crucial concepts in a financial institution such as banks or a SACCO (Fama and French 1997). When it comes to the context of deposit taking SACCO's, corporate governance has been credited as an effective measure towards increasing a financial asset of an institution since it encourages more of potential customers to consider putting in more deposits which is more critical for the ongoing viability of the SACCO's. Due to close link between the corporate governance and solvency of SACCO's, there is a sound management to reduce the probability of a SACCO's becoming insolvent thus reducing chances of bankruptcies and disruptive ruin (Kee et al., 2003).

The theory that underpins the study is the agency theory that was proposed by Alchian & Demesetz (1972) further advanced by Jensen & Murphy (1990). The theory postulates that owners who happen to be the firm's shareholders hire agents that are the managers to execute company or organization duties. They assign operation of the business organization to the managing directors who are like agents to the shareholders (Bratton 2000). Moral hazard theory also contributes a lot in the study of corporate governance and solvency of SACCO's. Moral hazard theory explains that SACCO's are exposed to risk that is connected to borrowers giving misleading information to acquire loans. These increases risk of default and insolvency of deposit taking SACCO's. Stakeholder Theory on the other hand postulates that organization managers have a set of connections and relationship to offer their services. This network entails suppliers, business partners and employees. Warner et al., (1988) also argues that this group of network is crucial as compared to owner-manager-employee network as indicated in agency theory. Lastly, the shareholder theory hypothesised that the social function of corporations is to increase shareholders' wealth (Warner et al., 1988; Matengo 2008; Young 2000). However, agency problems come up when the agents does not work in line with the principal's objectives.

1.1.1 Corporate Governance Practises

Muriithi (2005) defined corporate governance as that set of interrelationships between the firm's management, owners, and stakeholders. He further suggested that corporate governance addressed the directors' powers, controlling interests vis-à-vis minority interests, and other stakeholder rights. In addition, Gompers, Metrick and Ishii (2003) explain that corporate governance is the commitment to manage a firm efficiently and effectively given investment.

Adams & Mehran, (2003) asserted that it is "the mechanism through which stakeholders (shareholders, creditors, employees, clients, suppliers, the government and the society, in general) monitor the management and insiders to safeguard their own interests. According to Shivdasani and Yermack (1999), "It is a framework through which monitors and safeguards the concerned actors in the market (managers, staff, clients, shareholders, suppliers and the board of administration. Abor (2007) defines corporate governance as the system by which companies are directed and controlled.

Corporate governance very crucial for any successful business because it enhance plausible leadership within the corporate sector, given that it has the following attributes; leadership for accountability and transparency, leadership for efficiency, leadership for integrity and leadership that respect the rights of all stakeholders (Gemmill and Thomas 2004). Regularization of this financial sector to safeguard the interests of the owners will indeed define the importance of having a prudent regulatory framework by SASRA. Prudent operational regulations coupled with standards are key elements to for any SACCO to be licensed (SACCO Supervision Report, 2012).

1.1.2 Concept of Solvency

According to Healy et al (2003), solvency is defined as the ability of a business organization to meet long term maturing obligations. A solvent SACCO is one whose value of assets is higher than the amount of its liabilities, while an insolvent SACCO is one whose assets are less than the liabilities of the same (Jebet 2001). This may happen when deposit taking SACCO, suffers some losses from its assets because of the write-offs on securities, loans, or other business activities, but then the capital base of the institution is not sufficient to cover those losses (Brwon and Caylor 2004). In such a case the deposit taking SACCO, is unable to meet its obligations defaults and loses its franchise value. In order to avoid such risk, deposit taking SACCO's need to keep an adequate buffer of capital, so that in case of losses, the SACCO can reduce capital accordingly and remain solvent (Yermeck, 1996). On this reasoning, the solvency position of a SACCO can be determined by two main factors: the availability of an appropriate buffer of capital and the profitability of deposit taking SACCO activities.

Solvency of SACCO can be measured using debt ratio. The debt ratio is also called the debt-to-assets ratio. The ratio tries to explain the amount of assets financed by debt. A lower debt to asset ratio implies that the firm does in fact rely more on contributions rather than debt. Hutchinson & Gul (2004) assert that a lower debt to assets ratio is required i.e. in firms. The more predictable and stable the cash flow, the easier and cheaper it is for firms to borrow. Businesses in more volatile industries (like technology) may have a harder time adding debt.

1.1.3 Corporate Governance & Solvency

The relationship between corporate governance and solvency of deposit taking SACCO's can be is crystallised by a number of scholars and researchers. Desets & Villalonge (2002) investigated the well-designed corporate governance systems effects on the performance financially of firms measured by solvency and found out corporate governance variables effects financial stability measured by solvency (debt asset ratio) Fama and MacBeth (1973), outlined the effects of corporate governance on debt ratings, they restricted their analysis to a limited set of governance variables. Findings was that credit rating is negatively associated with the number of block holders and CEO powers, and positively related to takeover defences, accrual quality, board independence, board stock ownership and expertise.

Shleifer and Vishry (1997) analyzed the impact of factors related to corporate governance (i.e., compensation, monitoring, and ownership structure) on risk taking. Findings show that Higher levels of compensation, increased monitoring (more independent boards with more meetings), and more block holders are associated with lower risk taking.

Essawi *et al*. (2011), study investigated the impact of corporate governance on risk management. The study checked on the contribution of corporate governance to Risk management and findings showed that tangibility impacted gross margin positively hence perceived positively by creditors. While on the other hand of qualitative information there is a positive coefficient associated with dummy variable.

1.1.4 Deposit Taking Savings and Credit Cooperatives

Over the years, disadvantaged Kenyans have found solace in the SACCO industry rather than banks; which has been a subset of the cooperative movement in terms of long term and short term loans. According to SACCO societies Regulatory Authority (SASRA), there are over 2000 registered SACCOS in Kenya some of which are still operating under the previous doctrines of welfare organizations with others having been licensed to take up deposit up from customers. The success of SACCOS in Kenya has remained solvent and has been enhanced by growth of the domestic economy (Ngugi, 2007).

Kisumu County has close to 45 SACCO's with an approximate membership of 42,183 drawn from different constituencies ranging from Kisumu East, Kisumu west, Nyando, Muhoroni and Nyakach among others. With the aspect of deposit taking, this concept has become a common phenomenon; SACCO's have provided financial services of savings and various types of loans for development, school fees and emergencies.

According to SASRA report (2012), deposit taking SACCOS in Kisumu county were classified as: Government based SACCOs (87), Farmers Based (74), private institutions based (24), and community based (30). .Deposit taking SACCOS has a unique advantage in that their clients are also shareholders. They should therefore undertake aggressive deposit mobilization, creation of internal incentives to attractive savings, insurance programmes to cover member's savings and loans. Good corporate governance in these SACCOS would ensure better performance. Good corporate governance practise has been suspected to be the driver of survival of SACCOS in Kenya.

1.2 Research Problem

Corporate governance is very significant for overall economic performance of an institution. Financial institutions such as SACCO's need a proper governance to promote its operation and avert chances' of solvency. While the deposit taking SACCOS are aimed at mobilizing members' funds and grant credit for the members development, the concept has been made difficult due to lack of corporate governance of which is needed to achieve this objective and contribute to solvency. The inability to advance corporate governance subjects such institutions to highest level of susceptibility of being ruined due to systematic lack of confidence. In Kenya, only banks have been left to popularize themselves practicing corporate governance while deposit taking SACCO's doing very little to mobile investment by advancing their management to the community. Therefore, there is a need for SACCO sector to come up with mechanisms that helps in improving investor confidence and trust for economic development of the country (Muriithi, 2005).

However, despite the requirement of SASRA on good corporate governance by deposit taking SACCOS and the great potential of deposit taking cooperative societies as agents for national development in the country, they have continued to perform poorly financially in terms of their solvency. Corporate constitutes the promoting corporate fairness, transparency and responsibility that are needed to enhance solvency. This has been evidenced by large number of deposit taking SACCO's which have been unable to meet their obligations and finance their operations (Abor, 2007). Poor performance is partly attributed to poor corporate governance practices by the management committees entrusted with the responsibility of governing the cooperative societies (Bauer, Guenster and Otten, 2004). Deposits taking SACCO's in

Kisumu County are not an exception to the general problem of insolvency facing most deposit SACCO's in Kenya.

