A STUDY OF CORPORATE GOVERNANCE PRACTICES AND CHALLENGES BY CO-OPERATIVE SOCIETIES IN NAIROBI

(A study of selected Co-operative Societies in Nairobi)

BY

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DECLARATION

This research project is my original work and it has never been submitted to any other organization for the award of any degree or diploma certificate.

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This research project is hereby being submitted to the University of Nairobi School of Business studies for examination with my approval as the student's supervisor.

Mr. M. N. Anyangu

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DEDICATION

This research project work is dedicated especially to my son Raymond Kyalo for the love between us and my late mother Naomi Kalondu Mutunga for her being a role model in my life’s struggle for success.

LIST OF ABREVIATIONS

AGM	Annual General Meeting
CEO	Chief Executive Officer
ICA	International Cooperative Alliance
KCC	Kenya Co-operative Creameries
NEPAD	New Partnership for Africa's Development
OECD	Organization for Economic Co-operation and Development
PSCGT	Private Sector Corporate Governance Trust
SACCOS	Savings and Credit Co-operative Organization
CBK	Central Bank of Kenya
CMA	Capital Market Authority
NSE	Nairobi Stock Exchange
BOD	Board of Directors

ABSTRACT

The Co-operative Movement in Africa has faced numerous operational challenges in the past decade especially due to sudden Government withdrawal from its previous extensive support to rural sector and also due to the negative effects of economic liberalization in the country.

The main objectives of this study was to identify the nature of corporate governance practices adopted by cooperatives as well as identifying challenges faced by co-operatives in the implementation of these corporate governance practices highly recommended by the government.

This study adopted a descriptive design where the population of interest was the entire 10,800 cooperatives in Nairobi according to cooperative directory 2008. Stratified random sampling was used to select the respondents. Primary data was collected using a questionnaire. Collected data was first edited for completeness and consistency. Statistical package for social sciences (SPSS) was used to analyze it.

From the study the researcher found out that, cases of corruption, mismanagement and misappropriation of funds by elected officials were few and the organization did not receive so much political pressure from external forces to implement activities that countered the management ethics and standards in the year 2007. In addition, delay in giving loans was the major complain by the cooperative members and majority of the staff earned on average an equivalent salary as compared to other financial institutions.

The researcher recommends that corporate governance practices by cooperatives in Nairobi should be maintained and improved to cover all the functions of the cooperatives since from the findings the researcher found out that its introduction led to the improvement of the running of the cooperative societies. Likewise, the management should enlighten their members on the benefits of corporate governance practices so that there won't be any failure during its implementation.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Corporations are republics. The ultimate authority rests with voters (shareholders). These voters elect representatives (directors) who delegate most decisions to managers. As in any republic, the actual power-sharing relationship depends upon the specific rules of governance. One extreme, which tilts towards a democracy, reserves little power for management and allows shareholders to quickly and easily replace directors. The other extreme, which tilts towards a dictatorship, reserves extensive power for management and places strong restrictions on shareholders ability to replace directors. Presumably, shareholders accept restrictions of their rights in hopes of maximizing their wealth, but little is known about the ideal balance of power. The basic problem addressed by the agency theory is the question of whether or not managers of a firm (the agents) will take actions that are in the best interest of the firm's security holders and stock holders (kidwell and paterson,1990). Corporate governance is about promoting corporate fairness, transparency and accountability. The board is required to direct affairs of the corporation but not to manage them. Hence, there is a need to have a body that is responsible for governance separate and independent of management. Hampel (1998) observes that "good governance ensures that the constituents (stakeholders) with a relevant interest in the company's business are fully taken into account. Montgomery and Kaufman (2003) acknowledge that the corporate balance of power is delicate. The three principal actors in this power game are the shareholders, management and BOD. The interrelationship between them is key to effective governance.

Much of the recent interest in the field of corporate governance has been driven by corporate scandals in the public and private organizations. This has been highlighted by the Organization for Economic Co-operation and Development (OECD): ''Recent corporate scandals have focused the minds of governments, regulators, companies, investors and the general public on weaknesses in corporate governance systems and the need to address this issue'' (OECD, 2004, p. 1). As a result governments and financial market regulatory bodies have proposed or put in place various changes relating to directors' responsibilities, the role of independent directors, new and/or more stringent external reporting requirements and minimum disclosure levels. A dominant focus of the changes is on strengthening the role and function of the board. The overall goal is an attempt to significantly lessen opportunities for corporate mismanagement and instances of corporate collapse and thereby provide better protection for shareholders and other business stakeholders. An overwhelming majority of investors are willing to pay a premium for companies with high corporate governance standards (Berghe and Levran, 2003). For major investors, transparency is increasingly becoming the primary corporate governance concern (Hebb, 2004).

Corporate governance is a scheme for ensuring that the executive managers, who have been placed in charge of the company, fulfill their duties. It is simply about the interaction and relationship among the various participants, or stakeholders, in determining both the performance and the direction of companies. The building of a logical and efficient corporate governance system is one of the main responsibilities of the shareholders. It is believed that an interaction, characterized by some tension, between the executive manager with the highest degree responsibility (the CEO) and the outside directors who have received their mandate from the shareholders, will lead to the practice of good governance. But the implementation of corporate governance policies has its challenges. This study attempts to survey the corporate governance practices and the challenges experienced by the co-operative societies.

