

**THE EFFECT OF CORPORATE GOVERNANCE PRACTICES ON  
STRATEGY IMPLEMENTATION IN DEPOSIT TAKING SACCOS IN  
NAIROBI CITY COUNTY, KENYA**

**BY**

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## DECLARATION

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## **ABSTRACT**

Corporate governance is intended to increase the accountability of the management of a company to the shareholders. It provides assurance that management is acting in the best interest of all stakeholders in order to deliver long term success of the company. Strategy implementation states that if the organization's goal is to maximize profits or increase turnover/ revenue, then the organization will put into place strategy that will focus towards cutting down the costs, offering price discounts to encourage large scale purchases among others. The general objective of the study was to determine the effect of corporate governance practices on strategy implementation in Deposit taking Saccos in Nairobi City County, Kenya. This study was anchored on three theoretical perspectives namely: The Upper echelons theory, the Stakeholder theory and the Agency theory. The target population for this study was all Deposit taking Saccos in Nairobi County Kenya. Cross sectional design was used because large samples are realistic and give statistically significant results even when analyzed using several variables. This study used primary data. Primary data was collected by use of a questionnaire which was semi-structured and was self-administered to the Finance managers. The results of the research found that board independence, board diversity, ownership structure and participative governance have a significant and positive relationship while CEO duality has a negative relationship with strategy implementation in Deposit taking Saccos in Nairobi City County, Kenya. From the regression analysis, there is a positive relationship between corporate governance practices and strategy implementation. The study recommends that SACCO board of directors should be well composed to include experts in management, finance and the company industry. This will make the company more responsive to the needs and preferences of strategic implementation. In conclusion, corporate governance practices had a significant relationship with strategy implementation.

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# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

According to Alan (2017), corporate governance is part of strategic management which can improve the company's performance by making managers accountable to customers and shareholders of the company. Corporate governance has a positive effect on profitability in U.S firms and Japanese firms. Moreover, corporate governance as a mechanism allows parties to come up with expertise, labor and capital that make them to benefit. Shareholders take part in enterprises that make profit without having responsibility for the operations hence affecting implementation of the strategy (Ermann & Lundman, 2014). Further, Hunger (2013) asserts that corporate governance assists in coming up with strategies that influence the direction and performance of the Organization. According to Dyson and Lowry (2016), corporate governance directs how organizations are controlled and administered by influencing the behaviour of the company either directly or indirectly to the shareholders who can easily influence the implementation of the organization strategy. Further, company success in implementing its strategy is enhanced when the division of labour between management and board is clearly defined and understood by all; efficiently implemented through a good corporate governance structure (Lockhart, 2014).

This study is anchored on three theoretical perspectives namely: The Upper Echelons theory, the Stakeholder Theory and the Agency Theory. The Upper Echelons Theory will be applied given that the unit of analysis is all the top-level management members who are regarded as the strategic leaders and are the ones directly involved in the implementation of strategy in the financial institutions in Kenya. Stakeholder Theory takes into consideration all the stakeholders in an organization in strategy implementation. Agency Theory explains the relationship between the principals and the agents (managers) in business. It is concerned with resolving problems that can exist due to unaligned goals between the company and the agents.

The financial sector in Kenya comprises of different sub – sectors namely: banking, micro finance institutions, capital markets and Savings and Credit Cooperative Organization (Saccos). In Kenya, the Sacco Societies Act and Regulations, applies only to DTS (Deposit taking Saccos) because principles connecting to non-deposit taking businesses have not been developed. The Act led to formation of Sacco Societies Act and Regulations Authority (SASRA) whose supervisory and governing mandate applies only to deposit taking SACCOs.

SACCOs in Kenya play a crucial role in financial intermediation. This is given the fact that they are more flexible in the services they offer as compared to commercial banks. In addition, in the wake of collapse of Dubai, Imperial and Chase Bank, public confidence with the commercial banks has reduced thus compelling them to turn to SACCOs for financial services. Further, with the introduction of interest rate capping, this has seen Kenyans turning to SACCOs for both saving and access to financial services given the reduction in the public lending by banks. This therefore calls for the SACCOs to ensure they put in place and comply with good corporate governance practices given the rise in demand for their services from the public. This will help them avoid challenges faced by the three banks that were put under receivership while at the same time enhancing service delivery to the public.

### **1.1.1 Corporate Governance Practices**

According to Meier and Meier (2013), corporate governance entails adherence to governance regulations for the success and posterity of the organization. Corporate governance is the set of processes, policies and customs including laws that affect how institutions are directed and controlled hence influencing the behaviour of the organization either directly or indirectly towards the main shareholders. Corporate governance can also be described as contribution of expertise, labor and capital that results in the benefit of the investor. Most shareholders do not take any responsibility in the operations of the organization. Management runs the company without any responsibility for providing funds to the company. It is the responsibility of shareholders and directors to establish corporate policies that will be followed by all staff in the organization. It is the obligation of the board of directors to approve decisions that affect the performance of the

organization in the long run. According to Gupta et al. (2013) corporate governance is the relationship of three groups that involve management, board of directors and shareholders who determine the performance and the direction of the company hence it is a factor in strategic planning that ensures effectiveness.

According to Bell et al. (2014) corporate governance involves the structure in which management is responsible to shareholders who have interest in the business. Similarly, Sharma (2015) argues that corporate governance is the process of having an arrangement that makes the firm to be focused hence accomplish long term relationship between shareholders and managers. Sharma (2015) maintained that corporate governance entails the legitimate and inherent frameworks that outline the exercise of power within an institution and permit stakeholders to assume their tasks, rights and freedoms. Yasser et al. (2015) argue that corporate administration is a key component in the confidence of investors, improvement of economic growth and increases the competitiveness of corporations.

This study will adopt a composite definition of corporate governance as given by the various financial regulatory bodies in Kenya namely: Central Bank of Kenya, Insurance Regulatory Authority, Sacco Authority Societies Regulatory Authority (SASRA) and Capital Markets. According to Central Bank of Kenya Act (2010), SASRA Act, (2010), Capital Markets Act (2011) and Insurance Regulatory Authority Act (2011), corporate governance structure can ensure managers direct business affairs hence enhancing accountability and prosperity of the company resulting into long term value while prioritizing the interest of the shareholders.

### **1.1.2 Strategy Implementation**

Strategy implementation is mainly measured from the outcomes of the strategy. According to Eisenhofer (2010), strategy implementation in organizations can be measured by the outcomes of the main objectives of the organization. He states that if the organization's goal is to maximize profits or increase turnover/ revenue, then the organization will put into place strategy that will focus towards cutting down the costs, offering price discounts to encourage large scale purchases among others. Therefore, such strategy implementation could be measured by growth in sales volume or sales turnover.

In this study, strategy implementation will be measured in two ways. This is informed by the main role that SACCOs play in the economy as well as the welfare of its members. The first measure will be Shareholder's Wealth. This will be measured by the shareholding proportion by the SACCO members. According to Jensen & Meckling, (2011), mitigation of agency theory is one of the most popular cited sources in shareholder gains. The conflict of interest between shareholders and managers will affect the outcome of shareholders wealth due to agency costs.

The second measure of strategy implementation in SACCOs in this study will be Sacco's financial performance mainly measured by SACCO's profitability. According to Roger (2011), empirical research has been on the relationship between corporate governance and performance in which it was concluded that good governance pays but there is a link of good governance and good performance that is lacking making the existing studies to have mixed result yield. SACCOs play a crucial role in financial intermediation process. Therefore, growth in profitability being one of the goals of SACCOs implies that they have to devise strategy which will enable them achieve their objective. Consequently, the corporate practices will definitely be aligned towards realization of this goal. This study will therefore use SACCO's profitability as a measure of strategy implementation.

### **1.1.3 Savings and Credit Cooperative Organization (Saccos) in Kenya**

The SACCO industry can be categorized into financial and non –financial and is part of the cooperative sector. According to Mukalo (2015) non-financial cooperatives' function is to market produce of members' products and services such as coffee, tea, dairy and other similar cooperatives product. Financial cooperatives consist of investments and housing cooperatives. The sub sector of the Sacco is described as two –tiered in which the SACCO gives the services to the members and are regulated. In traditional SACCO we have non-deposit taking SACCO that is limited in saving and providing credit products that are registered and controlled by the cooperative societies act, CAP 490 (SASRA Act, 2010).