Large volume of studies exists on the relationship between corporate governance and financial performance of SACCOS, both globally and in Kenya. According to Matengo (2008) corporate governance basically is laying the structure and mechanism that facilitates the realization of the organization objectives. Bhagat and Black (2002) similarly postulate that good corporate governance prevents a firm from being prone to financial distress. Therefore, it enables a firm to be in a position to meet to its debtor's financial requirement at all times. Healy *et al.* (2003) also found a positive correlation between board independence and firm performance. Adams & Ferreira, (2009) found that women have better board meetings attendance than men; however they found gender to have a negative relationship on firm performance. In Kenya, Wambora (2003) established that board meeting frequency, audit committee size and audit committee meeting frequency have positive relations to the financial performance. Other hand, Ngugi (2007) observed that the size of the board has an impact on the quality of corporate governance. Study by Kamau and Baweti (2013) indicates that board's remuneration and motivation had a direct influence of the firm's performance

Many studies in the past did focus on influence of corporate governance on financial performance SACCO organizations based, whereby the performance was measured by profitability ratios. However, there is little information on how corporate governance influences the solvency of SACCO societies, especially among the deposit taking SACCO societies in the country. It is in this premises that the study sought to relate corporate governance to solvency of SACCOs in Kenya in order to fill in the gaps in literature.

1.3 Research Objectives

The main aim of the research was to establish how corporate governance influences solvency of deposit taking Savings and Credit Co-operatives in Kisumu County, Kenya.

1.4 Value of the Study

Corporate governance is increasingly becoming important in organizations as an approach of improving organizational performance. Lack of sound corporate governance has led to poor performance of organizations throughout the world as well as suppressing sound and sustainable economic decisions especially on solvency of SACCO's. The study is therefore very necessary and would be useful to large group of audience.

The study is important to scholars in management and hence will contribute positively to the academic knowledge. The study will be a basis of reference and will activate more research in the study area by academicians and the business community in Kenya and the world.

Study results will also be useful and of paramount importance to management of deposit taking SACCO's. The practitioner of management who are the managers of the deposit taking SACCOS will find the study useful as it will generate information that will give them an insight on how their actions based on corporate governance affect the solvency of the respective SACCO's. Such information is necessary for managers to improve corporate governance in their respective SACCO's so as to influence solvency position of the businesses at their care.

Finally, the government in general and SASRA in particular will find the sturdy useful in policy generation. SASRA as the regulatory agency arm of the government concerned with licensing and supervising deposit taking SACCO's will find the study useful in evaluating how its policy requirements on corporate governance has impacted on solvency positions of deposit taking SACCO's. It will also be able to improve on various policies directed towards ensuring corporate governance in the licensed SACCO's.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter dealt with the theoretical review, and the literatures that anchored the study

2.2 Theoretical Review

There are various theories that can explain the corporate governance in different organizations. However, for this study, agency theory was adopted.

2.2.1 Agency Theory

Alchian & Demsetz (1972) postulated the theory and it was further developed by Jensen & Meckling (1976). This theory discusses how shareholders delegate the day to day operations to their principals i.e. management (Clarke, 2004). The theory postulates that the owners of the firm (shareholders) do expect management to act in their best interests. Fama and Jensen (1983) and Jensen and Meckling (1976) also state that the capability of this battle for control and conflict of interest called for monitoring measures that takes care of the interest of the shareholders and recognise them as the firm owners.

Agency theory is relevant for the present study because it recognises the role of managers of SACCO's as the agents of the owners of deposit taking SACCO's who are the principal. The managers represent the owners in the daily management of the deposit taking SACCO's to ensure they are solvent in their operations.

2.3 Critical Review

As pointed out by Weir and Laing (2000), corporate governance influences the concept of corporate performance and higher returns as long as a company is conforming to certain rules. As result it increases high chances to avert the problem of solvency. Researchers have confirmed that a company performance and corporate governance practices such as ownership structure concentration, shareholder identity, board structure and functioning of board committees, structure and size of executing compensation. On the other hand, Wambora (2003) argues that liberalization and corporate governance has an effect of performance of privatized firms in most developing countries including Kenya and South Africa. The findings were that there existed effects of the variables of corporate governance with exemption of quoted companies.

Kariuki (2011), in his studies on corporate governance and Elimu SACCO's performance found out that indeed corporate governance aided in the definition of the SACCO and its environment plus linking management and control of the firm. Ekadah & Mboya (2011) studied the extent of cororate governance relationship with performance financially of SACCOs in Kiambu county and found out that that the structure of the organization coupled with its culture had dire effects on the deposit taking SACCOs performance financially.

Kiamba (2008) discussed the regulations effects on the performance of deposit taking SACCOs with the use of management efficiency, liquidity and capital adequacy on the financial performance of deposit taking SACCOS in Kenya, as stipulated by SACCO Society Regulatory Authority (SASRA). The target population was all the 135 deposit taking SACCOS in Kenya registered and licensed by SASRA by 2014. The results indicated that SACCO regulations have positive effect on capital ratio and which led to an increase in return on assets (ROA), further it was established that increase in liquidity led to a decrease in ROA .The study found out that a unit increase in management efficiency increased ROA. From the findings, the study concluded that capital regulations, capital ratio, liquidity and management efficiency significantly influence financial performance of the Deposit Taking SACCOS.

Gatauwa (2008) determined the efficiency of risk managements systems within savings and credit Co-operatives and to enhance effective operations within savings and credit Co-operatives in Nairobi County, Kenya. The researcher collected primary data from a purposefully selected sample of target population and analysed the data with the help of statistical tools such as mean, frequency, mode, percentages and micro-softy excel computer package for presentation of the findings. The researcher found out that there was a gap in risk management systems in savings and credit cooperatives which had immensely contributed to the closer of SACCO business operations within Nairobi County, Kenya.

Metrick *et at.* (2001), outlined the effects of corporate governance on debt ratings and cost of debt financing, they restricted their analysis to a limited set of governance variables. Data was collected from publication of the Investor Responsibility Research Center (IRRC), which is an organization that has tracked provision for about 1500 firms per year. Data studied was obtained on stock returns for the period of (September 1990 – December 1999). Data was analysed using the indexing method. Findings was that credit rating is negatively associated with the number of block holders and CEO powers, and positively related to takeover defences, accrual quality, board independence, board stock ownership and expertise.

Cremers *et al.,* (2005), carried out a research on the impact of shareholders governance on bondholders. The main aim was to investigate the impact of interactions of different shareholder governance measures and strategies on bondholders and also to highlight the importance of bondholder's governance through the use of bond covenants. Sample was of quarterly trader-quoted bond yields of an average of 1,218 bond issue for the period of 1990-1997. In conclusion, their results show that strengthening shareholders governance does not automatically benefit all bond holders, especially not those bondholders who are exposed to events risk through lack of covenants.

Concerning the concept of solvency, corporate governance has contributed trust to investors in corporations that they will receive adequate returns on their investments . Among institutions where such mechanism does not exist, stakeholders are subjected to optimism that a SACCO may undergo insolvency. Therefore, the overall economic performance that may lead SACCO insolvency would spread quickly to other firms, employees and consumers in absence of corporate governance.

Another study carried out by Njenga (2012) focused on the impact of close supervision of the agents (managers) by the principals (directors) on the financial performance of SACCOS. A descriptive research methodology was used. Four SACCOS with FOSA in Githunguri district were targeted and three of the four were included in the study. Data was obtained from the audited financial statements of the SACCOS for the years 2007 to 2011. All expenses relating to the directors were used as proxy for agency costs and return on assets (ROA) used to measure financial performance. The data was analyzed for both correlation and regression and the results tested at 5% level of significance. The study results did not show any significant relationship between the financial performance of the SACCOS and agency costs when only agency costs were used as the independent variable. After both size and expenditure on marketing were added into the model however, a significant relationship was observed.

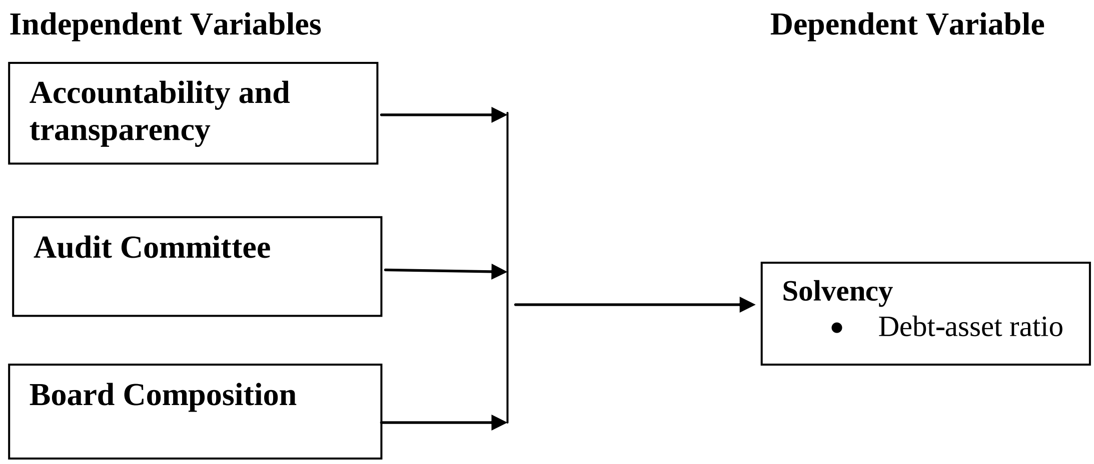
Ongore, & K'Obonyo, (2011) studied the effects of corporate governance on the performance financially of the SACCOs and realized that there was no effect of board size and composition on the financial performance. Lau *et al* (2001), study focused on the impact of corporate governance structure on Agency cost of Debt. The main aim was to investigate whether the choice of corporate governance structure plays a role in determining the Agency cost debt. The population of interest was equity financed firms represented by a Bank. The findings was that in the absence of informational asymmetries governance structures in which debt holders owning equity stakes in the firm have the right to control, this can effectively reduce the Agency cost of debt or under investment problem providing a rationalization to the existence of such governance structures in the real world.

Lishenga (2006) examined corporate governance reaction to declining performance, where the findings stated that companies respond to declining firm's performance by changing their governance structures and practices in diverse ways.

2.4 Conceptual Model

A conceptual framework is a diagram that illustrates the interplay of various variables of the study that is the independent, dependent and intervening variables (Mugenda, 2003)

Figure 2.1: Conceptual Framework



Source: (Author, 2016)

The study was on the corporate governance effect on the solvency of SACCOs taking Deposit in Kisumu County. Corporate governance is the independent variable while solvency is the dependent variable. Corporate governance was evaluated in terms of accountability and transparency, audit committee and Board composition. However, solvency was measured by debt to asset ratio.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter showed the research design that was used by the researcher in the course of her studies. It also showed the target population, the sample design, and the data collection procedure adopted. Finally it shows how data was collected and analyzed to come up with the results.

3.2 Research Design

The researcher adopted descriptive survey design and Borge & Gall (1989) described this kind of survey design as the one that allows researchers to collect information, summarize, present and interpret for clarification purposes. This research design was adopted because it has quantitative and qualitative data collection ability (Mugenda and Mugenda 1999). Descriptive design study sought to establish the effect of corporate governance on solvency of deposit taking SACCO's in Kenya that have been licensed by SASRA.

3.3 Target Population

The study population was all the 11 deposit taking SACCOS licensed by SASRA and operating in Kisumu County as at 31st December 2015. This formed the population of study. Since the study was a census of all deposit taking SACCO's operating within Kisumu County, sampling was not carried out.

3.4 Data Collection & Analysis

In order to find the corporate governance effect on solvency of SACCOs taking deposits in Kenya, only SACCO's secondary data was required. Secondary for the period 2011-2015 was gotten from the financial statements of the SACCOs which are in custody of SASRA. SASRA is required by law to publish annual supervisory report to the public about performance of deposit taking SACCO's licensed by it. Questionnaires were distributed to the respondents with regard to corporate governance practices exhibited by SACCOS. However, secondary data was utilized to ascertain the extent through which the solvency is reflected in their financial reports.

Data collected was checked for completeness thereafter it was coded and entered into SPSS for further analysis. Both descriptive and inferential statistics was used to analyze the data. The descriptive statistics included mean, standard deviations, frequency and percentages. In this study mean and standard deviation was used as measures of central tendencies and dispersion respectively. Correlation analysis was used to analyze the degree of relationship between the variables in the study. Further, regression analysis was used to show the effect of corporate governance practices on solvency of deposit taking SACCO's in Kenya. Data was presented in the form tables and associated explanation and interpretation of the study findings.

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter presents the analysis and the results of the study. The analysis was based on the on the data that was collected from the self-administered questionnaires and secondary data from the financial statements.

4.2 Response Rate

The study targeted 11 managing directors of which 9 responded indicating 81.8% response rate (See Table 4.1). This return rate was good enough for the study because Saunders (2003) and Gay (2003) stated that a return rate of more than 50% was acceptable in research. The reason for the high response rate from respondents was that the researcher administered the questionnaires in person and collected on the spot. This might have exerted pressure on the respondents to return their questionnaires promptly as requested. There is also a possibility that since the study centred on solvency of the SACCOs, the managing directors might have felt that their input would help in finding out the significance of corporate governance on solvency of the SACCO societies.

Table 4.1: Response Return Rate

	Frequency	Percentages
Targeted Sample	11	100.0%
Number that duly participated	9	81.8%
Number that failed to participate	2	18.2%

4.3 Demographic and Background Information

To be able to gauge the significance of the information provided by the respondents, it was important to understand their background and demographic information. As such, background and demographic information was solicited through the question which included gender, level of education, duration of service at the SACCOS and Availability of governance charter with findings presented in the subsequent sections.

4.3.1 Gender

On gender, the respondents' gender was captured as either male or female as shown in

Table 4.2: Distribution of Respondents by Gender

Gender	**Frequency**	**Percent**
Male	6	66.7
Female	3	33.3
Total	**9**	**100.0**

Source: Researcher's own analysis (2016)

From the findings, there were more males than females at the managerial position of the SACCOS, where; 66.7% represented males while 33.3% were females. This shows that there was still gender gap in leadership positions.

4.3.2 Level of education

Education implies acquisition of knowledge necessary to execute assigned tasks. Individuals with higher levels of education are considered to be academically competent and qualified to discharge their duties. Level of education was therefore key to this study as shown in table 4.3.

Table 4.3: Respondents Levels of Education

Level of education	**Frequency**	**Percent**
Certificate	1	11.1
Diploma	2	22.2
Degree level	4	44.4
Master and above	2	22.2
Total	**9**	**100.0**

Source: Researcher's own analysis (2016)

Majority of the study respondents (66.6%) cumulatively had at least university level of education. This implies that the respondents were adequately knowledgeable and could provide authentic and credible information as required for the study. Moreover, the respondents are in a position to discharge their duties based on the fundamental academic requirements.

4.3.3 Duration of Service at SACCO

Norms, traditions and practices within an organization are understood over a period of time. The researcher sought to find out the duration the participants had served in the organization. This would help gauge the extent of their understanding of the operations within the organization. The longer an individual stays within an organization or system, the more he/she will understand the operations as shown in table 4.4.

Table 4.4: Duration of Service in SACCO

Duration of service in SACCO	Frequency	Percent
Less than 1 year	2	22.2
Between 1 to 3 years	3	33.3
More than 3 years	4	44.4
Total	**9**	**100.0**

Source: Researcher's own analysis (2016)

From the findings, majority of the respondents (77.7%) cumulatively had served at the SACCOS more than 1 year. Only 22.2% had taken less than year in the organization. Therefore, majority of the respondents had the considerable time at the organization to understand the corporate governance effects on solvency of the deposit taking SACCOS.

4.3.4 Availability of Governance Charter

Respondents were also asked to indicate whether their organizations had governance charter or not. Table 4.5 shows the response.

Table 4.5: Availability of Governance Charter

Availability of governance charter	Frequency	Percent
Yes	5	55.6
No	1	11.1
Not Sure	3	33.3
Total	**9**	**100.0**

Source: Researcher's own analysis (2016)

The study found that over half of the respondents at 55.6% indicated that they had governance charter, 33.3% were not sure, while 11.1% did not have the charter.

4.4 Corporate Governance factors that affect the solvency of SACCOS

The aim of the study was to find out corporate governance effects on the solvency of deposit taking Savings and Credit Co-operatives in Kisumu County, Kenya. Corporate governance factors (which form independent variables) consisted of; Accountability and transparency, Audit committee and Board composition. The independent variable was solvency of the Savings and Credit Co-operatives, which was measured in debt-asset ratio.

4.4.1 Accountability and Transparency

As a component of corporate governance, the study sought to assess the accountability and transparency of the 11 selected deposit taking SACCO societies in Kisumu County as shown in table 4.6.

Table 4.6: Accountability and Transparency

Statement	Yes		No	
	Freq.	**Perc.**	**Freq.**	**Perc.**
The board undertake rigorous annual evaluation of organizations' solvency	07	77.7%	02	22.3%
SACCO has an accountability and transparency policy	06	66.7%	03	32.3%

The study established that more than three quarters of the respondents at 77.7% agreed that the board of their organizations undertook rigorous annual evaluation of organizations' solvency to bring out the element of accountability of the study. Majority of the selected SACCO managing directors also agreed that their organizations had accountability and existing policy.