The Deposit Taking SACCO (DTS) Societies are part of the larger SACCO sub-sector in Kenya that consist of both non-deposit and deposit taking societies. Non-deposit taking are the deposit mobilizing Saccos that focus on lending to members while deposits focus on non-withdrawable funds which can be used as collateral for loans only and can be refunded

back when members withdraw (SASRA, 2010). Deposit taking segment is the sub sector of Sacco societies in which members can both do non-withdrawable deposit and withdrawable deposit. SASRA, (2010) notes that non-withdrawable deposits can be used as collaterals and are usually non-refundable unless an individual withdraws from being a member while withdrawable deposit portion is opened to members at any time of the business.

The Authority's supervisory and regulatory mandate under the SASRA 2010 can only apply to deposit taking Saccos. The authority had licensed a total of 184 deposit taking Saccos in 2014 in which three deposit taking Saccos' licenses were revoked due to failure to comply with regulations making members interests to be at business risk.

## **1.2 Research Problem**

Corporate governance is intended to increase the accountability of the management of a company to the shareholders. It provides assurance that management is acting in the best interest of all stakeholders in order to deliver long term success of the company. A lack of effective corporate governance at the board and management level can lead to bad business decisions, which can lower the value of the company or even make the company collapse.

Bauer & Guenster (2013) argues that the main reason most institutions collapse can be attributed to poor corporate governance practices, lack of internal controls, weak regulatory systems and coming up with poor risk management strategies. Gupta and Sharma (2014) contend that good corporate governance practices result in a better share performance and make it easier to acquire capital and extra investments. According to Michael & Goo (2015), the absence of good corporate governance has been the main driving force for the collapse of many companies. Similarly, Berger et al (2016) concluded that good corporate governance practices have a significant improvement in financial performance of firms.

In the Kenyan context, Miringa (2015) studied corporate governance practices in insurance companies in Kenya and concluded that policies and procedures are not necessarily enough to anticipate every situation. In addition, Opanga (2013) analyzed the relationship between corporate governance and financial performance among the insurance firms in Kenya. He concluded that corporate governance practices studied contribute positively to the financial

performance of insurance companies. Makai et al (2016) studied the effects of corporate governance on corporate strategy implementation among SACCOs in Kirinyaga County in Kenya. The study finds that corporate governance as measured by the board leadership, financial performance disclosure, corporate social responsibility and compliance with legislation predict the implementation of corporate strategy of achieving financial growth of SACCOs. Similarly, Njoka (2014) found that there is a positive and significant relationship between performance and property management among CEO and board of directors in Kenyan Companies. Otieno (2013) also asserts that separation of office of board chair from that of CEO generally seeks to reduce agency costs for a firm hence influencing the firm performance of commercial banks in Kenya.

From various studies, it is evident that there is scanty work on relationship between corporate governance practices and strategy implementation in SACCOs despite their crucial role in the Kenyan financial sector. Most studies focused on developed countries yet the level of governance there is much better after the scandals that they experienced earlier as opposed to developing countries. On the other hand, majority of the studies used secondary data yet secondary data is meant for other purposes different from what they are made to perform which has been the cause of mixed results on corporate governance studies across the world. This study will fill the gap by use of primary data and in context of developing country, Kenya. The study will have to address a research question; How do corporate governance practices impact on the Strategy implementation among Saccos in Kenya?

### **1.3 Research Objective**

The objective of the study was to determine the effect of corporate governance practices on strategy implementation in Saccos in Nairobi City County, Kenya.

### **1.4 Value of Study**

The significance of the study will be four –fold. First, to the academia. The scholars would be keen to see what developments and fresh insights arise in the area of strategy implementation so as to have balance across the whole process of strategic management. In view of the fact that strategy failure is more attributable to failure in strategy implementation than strategy formulation, scholars would be interested to understand the

new insights in the subject matter of strategy implementation and the drivers and barriers to strategy implementation, especially in an industry where little attention has been given to this subject thus informing future studies.

To the practitioners of Saccos and in the financial sector in Kenya at large, the study will be of value in understanding the drivers for the success they have had over the last decade and the leadership actions expected of the strategic leadership they vote in place to deliver the positive results in a sustainable manner. Similarly, with the knowledge of the barriers to strategy implementation identified, they will be aware of what to demand of the leadership they put in place as their agents.

To the government and policy makers. These include mainly the Sacco Societies Regulatory Authority (SASRA) and to an extension the other regulatory authorities in the financial sector at large. The study would guide the policy formulation process which if based on the wrong premise may be ineffective in achieving policy objectives.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter covers theoretical foundation and literature review upon which the study will be anchored. The theoretical foundation entails discussion of theories that relate to corporate governance and strategy implementation. In addition, it covers corporate governance practices that are likely to influence strategy implementation. Lastly, the chapter scans through empirical works on effect of corporate governance on strategy implementation while summarizing the existing research gap to be filled.

#### **2.2. Theoretical Foundation**

Corporate Governance is often analyzed around major theoretical frameworks. This study will be based on three theories that relate to corporate governance and strategy implementations. The theories are discussed below:

##### **2.2.1 Upper echelons Theory**

Upper echelons theory was advanced by Hambrick and Mason (1984). According to this theory, different top managers influence organisational outcomes by the decisions that they make. It suggests that the CEO's character is linked to various organizational outcomes and the managerial decisions made influence the top managers (Shropshiro et al., 2013). Consequently, managers make different decisions despite being exposed to similar conditions due to the fact that they process information differently.

According to Harvey and Puri (2013), the theory specifies that chief executive officer's background, tenure, education, gender and age could be used as proxies to measure their cognitive, psychological and social aspects of their leadership. They further assert that behavioural characteristics of CEO's influence corporate implementation of strategies, especially those that relate to financial policies.

##### **2.2.2 Stakeholder Theory**

This theory was advanced by Freeman (1984). It assumes that good performance of companies depends on the contributions by many different parties. According to Harrison & Wicks, (2013), for a firm to operate in an environment that consists of different groups



who have different interests to the firm, the above theory is applicable. Therefore, it is important for firms to take all their interests during making corporate strategic decisions (Lawal, 2015).

Organizations exist so that they can create value to customers and this can be achieved through having a proper corporate governance structure. According to Aguilera & Jackson (2013), structure is able to identify the responsibilities and rights among the stakeholders in the organization. Most empirical studies base their measurement on stakeholder theory in which stakeholder performance is the independent variable while economic measure is the dependent variable (Hillman & Keim, 2014). In general, stakeholder theory focuses on stakeholders, specifically treating them well and managing their interests, helps a firm create value along a number of dimensions and is therefore good for firm performance (Harrison et al., 2015).

### **2.2.3 Agency Theory**

This theory was advanced by Berle and Means (1932) in which it explains that for a relationship to be there between management and shareholders, there should be an agent. In their study, they found out that there is usually conflict of interest between shareholders and management. The relationship is usually brought by dispersible ownership among the shareholders and it had replaced ownership of corporations that exists among firms.

Agency conflict is defined as the clash between managers' personal pursuits within the organization and the shareholders' objectives (Akhalmeh & Ohiokha, 2014). This is usually the case where an organization employs managers, who in turn use organizational resources for pursuing personal goals or objectives at the expense of the organization.

Opondo (2012) argues that the importance of stipulating agency conflict within organizations is that it helps organizations develop clear frameworks for ensuring that managers are committed to the organization and are pursuing organizational performance objectives to which they are evaluated. Advocates of agency theory argue that separation of the stipulating clear guidelines on agency conflict does maximize corporate performance since the managers are guided on do's and don'ts of using organizations resources for self-aggrandizement (Moscu, 2013). Further, Pi and Timme (2013) noted that in the banking industry, in the period between 1990-2010, non-duality firms outperformed duality firms

because agency conflict issues were eliminated. Where a manager has authority to set organization's agenda, chair the board's agenda, approve and operationalize the same agenda, is a recipe for performance problems (Bonn et al., 2014).

### **2.3 Corporate Governance Practices**

From the literature, there are a number of corporate governance practices that are deemed to be critical in influencing strategy implementation in an organization. Some of the key corporate practices highlighted in theories as well as in empirical studies are discussed below:

#### **2.3.1 Board Independence**

Board independence is evaluated as the percentage of independent non-executives on the board. The efficiency of the board as a monitoring function is established to be stronger when the number of independent members on the board is higher. It improves the board's objectivity and the ability to represent multiple points of view thus having an impact on strategy implementation. According to La Porta and Schleifer (2015) board independence has a positive impact on the companies' technical efficiency due to self-interests among the shareholders. Further, Wu and Li (2015), advocate for board independence since it is crucial in monitoring the management and protection of shareholders' interests because of the separation with management.