4.4.2 Board Composition

The study also sought to examine the board composition and formation of the SACCO and relate it with its solvency as portrayed in table 4.7.

Table 4.7: Board Composition

Statement	Yes		No	
	Freq.	**Perc.**	**Freq.**	**Perc.**
SACCO has mechanisms for rotating board members	08	88.9%	01	11.1%
There is a formal process for appointing and removal of directors or board members	07	77.7%	02	22.3%
CEO double up as the chairman of the board	06	66.7%	03	32.3%

The study established that most of the SACCO organizations had well structured mechanisms for rotating board members, as indicated by 88.9% of the respondents. Over three quarters of the respondents at 77.7% also indicated that there was a formal process for appointing and removal of directors or board members. Although most of the CEO doubled up as the chairmen of the board as indicated by 66.7%, significant number (32.3%) disagreed with the statement.

4.4.3 Characteristics of the Board

The study did examine the board in terms of size, frequency of rotation, appointment, academic qualifications and who makes the critical decisions. Figure 4.1 shows the response.

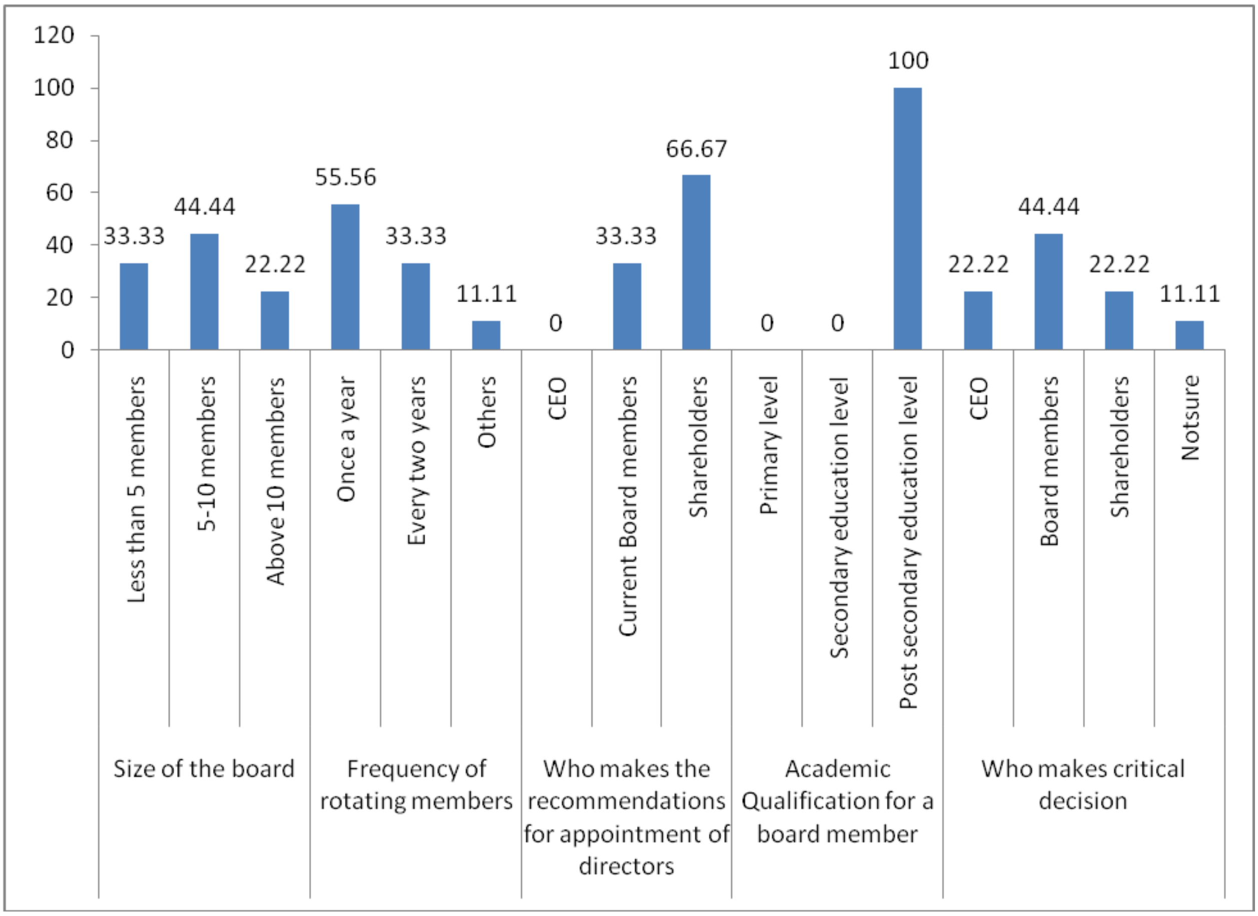


Figure 4.1: Characteristics of the Board

The study found that most of the SACCO societies at 44.4% had between 5-10 members, with only 22.22% having more than 10%. Overall, majority of the respondents at 77.78% indicated that their organizations had 10 board members and below. The study also reported that SACCOS could rotate its board members at least once a year as indicated by majority of the respondents at 55.56%. On appointment of board members, the study found this was mainly done by either shareholders or current board members as indicated by 66.67% and 33.33% respectively. Assessing the academic qualification of the board members was also crucial because the level of education governs the ability to perform assigned function diligently. The study found that all the board members were well educated as indicated by 100% of the respondents. On who makes critical decisions for the organizations, the study found that most of the decisions were made by the board members as indicated by 44.44%. This shows that board members were crucial components of the successful operation of the SACCOS.

4.4.4 Characteristics of the Audit Committee

In assessing the audit committee as a measure of cooperate governance, the study probed the respondents based on the following parameters; availability of independent audit function, whether board chairman was a member of the audit board and who the internal audit function report to. Figure 4.2 shows the response.

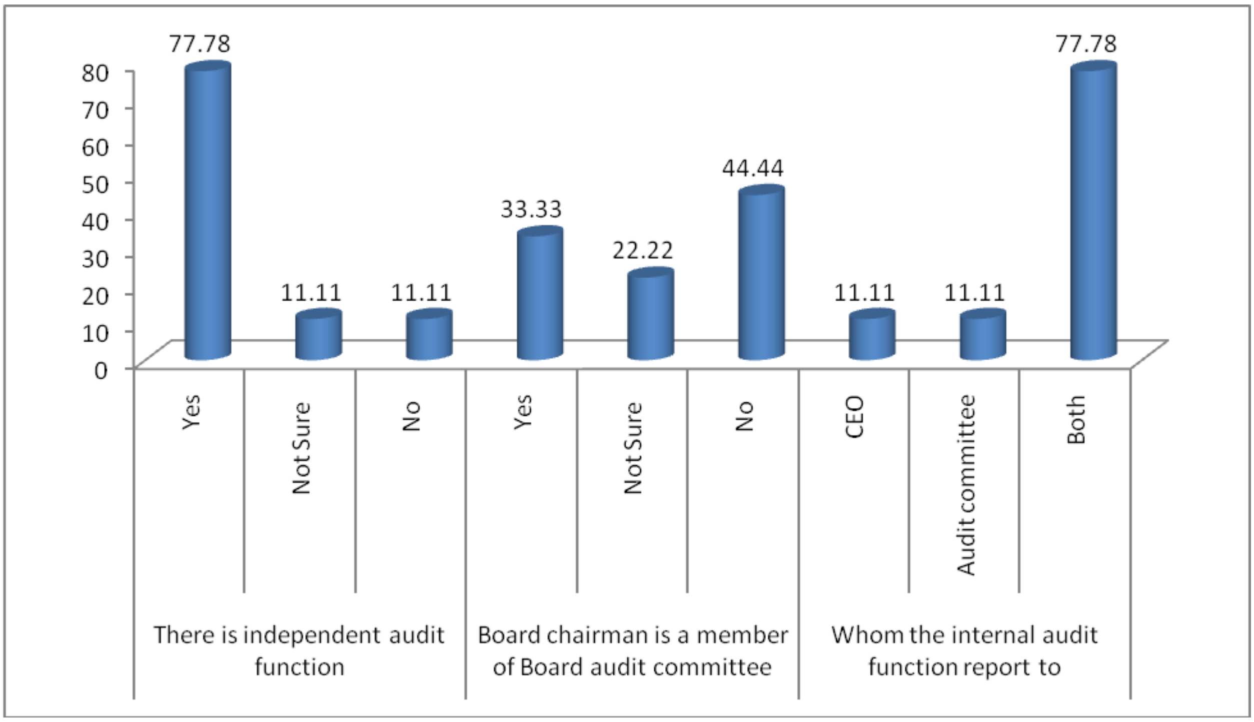


Figure 4.2: Audit Committee

The study found that most of the SACCOS had independent audit function as indicated by 77.78%. It was also found that board chairman was not a member of board audit committee as indicated by 44.44% of the respondents. On whom the internal audit function report to, the study found that both CEO and audit committee were reported to as indicated by 77.78% of the respondents.