#### **2.3.2 Board Diversity**

Current discussion on regulating board diversity has been based on the need to have gender balance in board composition. However, we cannot forget board diversity from the point of balancing between executive and non-executive members. Several academic studies conclude that having women on the board has a positive effect on firm performance. In addition, However, board diversity is not limited only to gender diversity, but also diversity based on age, religion, occupation and job groups and diversity in terms of members' experience (La Porta & Schleifer, 2015). According to Bohern and Staubo, (2014) board diversity brings synergy thus complimenting the top management in delivering on the organizational strategy effectively.

Further, Taljaard et al. (2015) asserts that board diversity is created by diverse board capital which results in ability to support and secure resources from the environment thus reducing uncertainty and increasing firm performance. They assert that the knowledge and skills of board members adds into enriching the human capital of the board members which positively influences effective strategy implementation.

### **2.3.3 Ownership Structure**

Large institutional shareholders are often believed to have both the incentives and power to monitor and influence decisions and activities of the board. In most cases in the corporate world, institutional ownership significantly affects the relationship between quality of strategic decisions and board diversity made by the board outside perspective. According to Saibaba (2013), in some cases where the board members hold a substantial number of corporate shares, they are more likely to influence some decisions in their favour hence affecting strategy implementation. As such adhering to market conduct and ethics with regard to the portion of shareholding of a single shareholder in order to ensure no single shareholder is capable of manipulating organizational strategy for his or her gain at the expense of others.

### **2.3.4 CEO Duality**

Having a powerful CEO has a positive effect on performance but also leads to riskier decision-making. CEO duality is a situation where the CEO also holds the position of the chairman of the board. Some authors are in support of CEO duality while others are of contrast opinion (McColgan, 2013). Scholars argue that CEO duality can lead to maximum performance of the firm hence allowing explicit leadership to be formulated and implementation of the strategy. The role of the CEO and chairman is separated and is highly grounded in the theory of agency which assumes that for agency problem, it is important for an organization to monitor the performance of the CEO and the rest of the board of directors in order to protect the stakeholder's rights (Nyarige, 2014). According to Nguyen et al. (2014), CEO duality reduces board independence as well as reducing the likelihood that the board can correctly accomplish its oversight and governance role.

### **2.3.5 Participative Governance**

Participative governance is the capability of the board of directors to participate in the development of a value-creating corporate strategy. It is also the extent to which the principals or shareholders retain formal and real authority and this is usually allied to the balance between residual risk bearing and decision-making functions. The dimensions of participative governance for this study are: all voices are heard; members participate in decision-making; and timely information is shared. According to Choi et al, (2014) in organizations such as SACCOS, member participation in the decision-making is an important measure of democratic member control. This would be measured by attendance of the general assembly or the annual general meeting by members, voting rights of the members, frequency of attending meetings by board members, frequency of meetings of various committees within the board among others.

### **2.4 Corporate Governance Practices and Strategy Implementation**

There exist a vast number of empirical studies that link corporate governance to strategy implementation. However, it is noteworthy that such empirical studies take different approaches. Whereas some studies look at the effect of corporate governance practices on strategy implementation in general, other studies are very specific in that they look at some specific corporate governance practices on strategy implementation. Some recent empirical work in this are discussed below:

Nguyen et al. (2014) studied the effect of corporate governance on strategy implementation in Singapore and Vietnam. The study concludes that CEO non –duality reduces agency problems through diffusing and separating managerial functions which come from control functions thus have negative effect on strategy implementation. Further, Abdullah (2014) points out that there are several disadvantages of CEO duality. When an individual hold both the position of the CEO and chairman, the board's ability to monitor and control management diminishes because of conflict of interest and lack of independence. This would therefore adversely affect strategy implementation via compromising some ethical values due to lack of separation of powers between executive management and non – executive management. In addition, DeMaere et al. (2014) report that board size and composition being the proxy for board diversity of knowledge pool is an indicator of board

capital that positively and significantly influence strategy implementation in an organization. Different people bring together different strengths and this helps with good strategy formulation and implementation.

Thompson (2015) asserts that board independence is core in strategy choice as well as implementation. He states that board independence helps the board to organize and manage its own work such that it exudes confidence and trust from stakeholders and especially the management and members of an organization. The study recommends that it is an important governance principle and practice to ensure that the composition of boards comprise both executives (senior managers in the company) and non-executive or independent directors from outside the company or the management. This guarantees board independence between the executives and non – executive members which further positively impact on strategy choice and implementation.

Managerial stockholding is an important corporate governance mechanism and managerial ownership is seen as substitutes for other governance mechanisms for instance the non-executive director representation. They therefore use the percentage of managerial ownership as an explanatory variable. If managers are large shareholders, agency-problems should be less pronounced in these companies. As a consequence, we expect lower efficiency gains.

In regards to participative decision making and strategy implementation, Hendriks and Ewijk (2016) asserts that allocation of equal voting rights among the members enhances democracy in an organization. This is in tandem with the democratic member control which is one of the seven principles of SACCOs and Cooperatives. The rights of shareholders to choose members of the board of directors, approve strategy, as well as amend the constitution of their organization lies at the heart of corporate governance protections. This influences the success of organizational strategy in the long run through shareholders' buy in of the strategy.

In the Kenyan context, Miringa (2015) analyzed corporate governance practices in insurance companies in Kenya. The study concludes that good corporate governance influences employees' motivation, morale and productivity. Further, good corporate

governance influence firm's returns positively and significantly. However, the returns were reported to be highly volatile.

Wathanga (2016) studied the effect of corporate governance on the organizational performance of dairy co-operatives in Kenya. The study concludes that participative governance, board diversity in terms of skills and knowledge have insignificant effect on strategy implementation among the dairy co-operatives in Kenya which in turn have no significant effect on their financial performance.

## **2.5 Literature Summary and Research Gap**

From the literature reviewed, majority of the empirical works seem to support the fact that in general, corporate governance practices are core for influencing strategy implementation positively. From the summary of empirical works in general, corporate governance practices positively influences strategy implementation. A review of the effect of specific practices of strategy implementation yields mixed results. A number of gaps emanates from the reviewed literature. First, most studies on corporate governance concentrated in developed countries and yet the level of governance there is much better after the scandals that they experienced earlier as opposed to developing countries. Secondly, majority of the studies used secondary data yet secondary data is meant for other purposes different from what they are made to perform which has been the cause of mixed results on corporate governance studies across the world. This study will therefore use primary data to take care of this anomaly.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter will provide information on the applied research process for the project. This includes research design and target population. It also includes research instruments, data collection procedures and data analysis techniques.

#### **3.2 Research Design**

The study is a descriptive and cross-sectional survey as it describes the data and the varied characteristics of the population being studied; Cross sectional because data is collected at one point in time. Kothari (2014) defines research design as structured conditions suitable for both collection and data analysis. Kothari (2014) added that a research design in a research study should be economical as well as aligned with the research purpose.

This design was used because large samples are realistic and give statistically significant results even when analyzed using several variables. Surveys are important since they give a good description of a large population. The design will be able to answer questions such as when, who, where and how enabling the respondents to respond freely. Descriptive research design method assisted in gathering information that will assist to determine the corporate governance practices and strategy implementation in Saccos in Nairobi County, Kenya.

#### **3.3 Population of the Study**

Cooper & Schindler (2013) argue that population comprises of elements in a particular group that the researcher is interested in studying. On the other hand, Kothari (2014) defines population as the total number of individuals or respondents in an environment that the researcher wants to study.

The target population for this study was all Saccos in Nairobi County Kenya. According to the Sacco Societies Regulatory Authority Report 2017, there are 38 Saccos in Nairobi County, Kenya as shown on Appendix 3, hence the study will adopt a census survey.

### **3.4 Data Collection**

This study used primary data. Primary data was collected by use of a questionnaire which was semi-structured and self-administered to the managers. The questionnaire had closed ended questions to assist the researcher access more information from respondents. According to Oso and Omen (2013), a questionnaire is more favorable as it is convenient and facilitates quick and easy way to derive information. The researcher issued out 38 questionnaires to different SACCOs in Nairobi since it is one questionnaire per SACCO. The respondents in this study were Finance managers. They are best positioned to give necessary information on corporate governance since they are involved in strategic plan implementation and decision making.

### **3.5 Data Analysis**

Descriptive statistics was used in analyzing the data. Descriptive statistics is a data analysis method that describes coefficients from given data. Descriptive statistics utilizes measures of central tendency and measures of spread also known as variability (Abebe et al., 2011). Using the objective of the study as the guideline, systematic and in-depth analysis of the responses was performed by use of mean, mode and median. Standard deviation was also used to establish the extent to which response variable disperse from means in different SACCOs. The study used multiple regression and correlation analysis. Findings were described in detail and observations discussed and interpreted accordingly. Presentations were done by use of tabulation, tables and discussions.