4.4.5 Perception on effects of corporate governance on solvency of SACCOS

In establishing the effects of corporate governance on solvency of deposit taking savings and Credit Co-operatives, five point five item LIKERT scale was developed to measure the corporate governance among the SACCOS. The findings were analysed to show frequency and percentages for each response as well as the item mean as shown in table 4.8.

Table 4.8: Perception on effects of corporate governance on solvency of SACCOs

Statements	SD		D		N		A		SA		M
	F	%	F	%	F	%	F	%	F	%	
Accountability, integrity and transparency policies shape how an organization is run and are pillars of effective corporate governance	1	11.1%	0	0.0%	3	33.3%	3	33.3%	2	22.2%	3.6
Critical decision making should encompass all the main representatives to portray fairness	1	11.1%	1	11.1%	2	22.2%	3	33.3%	2	22.2%	3.4
Corporate surpasses the established clear relationship between shareholders and managers	2	22.2%	0	0.0%	2	22.2%	4	44.4%	1	11.1%	3.2
Similar guidelines that apply to listed companies are also applicable to SACCOS	1	11.1%	1	11.1%	1	11.1%	2	22.2%	4	44.4%	3.8
Good corporate governance practices are essential to the safe and sound operations of credit unions	0	00.0%	0	0.0%	0	0.0%	3	33.3%	6	66.7%	4.7
Good governance ensures that there are clearly defined roles and responsibilities to the board of directors	1	11.1%	1	11.1%	1	11.1%	5	55.6%	1	11.1%	3.4
Good corporate governance and long term shareholder value are directly correlated.	1	11.1%	1	11.1%	2	22.2%	4	44.4%	1	11.1%	3.3
Innovation practices increases with new audit improvement guidelines	0	0.0%	2	22.2%	1	11.1%	3	33.3%	3	33.3%	3.8

According to the study findings, over half of the respondents at 55.5% cumulatively confirmed the statement that accountability, integrity and transparency policies shaped how an organization was run and were pillars of effective corporate governance. Another 55.5% cumulatively agreed that critical decision making should encompass all the main representatives to portray fairness. 66.6% of the respondents agreed that good corporate governance practices are essential to the safe and sound operations of credit unions. Another 66.7% agreed that good governance ensures that there are clearly defined roles and responsibilities to the board of directors. Over half of the respondents at 55.5% agreed that good corporate governance and long term shareholder value are directly correlated. From these findings, it can be deduced that good corporate governance encourages sound operation of the SACCO organizations for good financial outcome.

4.5 Solvency of Savings and Credit Co-operatives

A firms' solvency is a key metric used to measure an enterprise's ability to meet its debt and other obligations. The solvency ratio indicates whether a company's cash flow is sufficient to meet its short-term and long-term liabilities (Gatauwa 2008). Hutchinson and (Gul 2004) also explains that the lower a company's solvency ratio, the greater the probability that it will default on its debt obligations. In this case, debt-asset ratio was used to measure the firm's solvency.

4.5.1 Debt- Equity Ratio

The debt to total assets ratio is an indicator of financial leverage. It reveals the percentage of total assets that were financed by creditors, liabilities, debt. The debt to total assets ratio is calculated by dividing a corporation's total liabilities by its total assets. It is expressed or calculated as a ratio as shown;

$$\textbf{Total Debt to Total Assets} = \frac{\textbf{\textit{Short Term Debt}} + \textbf{\textit{Long Term Debt}}}{\textbf{\textit{Total Assets}}}$$

A ratio of greater than one implies that a considerable proportion of assets are funded with debt. For the sake of this study, data for debt-asset ratio was for the selected

SACCOS, over a period of 5 years beginning 2011 to 2015. Debt-asset ratio was used as solvency measurement and implemented in the subsequent regression equations.

Table 4.9: Solvency Measurement for a Period of 5 Years

Financial Data	2011 (000')	2012 (000')	2013 (000')	2014 (000')	2015 (000')	Mean
Long Term Debt	8,000	4,000,	7,000,	5,000	4,000	5600
Short Term Debt	3,000	1,500,	3200	2,700	1,800	2440
Total	11,000	5,500,	10,200	7,700	5,800	8040
Asset	22,000	42,000,	49,000	54,000	68,000	47000
(Long-Term +Short Term Debt)/Total Assets	0.50	0.13	0.21	0.14	0.09	0.2134

Based on the analysis of the financial records obtained for the selected SACCO organization, The study found that in most of the years, the SACCO societies have been solvent hence could pay their debts comfortably with the large asset available. This is justified by the small debt-asset ratio obtained in each of the years as 0.5, 0.13, 0.21, 0.14 and 0.09

4.6 Correlation between corporate governance and solvency of the SACCOS

In testing for this relationship, the study used the aggregate scores for each of the corporate governance factors (accountability and transparency, audit committee and Board Composition) and Debt asset ratio. Pearson Product Moment Correlation (r) was conducted to examine if a significant relationship existed between these two variables on the sample data at 95% confidence level.

4.6.1 Correlation between accountability and transparency and solvency of the SACCOS

Using Pearson Product Moment Correlation (r), Table 4.10 shows the correlation.

Table 4.10: Correlation between Accountability and Transparency and Solvency

		Solvency of a SACCO (Debt-Asset Ratio)
Accountability and transparency	Pearson Correlation	0.836
	Sig. (2-tailed)	0.005
	N	9

The result showed a statistically strong relationship that is significant between Accountability & Solvency of the SACCO (Debt-Asset Ratio) (r= 0.836, p = 0.005). This means that, as Accountability and transparency increases, Solvency of a SACCO (reduction in Debt-Asset Ratio) also increases.

4.6.2 Correlation between Audit Committee and Solvency of the SACCOS

Using Pearson Product Moment Correlation (r), Table 4.11 shows the correlation.

Table 4.11: Correlation between Audit Committee and Solvency of the SACCOS

		Solvency of a SACCO (Debt-Asset Ratio)
Audit Committee	Pearson Correlation	0.634
	Sig. (2-tailed)	0.027
	N	9

The result showed a statistically strong positive relationship between Audit Committee & Solvency of the SACCO (Debt-Asset Ratio) outcomes (r= 0.634, p = 0.027). This means that, as Audit Committee becomes stronger and effective, Solvency of a SACCO (reduction in Debt-Asset Ratio) also increases.

4.6.3 Relationship between Board Composition and Solvency of SACCOS

Table 4.12: Relationship Between Board Composition and Solvency of SACCOS

		Solvency of a SACCO (Debt-Asset Ratio)
Effective board composition	Pearson Correlation	0.541
	Sig. (2-tailed)	0.034
	N	9

The result showed that there was a statistically strong significant relationship between Effective board composition and Solvency of a SACCO (Debt-Asset Ratio) ($r= 0.541$, $p = 0.027$). This means that, as Boards becomes more effective, the solvency of the SACCO also increases.

4.7 Corporate Governance factors and Solvency of deposit taking SACCOs

In order to investigate the combined effect of corporate governance factors on solvency of the SACCOS, a multiple regression analysis was used. Three independent variables: Accountability and transparency, Board composition and Audit Committee and predictor variable (solvency of deposit taking SACCOS) were used. Aggregate scores for the various variables were obtained from their respective indicators. The regression output for the combined effect showing model summary, ANOVA and coefficients is shown in Table 4.13.

Table 4.13: Combined effect of corporate governance factors on solvency of SACCOS

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**		
Model Summary	.461	.564	.141	3.878		
		Sum of Squares	df	Mean Square	F	Sig.
ANOVA	Regression	133.751	3	44.584	2.964	.046[b]
	Residual	496.357	33	15.041		
	Total	630.108	36			
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
Coefficients	(Constant)	16.794	6.616		2.538	.016
	Accountability and transparency	.453	.389	.464	1.042	.015
	Board composition	.364	.492	.366	2.326	.021
	Audit Committee	.319	.481	.494	1.186	.014

Dependent Variable: Solvency of the SACCOS

Source: Researcher's own analysis (2016)

From the regression output, the independent variables (Accountability and transparency, Board composition and Audit Committee) were found to explain up to 14.1% (R^2 = 0.141) of variance in the outcome variable (Solvency of the SACCOS). This implies that regression model was statistically significant although to a small extent, with the remaining 85.9% being explained by other factors which were not being investigated by the current study.