## CHAPTER FOUR

### DATA ANALYSIS, FINDINGS AND DISCUSSION OF RESULTS

#### 4.1 Introduction

This chapter presents the analysis of the data collected and discusses the research findings on the effect of corporate governance practices on strategy implementation in Deposit Taking SACCOs in Nairobi City County, Kenya. This chapter presents descriptive and inferential statistics of the study findings thereby, study objective was achieved.

#### 4.2 Response Rate

The response rate of 92.1% was achieved as 35 out of 38 questionnaires were completed successfully and returned for data analysis. Dilliman (2000) asserts that a response rate of more than 50% is adequate for analysis. Kothari (2014) also asserts that a 60% return rate is good and a 70% return rate is very good. Information from the questionnaires was adequate for analysis.

#### 4.3 Demographic Characteristics

This study sought to describe the demographic information of the respondents such as gender of the respondent, age of the respondent and education level. The findings are presented in the following subsection.

##### 4.3.1 Gender of the Respondents

The respondents were asked to indicate their gender. Table 4.3.1 presents the gender information of the respondents in the study.

**Table 4.3.1: Gender of the Respondents**

	<b>Frequency</b>	<b>Percent</b>
Male	29	82.9
Female	6	17.1
<b>Total</b>	<b>35</b>	<b>100.0</b>

The study was to establish the gender distribution of the respondents who participated in this study. This was to ensure a fair distribution between the two genders. Out of the respondents who participated in the study, 82.9% were male while 17.1% were female. This implies that most of the people working in management in the Sacco industry are male. This is consistent with Opondo (2012) gender inequality in labor markets is often caused by the historical status of women, who are perceived mainly as homemakers, as well as by conservative religious or traditional approaches and national laws that forbid women from inheriting or owning property, gaining education and engaging in business interactions.

#### **4.3.2 Age of the Respondents**

The respondents were asked to indicate their age. Table 4.3.2 presents the age information of the respondents in the study.

**Table 4.3.2: Age of the Respondents**

	<b>Frequency</b>	<b>Percent</b>
Less than 30	4	11.4
30-39	20	57.1
40-49	10	28.6
50 and above	1	2.9
<b>Total</b>	<b>35</b>	<b>100.0</b>

The study was to establish the age distribution of the respondents who participated in this study. The results revealed that 57.1% were between 30 and 39 years, 28.6% were between 40 and 49 years 11.4% of the respondents were less than 30 years while above 49 years were 2.9%. This implies that SACCO industry is seen as favorable by people in their youth, that is, the 30 to 39-year-old bracket as well as the 40-49-year-old bracket.

#### **4.3.3 Highest Level of Education**

The respondents were asked to specify their highest level of education. Table 4.3.3 shows the study findings.

**Table 4.3.3: Highest level of Education**

	<b>Frequency</b>	<b>Percent</b>
Certificate/Diploma	6	17.1
Bachelor's Degree	21	60.0
Master Degree	6	22.8
<b>Total</b>	<b>35</b>	<b>100.0</b>

From Table 4.3.3, majority of the respondents; 60.0% had Bachelor's degrees. This was followed by 22.8% having Master degrees. Lastly, 17.1% had attained diploma level or a certificate. Hence, they were in a good position to respond and give rich information to the study. This implied that most of respondents in Saccos have attained University education thus had rich information and knowledge on corporate governance practices.

#### **4.4 Corporate Governance Practices**

This section was aimed at finding out Corporate governance practices in Saccos in Nairobi City County, Kenya. This includes board independence, board diversity, ownership structure and CEO Duality. The results are presented as follows.

##### **4.4.1 Board Independence**

Board independence is one of the corporate governance practices of SACCOS. The study sought to establish the number of board members and composition in terms of executive and non-executive directors.

##### **4.4.1.1 Number of Board of Directors**

The study sought to find out the number of members of the board of directors. The results are as shown in Table 4.4.1.1.

**Table 4.4.1.1: Number of Board of Directors**

	<b>Frequency</b>	<b>Percent</b>
2-5	6	17.1
6-10	18	51.4
11-20	11	28.6
<b>Total</b>	<b>35</b>	<b>100</b>

The results revealed that 51.4% SACCOS have between 6 and 10 board members while 28.6% have board members between 11 and 20 and 17.1% of the SACCOS in Nairobi County have between 2 and 5 board members. This implies that the efficiency of the board

as a monitoring function is established to be stronger when the number of independent members on the board is higher.

#### 4.4.1.2 Composition of Board Members

The study sought to find out the composition of board members in terms of executive and non-executive directors. The results are as shown in Table 4.4.1.2.

**Table 4.4.1.2: Composition of Board Members**

	<b>Frequency</b>	<b>Percent</b>
Executive directors only	6	17.1
Non -executive directors only	0	0
Mix of both	29	82.9
<b>Total</b>	<b>35</b>	<b>100.0</b>

None of the SACCOs in Nairobi County had non-executive directors only. However, majority of the SACCOs have both executive and non-executive directors as shown by 82.9% while only 17.1% had executive directors only. This implies that board members should compose of different diverse functional expertise to be able to solve a wide range of issues that face the firm.

#### 4.4.1.3 Number of Executive and Non-executive Directors

The study sought to find out the number of executive and non-executive directors. The results are as shown in Table 4.4.1.3.

**Table 4.4.1.3: Number of Executive and Non-executive Directors**

	<b>Executive</b>		<b>Non-Executive</b>	
	<b>Frequency</b>	<b>Percent</b>	<b>Frequency</b>	<b>Percent</b>
None	0	0	6	17.1
1-5	13	37.1	28	80.0
6-10	20	57.1	1	2.9
11-15	2	5.7	0	0
<b>Total</b>	<b>35</b>	<b>100.0</b>	<b>35</b>	<b>100.0</b>

The results in Table 4.4.1.3 indicate that all the SACCOs in Nairobi County have executive directors although there was variation depending on the size of the SACCOs. The results revealed that 57.1% had executive directors between 6 and 10 while 37.1% of the SACCOs had between 1 and 5 executive directors while 5.7% had between 11 and 15 executive directors.

Only one SACCOs has between 6 and 10 non- executive directors while 80% of the SACCOs had between 1 and 5 non-executive directors while 17.1% of the SACCOs were found to lack non-executive directors. On the other hand, none of the SACCOs in Nairobi County has more than 10 non-executive directors. This implies that most SACCOs have more executive than non- executive members.

#### **4.4.2 Board Diversity**

Board diversity is one of the corporate governance practices of SACCOs. The study sought to establish the gender ratio, level of academic qualification, nationality and disability person in the board. The results are below:

##### **4.4.2.1 Gender of Board Members**

The study sought to find out the number of board members according to their gender. The results are as shown in Tables 4.4.2.1.1 and 4.4.2.1.2.

**Table 4.4.2.1.1: Male of Board Members**

	<b>Male</b>	
	<b>Frequency</b>	<b>Percent</b>
None	0	0
1-5	14	40.0
6-10	20	57.1
11-15	1	2.9
<b>Total</b>	<b>35</b>	<b>100.0</b>

The results in Table 4.4.2.1 indicated that all SACCOs in this study had male board members with some variations. 57.1% had between 6 and 10 male board members while 40% of the SACCOs had between 1 and 5 male board members. One of the SACCOs had between 11 and 15 male board members.

**Table 4.4.2.1.2: Female of Board Member**

<b>Male</b>	<b>Frequency</b>	<b>Percent</b>
None	0	0
1-5	33	94.3
6-10	2	5.7
11-15	0	0
<b>Total</b>	<b>35</b>	<b>100.0</b>

On table 4.4.2.1.2, 94.3% had between 1 and 5 female board members and 5.7% had between 6 and 10 female board members. None of the SACCOs in Nairobi County had over 10 female members. However, there was no SACCO which lacked female board members. This implies that there lacks gender balance in board composition in SACCOs.

#### 4.4.2.2 Academic Qualification of Board Members

The study sought to find out academic qualification of board members. The results are shown in Table 4.4.2.2.

**Table 4.4.2.2: Academic Qualification of Board Members**

Academic Qualifications	1-5	6-10	11-15	>15	Total
High School Certificate	17.1	0.0	0.0	0.0	17.1
Bachelor's Degree	0.0	17.1	77.1	5.7	100
Master Degree	34.3	8.6	0.0	0.0	42.9
Ph.D Degree	8.6	0.0	0.0	0.0	8.6

The results revealed that 17.1% of the SACCOs in Nairobi County have board members with high schools' certificate between 1 and 5. None of the SACCOs have over 5 board members with high school qualification. The results also revealed none of the SACCOs have less than 6 bachelor's degree board members. However, between 6 and 10 board members were 17.1%, between 11 and 15 board members with bachelor's degree were 77.1% and over 15 board members were in 5.7% of the SACCOs in Nairobi County. None of the SACCOs in Nairobi County had more than 10 board members with Master's degree. However, 34.3% of the SACCOs had between 1 and 5 board members with SACCOs while 8.6% of the SACCOs were having board members between 6-10 master degrees. Lastly, none of the SACCOs in Nairobi County had more than 10 board members with PhD. However, 8.6% were found to have between 1 and 5 board members with PhD degrees.

#### 4.4.2.3 Nationality of Board Members

The study sought to find out the Nationality of board members. The results are as shown in Table 4.4.2.3.

**Table 4.4.2.3: Nationality of Board Members**

	<b>Kenyan</b>		<b>Non-Kenyan</b>	
	<b>Frequency</b>	<b>Percent</b>	<b>Frequency</b>	<b>Percent</b>
None	0	0	26	74.3
1-5	3	8.6	9	25.7
6-10	17	48.6	0	0
11-15	14	40.0	0	0
Over 15	1	2.9	0	0
<b>Total</b>	<b>35</b>	<b>100.0</b>	<b>35</b>	<b>100.0</b>

From Table 4.4.2.3, all the SACCOs in Nairobi County have Kenyan board members with variation in size. Between 6 and 10 were 48.6%, between 11 and 15 were 40.0% of SACCOs between 1 and 5 were 8.6% of SACCOs, and only one SACCO had over 15 board members who are Kenyans. On the other hand, none of the SACCOs in Nairobi have more than 5 non- Kenyan members. The results revealed that 74.3% did not have Non-Kenyan board members while 25.7% had between 1-5 Non-Kenyan board members. This implies that most Board members in the SACCOs are Kenyans. This study is consistent to Bohern and Staubo, (2014) board nationally is complimenting the top management in delivering on the organizational strategy effectively.

#### **4.4.2.4 Presence of Persons with Disability in Board**

The study sought to find out the number of board members with disabilities. The results are as shown in Table 4.4.2.4.

**Table 4.4.2.4: Presence of Person with Disability in Board**

	<b>Frequency</b>	<b>Percent</b>
No	33	94.3
1-5	2	5.7
<b>Total</b>	<b>35</b>	<b>100.0</b>

The results revealed that 94.3% of SACCOs in Nairobi County did not have persons with disability while 5.7% of the SACCOs in Nairobi County have between 1-5 people with disabilities on their board. This implies that most of the SACCOs do not have people with disability on their boards.

### 4.4.3 Ownership Structure

Ownership structure is one of the corporate governance practices of SACCOs. The study sought to establish voting rights and shareholders' seats on boards. The results are as shown:

#### 4.4.3.1 Shareholders with the Highest Shares Have a Seat on the Board of Directors

The study sought to find out whether shareholders with the highest shares have a seat on the board of directors. The results are shown in Table 4.4.3.1.

**Table 4.4.3.1: Shareholders with the Highest Shares Have a Seat on the Board of Directors**

	Frequency	Percent
Yes	13	37.1
No	22	62.9
<b>Total</b>	<b>35</b>	<b>100.0</b>

This revealed that 62.9% did not have this kind of ownership structure while 37.1% of SACCOs in Nairobi have shareholders with the highest shares having a seat on the board of directors. Boards of directors are not selected based on the amount of shares they have with the Sacco. This is consistent with Saibaba (2013) in some cases where the board members hold a substantial number of corporate shares; they are more likely to influence some decisions in their favour hence affecting strategy implementation.

#### 4.4.3.2 Voting During AGM

The study sought to find out how voting is done during AGMs. The results are shown in Table 4.4.3.2.

**Table 4.4.3.2: Voting During AGM**

	Frequency	Percent
One vote per share holder	35	100.0



The results revealed that all SACCOs in Nairobi County practiced one vote per shareholder. The study further sought to find out if the higher the number of shares, the stronger the vote. The results also revealed that they do not practice the higher the number of shares, the stronger the vote.

#### **4.4.4 CEO Duality**

CEO duality is one of the corporate governance practices. The study sought to establish whether the Chairman also holds the role of the CEO.

##### **4.4.4.1 Chairman Also Holds the Position of the CEO**

The study sought to establish whether Chairman also holds the position of the CEO in SACCOs in Nairobi County. The results are shown in Table 4.4.4.1

**Table 4.4.4.1: Chairman also holds the position of the CEO**

	<b>Frequency</b>	<b>Percent</b>
Yes	1	2.9
No	34	97.1
<b>Total</b>	<b>35</b>	<b>100.0</b>

The results revealed that 2.9% of SACCOs in Nairobi County have their chairman holding the position of the CEO while 97.1% did not practice CEO duality.

##### **4.4.4.2 Responsibilities of the Chairman and the CEO are Separate**

The study sought to establish whether the responsibilities of the Chairman and the CEO are separate. The results are shown in Table 4.4.4.2.

**Table 4.4.4.2: Responsibilities of the Chairman and the CEO are Separate**

	<b>Frequency</b>	<b>Percent</b>
Yes	34	97.1
No	1	2.9
<b>Total</b>	<b>35</b>	<b>100.0</b>

The results revealed that 97.1% of SACCOs in Nairobi County have their responsibilities of the Chairman and the CEO separate.

#### **4.4.4.3 Chairman is Involved in the Day to Day Running of the Sacco**

The study sought to establish whether the Chairman is involved in the day to day running of the Sacco. The results are shown in Table 4.4.4.3

**Table 4.4.4.3: Chairman is Involved in the Day to Day Running of the Sacco**

	<b>Frequency</b>	<b>Percent</b>
Yes	1	2.9
No	34	97.1
<b>Total</b>	<b>35</b>	<b>100.0</b>

The results revealed that 2.9% of SACCOs in Nairobi County have their chairman involved in the day to day running of the Sacco

#### **4.4.5 Participative Governance**

Participative Governance is one of the corporate governance practices of SACCOs. The study sought to establish roles of different stakeholders. The roles are as follows.

##### **4.4.5.1 Board Shares with Sacco Members the Agenda of the AGM Beforehand**

The study sought to establish whether board shares with Sacco members the agenda of the AGM beforehand. The results are shown in Table 4.4.5.1

**Table 4.4.5.1: Board Share with Sacco members the Agenda of the AGM Beforehand**

	<b>Frequency</b>	<b>Percent</b>
Yes	26	74.3
No	9	25.7
<b>Total</b>	<b>35</b>	<b>100.0</b>

The results in Table 4.4.5.1 revealed that 74.3% of SACCO Board shared with Sacco members the agenda of the AGM beforehand as compared to 25.7%.

#### 4.4.5.2 Sacco Members Allowed to Voice Their Opinions During the AGM

The study sought to establish whether Sacco members allowed to voice their opinions during the AGM. The results are shown in Table 4.4.5.2.

**Table 4.4.5.2: Sacco Members Allowed to Voice Their Opinions During the AGM**

	<b>Frequency</b>	<b>Percent</b>
Yes	35	100.0
No	0	0
<b>Total</b>	<b>35</b>	<b>100.0</b>

The results indicated that all SACCO allowed to voice their opinions during the AGM.

#### 4.4.5.3 Sacco Officials' Responsiveness

The study sought to establish whether Sacco officials are responsive to any kind of engagement they have with their Sacco members. The results are shown in Table 4.4.5.3.

**Table 4.4.5.3: Sacco Officials' Responsiveness**

	<b>Frequency</b>	<b>Percent</b>
Yes	27	77.1
No	8	22.9
<b>Total</b>	<b>35</b>	<b>100.0</b>

The results revealed that 77.1% of SACCOs in Nairobi County have their Sacco officials responsive to any kind of engagement they have with their Sacco members as compared to 22.9%.

#### 4.4.5.4 Direct Staff Involvement in Service Improvement

The study sought to establish whether Sacco officials are responsive to any kind of engagement they have with their Sacco members. The results are shown in Table 4.4.5.4.

**Table 4.4.5.4 Direct Staff Involvement in Service Improvement**

	<b>Frequency</b>	<b>Percent</b>
Yes	35	100.0
<b>Total</b>	<b>35</b>	<b>100.0</b>

The results revealed that all SACCOs in Nairobi County have their direct staff involved in service improvement

#### **4.5 Strategy Implementation**

The study sought to establish strategy implementation of Deposit taking SACCOs in Nairobi County. This was considered in terms of deposit taking, ratio of saving to borrowing, profit for the last financial year and dividend per share for the 2017.