The coefficient of the constant term (B = 16.794; p = 0.016), the coefficient of accountability and transparency (B = 0.453; p = 0.015), the coefficient of Board composition (B = 0.364; p = 0.021) and the coefficient of Audit committee (B = 0.319; p = 0.014) were all found to be statistically significant since $p < 0.05$.

Using a linear equation connecting the variables in the form $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$ where Y is Solvency of the SACCOS, X_1 is Accountability and transparency,

X_2 is Board composition and X_3 is Audit committee, β_0, β_1, $\beta_{2,}$ and β_3 are the coefficients of the terms and ε is the error term, the equation connecting the variables can be written as:

$$Y = 16.794 + 0.453X_1 + 0.364X_2 + 0.319X_3$$

4.8 Discussion of the Findings

As a component of corporate governance, the study sought to assess the accountability and transparency of the 11 selected deposit taking SACCO societies in Kisumu County. More than three quarters of the respondents at 77.7% agreed that the board of their organizations undertook rigorous annual evaluation of organizations' solvency to bring out the element of accountability of the study. Majority of the selected SACCO managing directors also agreed that their organizations had accountability and existing transparency policy that influence their operations and hence general financial performance of the organizations. This is in line with the findings of Weir and Laing (2000) who also documented that corporate governance influences the concept of corporate and financial performance of the organization and that the company would record higher fiscal returns as long as it is conforming to laid down accountability and transparency rules. Similarly, Wambora on financial performance of privatized firms in most developing countries including Kenya and South Africa. In establishing the correlation between accountability and transparency and solvency of the SACCOS, using Pearson Product Moment Correlation (r). This implies that there was a statistically strong relationship that is significant between Accountability & Solvency of the SACCO (Debt-Asset Ratio) ($r= 0.836$, $p = 0.005$). This means that, as Accountability and transparency increases, Solvency of a SACCO (reduction in Debt-Asset Ratio) also increases. This is also supported by the findings of Bhagat and Black (2002) who also postulated that good corporate governance prevents a firm from being prone to financial distress, but instead, it enables a firm to be in a position to meet to its debtor's financial requirement at all times.

In examining the board composition as a component of corporate governance, based on how it is formed and how it relate with the solvency of the SACCO organizations, the study established that most of the SACCO organizations had well structured mechanisms for rotating board members, as indicated by 88.9% of the respondents. Over three quarters of the respondents at 77.7% also indicated that there was a formal process for appointing and removal of directors or board members. Generally, most of the SACCO organizations had well structured and effective board members that were above board, and this could also influence the financial performance of the organizations. This is also supported by the findings of Kariuki (2011), in his studies on corporate governance and Elimu SACCO's performance found out that indeed corporate governance aided in the definition of the SACCO and its environment plus linking management and control of the firm. Similarly, Ekadah & Mboya (2011) studied the extent of corporate governance relationship with performance financially of SACCOs in Kiambu County and found out that that the structure of the organization coupled with its culture had dire effects on the deposit taking SACCOs performance financially. In establishing the relationship between Board Composition and Solvency of SACCOS, Pearson Product Moment Correlation (r), the result showed that there was a statistically strong significant relationship between Effective board composition and Solvency of a SACCO (Debt-Asset Ratio) ($r= 0.541$, $p = 0.027$). This means that, as Boards becomes more effective, the solvency of the SACCO also increases. This is in line with the findings of Shleifer and Vishry (1997) who analyzed the impact of factors related to corporate governance (i.e., compensation, monitoring, and ownership structure) on risk taking. Findings show that Higher levels of compensation, increased monitoring (more independent boards with more meetings), and more block were associated with good financial performance of the business organizations.

In assessing the audit committee as a measure of corporate governance, the study found that most of the SACCOS had independent audit function as indicated by 77.78%. It was also found that board chairman was not a member of board audit committee as indicated by 44.44% of the respondents. On whom the internal audit function report to, the study found that both CEO and audit committee were reported to as indicated by 77.78% of the respondents. Generally, it could be deduced that good corporate governance encourages sound operation of the SACCO organizations for good financial outcome. A correlation between Audit Committee and Solvency of the SACCOS showed a statistically strong positive relationship between Audit Committee & Solvency of the SACCO (Debt-Asset Ratio) outcomes (r= 0.634, p = 0.027). This means that, as Audit Committee becomes stronger and effective, Solvency of a SACCO (reduction in Debt-Asset Ratio) also increases. This supports the findings of Gompers, Metrick and Ishii (2003) who also reported that corporate governance is the commitment to manage a firm efficiently and effectively given investment and good corporate governance promotes strong financial strength of the business organization including its solvency.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter presented the summary of the findings, conclusions and recommendations arising from the conclusions of the study. It finally showed the areas for further research to fill in more gaps in the literature in this field of study.

5.2 Summary of Findings

The major aim of this study was to establish the effects of corporate governance practices on Solvency of deposit taking SACCOS in Kisumu County Kenya. In summary, the following are findings; from the findings, there were more males than females at the managerial position of the SACCOS, where; 66.7% represented males while 33.3% were females. Majority of the study respondents (66.6%) cumulatively had at least university level of education. This implies that the respondents were adequately knowledgeable and could provide authentic and credible information as required for the study. Moreover, the respondents were in a position to discharge their duties based on the fundamental academic requirements. The study also found that majority of the respondents (77.7%) cumulatively had served at the SACCOS more than 1 year. Only 22.2% had taken less than year in the organization. Therefore, majority of the respondents had the considerable time at the organization to understand the effects of corporate governance on solvency of the deposit taking SACCOS. The study found that over half of the respondents at 55.6% indicated that they had governance charter, 33.3% were not sure, while 11.1% did not have the charter.

On accountability and transparency as an corporate Governance factor, affecting the solvency of deposit taking SACCOS, the study established that over three quarters of the respondents at 77.7% agreed that the board of their organizations undertook rigorous annual evaluation of organizations' solvency to bring out the element of accountability of the study. Majority of the selected SACCO managing directors also agreed that their organizations had accountability and existing policy.

Based on Board Composition, the study established that most of the SACCO organizations had well structured mechanisms for rotating board members, as indicated by 88.9% of the respondents. Over three quarters of the respondents at 77.7% also indicated that there was a formal process for appointing and removal of directors or board members. Although most of the CEO doubled up as the chairmen of the board as indicated by 66.7%, significant number (32.3%) disagreed with the statement.

The study found that most of the SACCO societies at 44.4% had between 5-10 members, with only 22.22% having more than 10%. Overall, majority of the respondents at 77.78% indicated that their organizations had 10 board members and below. The study also reported that SACCOS could rotate its board members at least once a year as indicated by majority of the respondents at 55.56%. On appointment of board members, the study found this was mainly done by either shareholders or current board members as indicated by 66.67% and 33.33% respectively. Assessing the academic qualification of the board members was also crucial because the level of education governs the ability to perform assigned function diligently. The study found that all the board members were well educated as indicated by 100% of the respondents. On who makes critical decisions for the organizations, the study found that most of the decisions were made by the board members as indicated by 44.44%.

This shows that board members were crucial components of the successful operation of the SACCOS

On Audit Committee, the study found that most of the SACCOS had independent audit function as indicated by 77.78%. It was also found that board chairman was not a member of board audit committee as indicated by 44.44% of the respondents. On whom the internal audit function report to, the study found that both CEO and audit committee were reported to as indicated by 77.78% of the respondents. The study also found that over half of the respondents at 55.5% cumulatively confirmed the statement that accountability, integrity and transparency policies shaped how an organization was run and were pillars of effective corporate governance. Another 55.5% cumulatively agreed that critical decision making should encompass all the main representatives to portray fairness. Majority of the respondents also agreed that corporate governance goes beyond simply establishing a clear relationship between shareholders and managers, with 66.6% agreeing that good corporate governance practices are essential to the safe and sound operations of credit unions. Another 66.7% agreed that good governance ensures that there are clearly defined roles and responsibilities to the board of directors. Over half of the respondents at 55.5% agreed that good corporate governance had direct correlation with long term shareholder value. From these findings, it can be deduced that good corporate governance encourages sound operation of the SACCO organizations for good financial outcome.