##### **4.5.1 Deposit Taking SACCOs**

The study sought to find out whether the SACCOs in Nairobi are deposit taking. The results are shown in Table 4.5.1.

**Table 4.5.1: Deposit Taking SACCO**

	<b>Frequency</b>	<b>Percent</b>
Deposit Taking	35	100
<b>Total</b>	<b>35</b>	<b>100.0</b>

The results indicated that 100% of SACCOs in Nairobi County under SASRA were deposit taking thereby the customer can withdraw their funds on demand.

##### **4.5.2 Saving to Borrowing Ratio**

The study sought to find out many multiples of their savings are Sacco members allowed to borrow. The results are presented in Table 4.5.2.

**Table 4.5.2: Saving Borrowing Ratio**

	<b>Frequency</b>	<b>Percent</b>
2 Times	2	5.7
3 Times	21	60.0
4 Times	8	22.9
5 Times	4	11.4
<b>Total</b>	<b>35</b>	<b>100.0</b>

The results revealed that 5.7% of SACCOs in Nairobi County allowed their members to borrow two times of their savings, 60% revealed that they allowed their members to borrow three times of their savings, 22.9% allowed their members to borrow 4 times of their saving while 11.4% of the SACCOs in Nairobi County allowed their members to borrow 5 times of their savings.

#### **4.5.3 Sacco's Profit for the Last Financial Year**

The study sought to find out approximately the Sacco's profit for the last financial year. The results are shown in Table 4.5.3.

**Table 4.5.3: Sacco's Profit for the Last Financial Year**

	<b>Frequency</b>	<b>Percent</b>
Under shillings 10 million	3	8.6
10 million to shillings 49.9 million	21	60.0
50 million to 100 million	11	31.4
<b>Total</b>	<b>35</b>	<b>100.0</b>

The results revealed that 60.0% had their profit between Ksh 10 million and 49.9 million, 31.4% had their profits between Ksh 50 million and 100 million, while 8.6% of SACCOs in Nairobi County had under Ksh. 10 million in profit in 2017.

#### **4.5.4 Dividend Per Share for the Last Financial Year**

The study sought to find out approximately the SACCOs' dividend per share for the last financial year. The results are shown in Table 4.5.4.

**Table 4.5.4: Dividend Per Share for the Last Financial Year**

	<b>Frequency</b>	<b>Percent</b>
1%- 10%	28	80.0
11% - 20%	5	14.3
21%- 30%	2	5.7
<b>Total</b>	<b>35</b>	<b>100.0</b>

The results revealed that all SACCOs in Nairobi County gave their member dividends during last financial years but with varying degree. 80% of the SACCOs in Nairobi County offered their members dividend of between 1% and 10% of their share, 14.3% gave between 11% and 20% of their share and 5.7% gave dividend of between 21% and 30% of their shares.

#### **4.6 Regression Analysis**

Regression analysis was used to tell the amount of variance accounted for by one variable in predicting another variable. Multiple Linear Regression analysis was conducted to find the proportion in the dependent variable (Strategy Implementation) which can be predicted from the independent variable (Corporate governance practices). This was used to establish using  $R^2$  which is the coefficient of determination.

##### **4.6.1 Model Summary**

From the Table 4.6.1, it can be observed that R was 0.264 and R Square=0.513 at 0.005 level of significance. There is a strong positive relationship between corporate governance practices and strategy implementation as shown by  $R=0.264$ . The results also indicated that 51.3% of variation in strategy implementation is explained by the predictors in the model, while 48.4% variation is unexplained due to other factors that are not in the model.

**Table 4.6.1: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.264 <sup>a</sup>	.513	.137	.54051

- Predictors: (Constant), board independence, board diversity, ownership structure, Ceo duality, participative governance.
- Dependent Variable: strategy implementation

#### 4.6.2 Goodness of Fit of the Model

Further analysis of ANOVA as shown in Table 4.6.2 showed that  $F(5, 30) = 8.076$  was significant at 95% level of confidence. This postulates that the model used was fit to explain the relationship between the corporate governance and strategy implementation. Significance explains the usefulness of regression model at 95% level of confidence in which p-value of the F test is less than alpha ( $0 < .05$ ) hence it was concluded that corporate governance practices is significant predictor of strategy implementation.

**Table 4.6.2: ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.032	5	.606	8.076	.097 <sup>b</sup>
	Residual	8.472	30	.292		
	Total	11.505	34			

a. Dependent Variable: Strategy implementation

b. Predictors: (Constant), board independence, board diversity, ownership structure, Ceo duality, participative governance.

#### 4.6.3 Model Regression Coefficients

The presented in Table 4.6.3 shows unstandardized coefficients, standardized coefficients, t statistic and significant values.

**Table 4.6.3: Regression Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.320	5.537		.058	.954
Board independence	.591	.836	.161	.708	.485
Board diversity	.177	.878	.034	.202	.842
Ownership structure	.976	.758	.227	1.287	.208
Ceo Duality	-1.191	.439	.582	2.715	.011
Participative governance	.433	.650	.122	.666	.511

a. Dependent Variable: strategy implementation

From Table 4.6.3, all the variables carried positive predictive power although there was variation in significance level. The results also show that board independence had a positive and significant effect on strategy implementation ( $\beta = 0.161$ ,  $p=0.485$ ). From

above equation it meant that when other variables are controlled, a unit change in the would result to strategy implementation change significantly by 0.161 units in the same direction. However, board diversity had a positive and significant effect on strategy implementation ( $\beta = 0.034$ ,  $p=0.842$ ). From regression equation it implied that when other variables are controlled, a unit change in the board diversity would result to strategy implementation change significantly by 0.034 units in the same direction. Similarly, ownership structure had a positive and significant effect on strategy implementation ( $\beta = 0.758$ ,  $p=0.208$ ). From regression equation it implied that when other variables are controlled, a unit change in ownership structure would result to strategy implementation change significantly by 0.758 units in the same direction. Ceo Duality had a positive and significant effect on strategy implementation ( $\beta = 0.439$ ,  $p=0.011$ ). From regression equation it means that when other variables are controlled, a unit change in the participative would result to Strategy implementation change significantly by 0.650 units. The regression equation was as follows:

$$Y = 0.320 + 0.591X_1 + 0.177X_2 + 0.976X_3 + -1.191X_4 + 0.433X_5$$

Where:

Y = Strategy implementation

B0 = model 's constant

B<sub>1</sub> to B<sub>4</sub> = regression coefficients

X<sub>1</sub> = Board independence

X<sub>2</sub> = Board Diversity

X<sub>3</sub> = Ownership structure

X<sub>4</sub> = CEO duality

X<sub>5</sub> = Participative governance

The overall model show that corporate governance practices influence strategy implementation with a p-value of 0.001 and each variable positive predicated strategy implementation.



#### 4.7 Correlation Analysis between Corporate Governance Practices and Strategy Implementation

Correlation analysis is used to identify the relationship between two continuous numeric variables which gives a result of correlation coefficient (Crossman, 2013). The correlation coefficient (r) results are presented as shown in Table 4.10 using Pearson correlation analysis, which computes the direction (Positive/negative) and the strength (Ranges from -1 to +1) of the relationship between two continues or ratio/scale variables. The significant value adopted for all the correlations was set at a p value of 0.05, implying that all the results on this correlation were treated at a confidence interval of 95%.

**Table 4.7: Correlation Analysis**

		<b>BI</b>	<b>BD</b>	<b>OS</b>	<b>CD</b>	<b>PG</b>
<b>BI-Board Independence</b>	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	35				
<b>BD=Board Diversity</b>	Pearson Correlation	.191	1			
	Sig. (2-tailed)	.273				
	N	35	35			
<b>OS=Ownership Structure</b>	Pearson Correlation	.019	-.079	1		
	Sig. (2-tailed)	.913	.653			
	N	35	35	35		
<b>CD-CEO Duality</b>	Pearson Correlation	-.076	.042	-.020	1	
	Sig. (2-tailed)	.663	.811	.910		
	N	35	35	35	35	
<b>PG=Participative Governance</b>	Pearson Correlation	-.212	.285	.036	-.202	1
	Sig. (2-tailed)	.222	.097	.839	.244	
	N	35	35	35	35	35
<b>SI-Strategy Implementation</b>	Pearson Correlation	.252*	.393*	.175*	-.104	.341*
	Sig. (2-tailed)	.015	.019	.035	.553	.005
	N	35	35	35	35	35

\*\* . Correlation is significant at the 0.01 level (2-tailed).