Based on the analysis of the financial records obtained for the selected SACCO organization, The study found that in most of the years, the SACCO societies have been solvent hence could pay their debts comfortably with the large asset available. This is justified by the small debt-asset ratio obtained in each of the years as 0.5, 0.13, 0.21, 0.14 and 0.09. In establishing the correlation between accountability and transparency and solvency of the SACCOS, The result showed existence of strong positive relationship between Accountability &Solvency of the SACCOs (Debt-Asset Ratio) ($r = 0.836$, $p = 0.005$). This means that, as Accountability and transparency increases, Solvency of a SACCO (reduction in Debt-Asset Ratio) also increases. On correlation between Audit Committee and solvency of the SACCOS, the result showed existence of strong positive relationship between Audit Committee & Solvency of the SACCOs (Debt-Asset Ratio) outcomes ($r = 0.634$, $p = 0.027$). This means that, as Audit Committee becomes stronger and effective, Solvency of a SACCO (reduction in Debt-Asset Ratio) also increases. On relationship between Board composition and Solvency of SACCOS, the result showed that there was a statistically strong significant relationship between Effective board composition and Solvency of a SACCO (Debt-Asset Ratio) ($r = 0.541$, $p = 0.027$). This means that, as Boards becomes more effective, the solvency of the SACCO also increases.

Using multiple regression to determine the combined effect of corporate governance factors on solvency of deposit taking SACCOS, from the regression output, the independent variables (Accountability and transparency, Board composition and Audit Committee) were found to explain up to 56.4% ($R^2 = 0.564$) of variance in the outcome variable (Solvency of the SACCOS). The regression model was statistically significant. The coefficient of the constant term ($B = 16.794$; $p = 0.016$), the coefficient of accountability and transparency ($B = 0.453$; $p = 0.015$), the coefficient of Board composition ($B = 0.364$; $p = 0.021$) and the coefficient of Audit committee ($B = 0.319$; $p = 0.014$) were all found to be statistically significant since $p < 0.05$. Using a linear equation connecting the variables in the form $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$ where Y is Solvency of the SACCOS, X_1 is Accountability and transparency, X_2 is Board composition and X_3 is Audit committee, β_0, β_1, β_2, and β_3 are the coefficients of the terms and ε is the error term, the equation connecting the variables can be written as: $Y = 16.794 + 0.453X_1 + 0.364X_2 + 0.319X_3$.

5.3 Conclusions

The significance of corporate governance on solvency in business organizations can't just be exaggerated because not only does it constitute the organizational climate for internal activities of a company but also it brings a new outlook and enhances a firm's co4porate competitiveness. The researcher did examine corporate governance effects on the SACCOs solvency using debt-asset ratio based solvency measure. The research concluded that a firms performance is dependent on the independent predictors i.e. accountability and transparency, audit committee and Board formation being examined. Results show that good accountability and transparency practices, effective audit committee and transparent and efficient board formation enhance corporate governance and improve on performance.

It is for a fact that corporate governance is crucial for not only micro financial institutions (MFIs) such as SACCOS but also macro financial institutions such as large banks, because it affects solvency of the firm. Not only that the conclusions and the observations of this research will be used to fine tune governance in the deposit taking SACCOs but also in determining the direction of a firm's policy.

5.4 Recommendations

For SACCOS to have strong solvency, good long-term financial position, including its ability to meet financial requirements for outstanding loans, they should embrace best practices of corporate governance which will ensure that accountability and transparency of the firm is upheld, there is efficient audit committee and effective board members who are formed after transparent process and that adequate risk management measures are put in place and that standards are not only in writing but that they are practiced on a day to day basis.

Implementation of corporate governance principles should be insisted on by the central bank of Kenya to financial institutions by enactment of specific regulations and rules. Practices on corporate governance principles will ensure that micro and macro financial institution maintains the level of risk they can handle and give depositors sufficiently safe level of their savings and investments.

The study recommends that SACCOS ought to incorporate OECD principles of corporate governance in their practices and compliance should be monitored periodically.

SACCO ought to adapt policies of corporate governance in their hiring of members in boards, maintaining stakeholder relationships and establish board systems following legal provisions.

SACCOS ought to have programmes to capacity build their personnel with an aim of improving the governance principles in light with the OECD principles.

5.5 Limitation of the Study

Although this research was well undertaken, the study met the following limitations and shortcomings. First of all, the study population was eleven SACCOS drawn from the entire population, and might not represent the majority of the Micro and Macro financial institutions.

5.6 Suggestions for Further Research

Corporate governance debate continues both in academic circles and popular press, and both in Kenya and international levels shows that this field is very important and needs urgent attention. A range of corporate governance issues and solvency of firms has been covered in the literature but not conclusively hence a longer period rather than the five covered should be used and should be inclusive of other counties for variation purposes.

The sample in this study was chosen according to availability of data and the choice of statistical analysis was determined by the period and MFI covered. It would therefore, be desirable to extend the present study by complementing it with other studies using other methods and including comparative data. The inclusion of other corporate governance and performance variables such social performance indicators as would also merit further considerations. Also the results must also be carefully handled since many specific factors can impact MFI’s working process. More research on practices of board is needed to assess the effects on MFIs performance.

REFERENCES

Abor, J. (2007). Corporate governance and financing decisions of Ghanaian listed firms. Corporate Governance: *International Journal of Business in Society,*

Bauer, R., Guenster, N., and Otten, R. (2004). Empirical evidence on corporate governance in Europe: the effect on stocks returns, firm value and performance. *Journal of Asset Management*, 5 (2) 91-104

Bhagat, S., and Black, B. (2002). the non-correlation between board independence and long- term firm performance. *Journal of Corporation Law*, 27(4) 231-73.

Black, B., Jang, H., and Kim, W. (2003), *Does corporate governance affect firm value working paper.* Stanford City, Stanford Law School.

Bratton, William W. (2002). "Does Corporate Law Protect the Interests of Shareholders? and Other Stakeholders?: Enron and the Dark Side of Shareholder Value" .*Tulane Law Review* (New Orleans: Tulane University Law School) (1275): 39.

Brigham, E. F., and Ehrhardt, M. C. (2004). *Financial Management*: Theory and Practice. 11th Edition, New York South-Western College Publishing

Brown, D.L., and Caylor, M.L. (2004), Corporate governance and firm performance. *Working Paper*. Atlanta, GA, Georgia State University.

Bryman, A and Bell, E (2003), *Business Research Methods*. Oxford City, Oxford University Press.

Cooper, H. (2006), *Synthesizing Research; A guide for Literature Reviews,* Sage: Thousand Oaks

Demsetz, H and Villalonga, B. (2002), Ownership structure and corporate performance. *Journal of Corporate Finance*, 7 (3)209-33.

Drobetz K., Eisenberg, T., Sundgren, S., & Wells, M.T.. (2003) Executive ownership, corporate value and executive compensation: a unifying framework. *Journal of Banking & Finance,* Vol. 20 pp.1135-59.

Ekadah, J.W. and Mboya, J. (2011*). Effect of board gender diversity on the performance of Commercial Banksin Kenya. European Scientific Journal. 8, (7*)

Fama, E. F., and J. D. MacBeth (1973), Risk, Return, and Equilibrium: Empirical Tests. *Journal of Political Economy*, 81(3) 607-636

Fama, E. F., and K. R. French (1997), Industry Costs of Equity. *Journal of Financial Economics*, 93(1) 153- 194

Fama, E.F and Jensen, M. (1983). The separation of ownership and control. *Journal of law and economics*, 26(2) 301-325

Gatauwa J. M. (2008) the relationship between corporate governance practices and stock market liquidity for firms listed on the Nairobi Stock Exchange. *Unpublished MBA Project. University of Nairobi.*

Gemmill and Thomas (2004), "Board composition, managerial ownership and firm performance: an empirical analysis", *The Financial Review*, 33 (1)1-16.

Gompers, A., Ishii, J.L., and Metrick, A. (2003), Corporate governance and equity prices. *Quarterly Journal of Economics,* 118 (1) 107-55.

Gompers, P.A. and A. Metrick (2001), Institutional Investors and Equity Prices. *The Quarterly Journal of Economics,* 116(1) 229-259.

Healy, Paul M.; Krishna G. Palepu (Spring 2003). The Fall of Enron. *Journal of EconomicPerspectives* 17 (2): 15.

Hutchinson, M., and Gul, F., (2004). Corporate Governance Practices and firm performance. *Journal of corporate finance*. (10)(1)595-614

Jebet, N., (2001), Corporate governances the case of quoted companies in Kenya. *Unpublished MBA Project. University of Nairobi*.

Jensen, M.C., Murphy, K. (1990), CEO incentives: it's not how much you pay but how. *Journal of Applied Corporate Finance*, 3 (3)36-49.