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

From the above Table 4.7, there is positive correlation between board independence and strategy implementation in Saccos in Nairobi City County, Kenya at Pearson's correlation coefficient of  $r=0.252$  and significance level of 0.015. This implies that increase in board independence would results to improvement in strategy implementation. Similarly, board diversity has positive relationship with strategy implementation in Saccos in Nairobi City County, Kenya at  $r=0.393$  and significance level of 0.019. This suggested that a board

which is highly diverse would results to improvement in strategy implementation. Similarly, results were obtained between ownership structure and strategy implementation in Saccos in Nairobi City County, Kenya with Pearson's correlation coefficient of 0.175 and level of significance being 0.035.

On the other hand, CEO duality had insignificant negative relationship with strategy implementation in Saccos in Nairobi City County, Kenya at a Pearson's correlation coefficient of 0.104 and level of significant of 0.553. This implies that the SACCOs that have CEO duality would be affected negatively in terms of strategy implementation. Lastly, participative governance has significant positive relationship with strategy implementation in Saccos in Nairobi City County, Kenya at a Pearson's correlation of 0.341 and p-value of 0.005. This implies that increase in participative governance would results to increase in strategy implementation.

#### **4.8 Discussion of the Study**

The Study sought to establish the effect of corporate governance practices on strategy implementation in Deposit taking Saccos in Nairobi City County, Kenya. Data was collected from 35 SACCOs in Nairobi County. The results revealed that board independence has significant positive effect on strategy implementation of SACCOs in Nairobi County ( $R=0.252$ ,  $P=0.015$ ). Most of the SACCOs were found to have between 6 and 10 members although one of the SACCO was found to have more than 20 board members. None of the SACCOs lacked executive directors although some of the SACCOs did not have non-executive directors only. Majority of the SACCOs had more than five executive directors and less than five non-executive directors. There was positive effect of board independence on strategy implementation in Saccos in Nairobi City County, Kenya at Pearson's correlation coefficient of  $r=0.252$  and significance level of 0.015. According to La Porta & Schleifer, (2015) board independence has a positive impact on the companies' technical efficiency due to self-interests among the shareholders.

The study sought to establish influence of board diversity as corporate governance practices on strategy implementation in Saccos in Nairobi City County. All SACCOs in Nairobi County in this study had female directors although majority of the SACCOs had more than five male directors and majority of them had less than five female directors.

Wilson (2014) examined gender board diversity and posit that women are still underrepresented on corporate boards of directors. The study found that smaller firms lagging far behind their larger counterparts with respect to gender diversity. All SACCOs had at least one of their directors having bachelor's directors and less than half of the SACCOs have at least one of their directors having master degree. All the SACCOs in this study have at least one of their directors who are Kenya and only 25.7% had non-Kenyan directors in their board. There were few persons with disability in the SACCOs board of directors with only 5.7% having person with disability in their board. Board diversity has significant positive effect on strategy implementation in Saccos in Nairobi City County, Kenya at  $r=0.393$  and significance level of 0.019. According to Bohern & Staubo, (2014) board diversity brings synergy thus complimenting the top management in delivering on the organizational strategy effectively.

Ownership structure as corporate governance practices has significant effect on strategy implementation. The results revealed that majority SACCOs in Nairobi County do not practice on the principle of shareholders with the highest shares have a seat on the board of directors. Each shareholder was entitled to one vote regardless of the number of shares. This implies that each member opinion is respected in the organization structure. Pearson correlation revealed a positive and significant effect of ownership structure on strategy implementation in Saccos in Nairobi City County, Kenya with Pearson's correlation coefficient of 0.175 and level of significance being 0.035. According to Saibaba (2013) in some cases where the board members hold a substantial number of corporate shares, they are more likely to influence some decisions in their favour hence affecting strategy implementation.

CEO duality as corporate governance practices has significant effect on strategy implementation. In CEO duality, CEO performs both CEO and chairman roles. The results revealed that 80% of the SACCOs in Nairobi have chairman who does not hold the position of CEO. This implies that the responsibilities of CEO and chairman are separate. Only 20% of the SACCOs have their chairman involved in the day to day running of the Sacco. For the systems where the CEO also acts as chairman of the board, there is increase in the possibility of conflict of interest and agency problems. CEO duality had insignificant

negative relationship with strategy implementation in Saccos in Nairobi City County, Kenya at a Pearson's correlation coefficient of 0.104 and level of significant of 0.553. Nguyen, et al. (2014), CEO asserted that duality reduces board independence as well as reducing the likelihood that the board can correctly accomplish its oversight and governance role.

Participative Governance as corporate governance practices has significant effect on strategy implementation. The study established that majority of SACCO boards in Nairobi County shared with Sacco members the agenda of the AGM beforehand. All SACCOs in this allowed their members to voice their opinions during the AGM. The results also revealed that majority of SACCOs officials are responsive to any kind of engagement they have with their Sacco members. All the SACCO directly involved their staff in service improvement. Participative governance has significant positive relationship with strategy implementation in Saccos in Nairobi City County, Kenya at a Pearson's correlation of 0.341 and p-value of 0.005. This agrees with Choi et al, (2014) in organizations such as SACCOs, member participation in the decision-making is an important measure of democratic member control.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter summarizes the analysis in chapter four and underlines the key findings. It also drew conclusions from the findings. Limitations of the study and recommendations for further studies were outlined.

#### **5.2 Summary**

The main objective of the study was to establish the effect of corporate governance practices on strategy implementation in Deposit taking Saccos in Nairobi City County, Kenya. Primary data was collected from 35 SACCOs in Nairobi County. This data was presented, analyzed, interpreted and discussed so as to appropriately achieve the research objective. Most of the respondents were male and this implies that most of the people working in the SACCO industry are male. This is consistent with Opondo (2012) gender inequality in labor markets is often caused by the historical status of women, who are perceived mainly as homemakers. Most of respondents in Saccos have attained university education thus had rich information and knowledge on corporate governance practices.

No SACCO practiced full board independence as there was an executive board member in the SACCOs. Majority of the SACCOs comprised of both executive and non-executive members. The number of executive directors was over 6 members in most of the SACCOs and the number of non-executive directors was less than 5 in the SACCOs. Pearson results indicated that there is significant relationship between board independence and strategy implementation. The board diversity practices were determined by gender ratio, academic qualification, nationality and person with disability. All SACCOs in Nairobi County were found to have male and female directors.

However, majority of SACCOs have more than 5 male directors while most were found to have less than 5 females. Therefore, male dominates board of directors. The board had at least one graduate with most of SACCOs having between 11 and 15 bachelor's degrees All of the SACCOs have at least one Kenyan in their board and the presence of Kenyans was over 15 in one of the SACCOs. The SACCOs had less than 5 non-Kenya directors.

However, the composition of person with disability was only present in 2 SACCOs. Pearson results indicated that there is significant relationship between board diversity and strategy implementation.

The ownership concentration was established through voting right per share and majority shareholder with leadership responsibilities. The results revealed that only few SACCOs practiced the principle of shareholders with the highest shares having a seat on the board of directors. Voting was based on one vote per shareholder and the higher the number of shares did not translate the stronger the vote. Pearson results indicated that there is significant relationship between ownership structure and strategy implementation.

CEO duality practices were determined on separation of duties and power between the CEO and chairman. Few SACCOs practiced CEO duality where the chairman also holds the position of the CEO. Therefore, chairman was involved in the day to day running of the SACCOs. CEO duality had insignificant negative relationship with strategy implementation in Saccos in Nairobi City County, Kenya at a Pearson's correlation coefficient.

Participative governance practices were established through sharing AGM agenda beforehand with SACCO members, right to opinion and responsive SACCO officials. The results revealed that most SACCOs shared the AGM agenda beforehand with the members. All SACCOs allowed their members to voice their opinions during AGM. The results also revealed most of the SACCO officials were responsive to their members and staff was directly involved in service improvement.

### **5.3 Conclusion**

Most of the respondents were male and this implies that most of the people working in Sacco industry are male. On the other hand, most of the respondents in Saccos have attained university education thus had rich information and knowledge on corporate governance practices. The results of the research found that board independence had a significant and positive relationship with strategy implementation in Saccos in Nairobi City County, Kenya. This study therefore concludes that the board independence has a positive and significant effect on strategy implementation in Saccos in Nairobi City County, Kenya. All

the SACCOs in Nairobi County have at least one executive director although some SACCOs did not have non-executive directors. In this case, executive directors are tasked with day to day running of SACCOs and their contribution is vital for strategy implementation. Increase in number of executive directors would result to increase in strategy implementation

The research found that board diversity had significant positive relationship with strategy implementation in Saccos in Nairobi City County, Kenya. This study therefore concludes that strategy implementation is significantly affected by the Sacco's board diversity. A board that is well represented in terms of gender, academic qualification, nationality and takes care of person with disability would result to improvement in strategy implementation. SACCOs in Nairobi have at least a female, bachelor's education and Kenyan meaning the interest of various groups are taken care of during implementation with the right skills and knowledge.

The findings established that ownership structure has significant positive relationship with strategy implementation in SACCOs in Nairobi City County, Kenya. This study therefore concludes that strategy implementation in SACCOs in Nairobi City County, Kenya is significantly affected by the SACCO's ownership structure. The SACCOs in Nairobi county had clear principles on voting right where one shareholder is allowed one vote. Most of SACCOs did not allow shareholders with the highest shares have a seat on the board of directors. This would result to implementation of strategies that would favour few shareholders with the highest number of shares at the expense of other shareholders.

The study found that CEO duality had an insignificant negative relationship with strategy implementation in Saccos in Nairobi City County, Kenya. This study based on this finding concludes that CEO duality has an inverse and insignificant effect on strategy implementation in Saccos in Nairobi City County, Kenya. Most of the SACCOs have clear distinct roles of CEO and chairman implying their clear separation of responsibility. In case where a CEO doubles as a chairman, this would result to agency problems in the implementation of strategy.

The research findings revealed that participative governance had a significant positive relationship with strategy implementation in Saccos in Nairobi City County, Kenya. This study therefore concludes that strategy implementation in Saccos in Nairobi City County, Kenya is significantly affected by the participative governance. Most SACCOs in Nairobi County share the meeting agenda with member beforehand and members are allowed to voice their opinions during AGMs. SACCOs also have responsive officials who readily engage with SACCOs members to improve service delivery.

#### **5.4 The Recommendation from the Study**

The study recommends that scholars should be keen to see what developments and fresh insights arise in the area of strategy implementation so as to have balance across the whole process of strategic management. In view of the fact that strategy failure is more attributable to failure in strategy implementation than strategy formulation, scholars would be interested to understand the new insights in the subject matter of strategy implementation and the drivers and barriers to strategy implementation, especially in an industry where little attention has been given to this subject thus informing future studies.

Based on the study findings, this study recommends in order to increase corporate governance practice in SACCOS, there should be regular measurement of employee satisfaction and the SACCOs should put more emphasis on rewarding employees and managers who are committed to achieving the vision of the organization. These can be done by having staff who understand the corporate governance practices and are implemented. The study also recommends that a combination of corporate governance practices be used to communicate the strategic management to all employees as well as stakeholders. A well-trained staff team should be recruited in all departments. The team should be well versed with the firm operations and have good knowledge of the current technology. The management should also provide enough funds to cater for strategy implementation operations.

Policy recommendations are that the of Sacco Societies Act and Regulations Authority (SASRA) can educate SACCO managers on the factors that influence corporate governance practices in order to apply best practice in their businesses hence ensuring businesses growth. The study also recommends the government together with its agents to



formulate policies regarding SACCO regulations to come up with policies that protect shareholders and employees.

### **5.5 Limitations of the Study**

The researcher intended to determine the effect of corporate governance practices on strategy implementation in Saccos in Nairobi City County, Kenya, however, there are several key aspects that acted as limitations. The sample was only taken from Nairobi County; this limits the generalizability of the findings. However, the study sampled all SACCOs in Nairobi County which have branches all over the country. There was difficulty in gaining access to the sampled respondents. Additionally, the conservative nature of some SACCOs and oaths of secrecy administered on their employees regarding information disclosure rendered data collection difficult. Proper arrangements with respondents to fill the questionnaires were made by motivating them on the importance of the study. The study was done at one point of time (cross-sectional), this makes it difficult to make a temporal argument when it comes to strategy implementation. Tempo (time) is one of the key criteria used in establishing causality.

### **5.6 Recommendations for Further Research**

The study recommends that a similar study to be conducted on the Influence of corporate governance principles on strategy implementation of SACCOs. This will help to identify whether certain principles of corporate governance such as risk management, accountability and transparency are observed during strategy implementation. In addition, a similar study can be constructed in a different County to find out whether the findings observed in Nairobi County are replicable in other areas.

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## APPENDICES

### **Appendix I: Letter of Introduction**

Dear Sir/Madam,

#### **RE: RESEARCH INFORMATION FOR MBA PROJECT**

I am a postgraduate student at the University of Nairobi undertaking a Master of Business Administration in Strategic Management. As a partial fulfillment of the requirement for the award of MBA degree, I am conducting research on ‘The effect of corporate governance practices on strategy implementation in Saccos in Nairobi County, Kenya’. The information you provide will be treated confidentially and will not be used for any purpose other than the intended academic use. Your assistance will be highly appreciated.

Yours sincerely,

Maureen Wangechi Kahoro



**Appendix II: Questionnaire**

**SECTION A: DEMOGRAPHIC INFORMATION**

- 1. Name (Optional).....
- 2. Gender  
Male [ ]                      Female [ ]
- 3. Age in years  
Less than 30 years [ ]              30 – 39 [ ]              40 – 49 [ ]              50 years and above [ ]
- 4. Level of Education.  
Certificate/Diploma [ ]              Bachelor’s degree [ ]  
Master’s Degree [ ]              Ph.D. [ ]  
  
Any other (Kindly indicate) .....
- 5. What position do you hold in your organization?  
Shareholder [ ]                      Director [ ]              Chief Executive [ ]  
Company Secretary [ ]              Manager [ ]  
Any Other (Kindly indicate) .....

**SECTION B: CORPORATE GOVERNANCE PRACTICES**

**BOARD INDEPENDENCE**

- 6. How many members of the board of directors do you have in your Firm?  
2-5 [ ]              6-10 [ ]              11-20 [ ]              More than 20 [ ]  
(Kindly indicate) .....
- 7. Which of the following describes the composition of your board members:  
Executive directors only [ ]      Non -executive directors only.  
Mix of both a & b [ ]
- 8. How many executive directors are on the board?  
None [ ]                      1-5 [ ]              6-10 [ ]  
11-15 [ ]                      More than 15 [ ]

9. How many Non- executive members are on the board?

None [ ] 1-5 [ ] 6-10 [ ]  
11-15 [ ] More than 15 [ ]

## **BOARD DIVERSITY**

10. How many members of the board are:

i) Male

None [ ] 1-5 [ ] 6-10 [ ] 11-15 [ ] More than 15 [ ]

ii) Female

None [ ] 1-5 [ ] 6-10 [ ] 11-15 [ ] More than 15 [ ]

11. What is the highest academic qualification of your board members?

High school Certificate 1-5 [ ] 6-10 [ ] 11-15 [ ] More than 15 [ ]

Bachelor's Degree 1-5 [ ] 6-10 [ ] 11-15 [ ] More than 15 [ ]

Master's Degree 1-5 [ ] 6-10 [ ] 11-15 [ ] More than 15 [ ]

Ph.D. 1-5 [ ] 6-10 [ ] 11-15 [ ] More than 15 [ ]

12. How many board members are of Kenyan Nationality?

None [ ] 1-5 [ ] 6-10 [ ] 11-15 [ ] More than 15 [ ]

13. How many board members are Non-Kenyan?

None [ ] 1-5 [ ] 6-10 [ ] 11-15 [ ] More than 15 [ ]

14. How many board members belong to the category of people with disability?

None [ ] 1-5 [ ] 6-10 [ ] 11-15 [ ] More than 15 [ ]





### **Appendix III: List of Deposit Taking Saccos**

1. AFYA
2. AIRPORTS
3. ARDHI
4. ASILI
5. BIASHARA
6. BINGWA
7. BORESHA
8. CHAI
9. COSMOPOLITAN
10. DAIMA
11. ELIMU
12. HARAMBEE
13. HAZINA
14. JAMII
15. JITEGEMEE
16. KENYA BANKERS
17. KENYA POLICE
18. MAGEREZA
19. MAISHA BORA
20. METROPOLITAN
21. MWALIMU NATIONAL
22. NACICO
23. NATION STAFF
24. SAFARICOM
25. SHERIA
26. SOLUTION SACCO
27. STIMA
28. RELI
29. TAI
30. TAIFA

31. TELEPOSTA
32. UFUNDI
33. UKRISTO UFANISI
34. UKULIMA
35. UNAITAS
36. UNITED NATIONS
37. UNIVERSAL TRADERS
38. WANANCHI

Source: Sacco societies regulatory authority report 2017

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