Johnson, J.L. (2006): Boards of Directors. A Review of Research Agenda. Journal of Management, 22(3),409-438

Kamau, M., and Baweti A. (2013). Relationship between Corporate Governance and Working Capital Efficiency of firms Listed at Nairobi Securities Exchange. *Journal of Finance and Accounting,* 4(19), 2222-2847

Kariuki, M. (2011). Relationship between Corporate Governance and Growth of Organizations: A survey of Companies listed in Nairobi Stock Exchange. Proceedings of Kabarak University First InternationalConference.

Kee H. Chung, Peter Wright, and Ben Kedia (2003) Corporate governance and marketvaluation of capital and R&D investments. *Review of Financial Economics* 12, 161172

Kiamba J. M. (2008) effect of corporate governance on financial performance of local authorities. *Unpublished MBA project. Nairobi. University of Nairobi*.

Klapper, L, and Love, I (2002),Corporate governance, investor protection and performance I emerging markets. *World Bank Policy Research, Working Paper* 2818,

Klapper, L.F., and Love, I. (2003), Corporate governance, investor protection, and performance in emerging markets. *Journal of Corporate Finance*. 10 (5) 703-28.

Leblanc, R.W., Gillies, J.M. (2005), *Inside the Boardroom: How Boards Really Work and the Coming Revolution in Corporate Governance*. Toronto,J. Wiley & Sons Canada.

Mak, T, and Li, Y. (2001): *Determinants of Corporate Ownership and Board Structure: Evidence from Singapore*

Matengo, K., (2008) the relationship between corporate governance practices and performance: the case of banking industries in Kenya. *Unpublished MBA Project. Nairobi. University of Nairobi.*

Mulili, M.B. and Wong, P (2010). Corporate Governance in Developing Countries. The Case for Kenya. *International Journal of Business Administration. 2(1).Myers, S. (1997). Determinants of Corporate Borrowing. Journal of Financial Economics.*

Muriithi, F., (2005), The relationship between corporate governance mechanisms and performance of firms quoted on the NSE. *Unpublished MBA Project. Nairobi University of Nairobi.*

Ngugi K. (2007). Relationship between corporate governance structures & performance of insurance companies in Kenya. *Unpublished MBA project, University of Nairobi.*

Ongore, V. and K'Obonyo, P. (2011). Effects of selected Corporate Governance Characteristics on Firm Performance; Empirical Evidence from Kenya. International Journal of Economics and Financial

Shivdasani, A., and Yermack, D. (1999), CEO involvement in the selection of new boardmembers: an empirical analysis. *Journal of Finance*, 54 (5) 29-54.

Shleifer, A., and Vishny, R. (1997), A survey of corporate governance. *Journal of Finance*, LII (2) 31-50.

Wambua, J.W. (2003). An empirical investigation of the short term responses to financial distress by companies quoted at the NSE. *Unpublished MBA project-University of Nairobi.*

Warner, J.B., Watts, R.L. and Wruck, K.H. (1988). Stock prices and top management changes. *Journal of financial economics*, 20, 461-492. 46

Weir, C., and Laing, D., (2000), The performance-governance relationship: the effects of Cadbury compliance on UK quoted companies. *Journal of Management and Governance* 4, 265-281

Yermack, D., (1996), Higher market valuation of companies with a small board of directors. *Journal of Financial Economics* 40, 185-211

Young, S., (2000), The increasing use of non-executive directors: its impact on UK board structure and governance arrangements. *Journal of Business Finance and Accounting* 27(9 & 10)1311-1342

APPENDICES

Appendix I: Questionnaire

This questionnaire will be seeking on varied staffs from different SACCO's within Kisumu County to provide information on the topic '***Corporate governance practises and solvency of deposit taking SACCO's in Kisumu county Kenya'.*** The Information is intended for academic purposes only and will not be divulged to any other person. Please complete all sections of this document. All questions are interrelated and are very important for the study.

PART A: BACKGROUND DATA

1. Gender:
   i. Male [ ]
   ii. Female [ ]

2. How long have you worked in this SACCO?
   i. Less than one year [ ]
   ii. 1 -2 years [ ]
   iii. 2 – 3 years [ ]
   iv. 3years and above [ ]

3. What is your highest educational qualification?
   i. Certificate [ ]
   ii. Diploma [ ]
   iii. Degree level [ ]
   iv. Master and above [ ]

4. Does your SACCO have a governance charter?
   i. Yes [ ]
   ii. No [ ]
   iii. I don't know [ ]

5. What is the size of the board?
   i. Less than 5 [ ]
   ii. 5-10 [ ]
   iii. 11-15 [ ]

iv. More than 15 [ ]

6. Does the board undertake a formal and rigorous annual evaluation of its solvency?
    i. Yes [ ]
    ii. No [ ]
    iii. Not sure [ ]
7. Does the SACCO have any kind of mechanism for rotating board members?
    i. Yes [ ]
    ii. No [ ]
    iii. Not sure [ ]
8. How often are the members rotated?
    i. Once every year [ ]
    ii. Once every two years [ ]
    iii. Others [ ]
9. Is there a formal process for appointing and removal of directions?
    i. Yes [ ]
    ii. No [ ]
10. Who makes the recommendations for appointment of directors?
    i. Chief Executive Officer [ ]
    ii. Current Board Members [ ]
    iii. Shareholders [ ]
11. Please indicate the minimum academic and professional qualification of any, for appointment of a board member?
    i. Primary level [ ]
    ii. High school [ ]
    iii. Bachelor degree [ ]
12. Out of the directors, how many are from outside?
    i. Less than 3 [ ]
    ii. More than 3 [ ]
    iii. Not sure [ ]
13. Is there an independent audit function?
    i. Yes[ ]
    ii. No[ ]

14. Is the Board chairman a member of the Board audit committee?
    i. Yes[ ]
    ii. No[ ]
    iii. Not sure[ ]
15. To who does the internal audit function report to?
    i. CEO [ ]
    ii. Audit committee [ ]
    iii. Both [ ]
    iv. Others Specify______________________________________
16. Does your CEO also doubles up as the chairmen of the Board?
    i. Yes [ ]
    ii. No [ ]
    iii. Not sure [ ]
17. Does the SACCO have an accountability and transparency policy?
    i. Yes [ ]
    ii. No [ ]
    iii. Not sure [ ]
18. Who is involved in critical decision making?
    i. CEO [ ]
    ii. Board members [ ]
    iii. Shareholders [ ]
    iv. Not sure [ ]
    v. Other specify______________________________
19. Do the managers or directors effectively coordinate, resolve problems and make decisions rather than make independent decision?
    i. Yes [ ]
    ii. No [ ]
    iii. Not sure [ ]

20. Please give the following information on the performance of your SACCO for the last five (5) years.

Year	**2010**	**2011**	**2012**	**2013**	**2014**
Earnings before interest and tax (EBIT)					
Total Assets					

21. Indicate the extent to which you agree or disagree with the following statements on corporate governance practices in your SACCO in a scale of 1 to 5, where, 1-Strongly Disagree, 2-Disagree, 3-Neutral, 4- Agree, 5- Strongly Agree

No	**Statement**	**Rating**				
		5	4	3	2	1
a)	Accountability, integrity and transparency policies shape how an organization is run and are pillars of effective corporate governance.					
b)	Critical decision making should encompass all the main representative to portray fairness					
c)	Corporate governance goes beyond simply establishing a clear relationship between shareholders and managers					
d)	Similar guidelines that apply to listed companies are also applicable to SACCOS					
e)	Good corporate governance practices are essential to the safe and sound operations of credit unions					
f)	Good governance ensures that there are clearly defined roles and responsibilities to the board of directors					
g)	There is a direct correlation between good corporate governance practices and long term shareholder vale					
h)	Innovation practices increases with new audit improvement guidelines					

Appendix II: Data Collection Sheet on Solvency

	2011	2012	2013	2014	2015
Total assets					
Short-Term Liabilities					
Long-Term Liabilities					

Appendix III: Turnitin Report

corporate governance practices and solvency in deposit taking saccos

ORIGINALITY REPORT

%13	%9	%4	%8
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

1	41.89.160.13:8080 Internet Source	%1
2	Corporate Governance, Volume 9, Issue 3 (2009-06-14) Publication	%1
3	www.accountingcoach.com Internet Source	%1
4	Cremers, K. J. M., V. B. Nair, and C. Wei. "Governance Mechanisms and Bond Prices", Review of Financial Studies, 2007. Publication	%1
5	Submitted to University of South Africa Student Paper	<%1
6	Submitted to Essex International College Student Paper	<%1
7	Submitted to De Montfort University Student Paper	<%1

Submitted to Victoria University of Wellington