1.1.1 Co-operative Societies in Kenya

Kenya has some of the best managed co-operatives in addition to being a leader in terms of number of societies, membership and savings mobilization in Africa. The first legislation to govern the registration of co-operative societies in Kenya was enacted in 1931. The existing countrywide organizations then were registered under the new law and incorporated as co-operative societies. The first to be registered was Kenya Corporative Creameries (KCC) in February 1931, to deal with the dairy industry. Second was the Kenya Farmers Association (KFA), also in 1931 to deal with the cereals. In the mid 30s the co-operative movement started growing fast with the implementation of a legal framework (Muamba, 2005).

Today most of the problems bedeviling co-operatives arise from bad governance and poor economic management. While leaders direct and control the organizations, and managers run them, members have authority to demand and enforce good governance in their organizations. Corporate governance principles seek to ensure that leaders act in the best interest of the organization that they lead in order to achieve the objectives for which they were founded. As the world moves towards this governance approach, co-operative societies are no exception. If co-operatives have to remain commercially viable and sustainable enterprises for socio-economic development, they must embrace good corporate governance.

Co-operatives are governed and managed by elected committees. These committees are entrusted with the management of societies on behalf of members and employ managers and staff to carry out the day-to-day functions of the societies. In such instances, the leadership provides the guidance and delegates the powers of implementation to the staff, leaving them to act as members' agents. Since the co-operative agents are custodians, trustees and stewards of the societies, they are accountable and answerable to members, and are expected to be efficient, effective, responsible, responsive, honest, faithful, diligent and prudent (Muamba, 2005).

In the management of co-operatives there has been an overlap of duties between the management committee and management staff. This reflects poor leadership and non-adherence to good management practices. For co-operatives to be efficient and productive, they should apply good corporate governance practices framed on the pillars of: accountability, efficiency and effectiveness, Probity and integrity, Responsibility, transparency and open leadership.

1.1.2 Corporate Failures

The collapse of big organizations worldwide and locally has cast doubts in the way corporations are managed and made accountable. Enron, a Houston based energy trading company collapsed in early 2002 after reporting huge capital gains resulting from fraudulent accounting where billions of dollars were hidden in off balance sheet special purpose entities and partnerships (Kelly, 2002). In Kenya, we have the case of Kenya finance bank, which went into liquidation in November 1998 after reporting profits the prior year as well as the immediately preceding years. The company was quoted in the NSE and had a very high profile. It was a shock to many Kenyans on the realization that the profits earlier reported were a farce. (Wangombe, 2003)

The nation newspaper reported on 27th February 2008 an ailing teachers' cooperative society to be dissolved after performing poorly. A report by auditors from the ministry said the society had failed to collect rent amounting to sh.9.2 million and had not paid members dividends amounting to sh5.5 million. Members who attended the society's AGM proposed the society be dissolved. (Nation newspaper- 27.02.08).A World Bank review on corporate governance (1999) observes that major corporate failures are often as a result of abuse of power and responsibilities and that only through an improved system of governance can organization address these issues (Wangombe, 2003).

1.2 Statement of the problem

The Co-operative Movement in Africa has faced numerous operational challenges in the past decade especially due to sudden Government withdrawal from its previous extensive support to rural sector and also due to the negative effects of economic liberalization in the country (Mudibo, 2005). The Problems arising in the governance of co-operative societies can be attributed to: ineffective institutions, lack of transparency and accountability, corruption and lack of respect for business ethics and corporate governance. In many developing countries, systems of corporate governance are frequently 'relationship- based' which can foster insider trading and corruption (Oman and Blume 2005). The challenge is to develop a more 'rules-based' system. Good corporate governance is based on efficient adherence to and respect for laws, rules and regulations, business ethics and codes of conduct management; proper auditing and accountability which are essential for the functioning of a healthy economy.

Most cooperatives management in Kenya has been characterized by corruption and mismanagement of members' savings and contributions. This evoked the government to introduce corporate governance in these organizations in a bid to restore sanity in their management. This proposal recognizes past similar studies conducted in this area of corporate governance in other organization. They include: Jebet (2001); Mucuvi (2002); Mwangombe (2003); Mburu (2004); and Ademba (2006) who carried out study on the corporate governance practices in various organizations. Moyoncho (2004) and Wachira (2004) both carried out research on the perception of organizations on corporate governance. It is evident from the previous studies that despite entrenchment of corporate governance in cooperative society as a bid to restore sanity in cooperatives management, no study has been conducted on the challenges experienced by cooperative societies in the implementation of corporate governance in these organizations. This project seeks to carry out a comprehensive study on implementation of much endowed corporate governance practices in cooperative societies in Kenya. It will further seek in its objective to identify the nature of corporate governance practices adopted by cooperatives as well as identifying challenges faced by co-operatives in the implementation of these corporate governance practices highly recommended by the government.

1.3 Objectives of the study

The objectives of this study are:

i. To establish the corporate governance practices applied in the co-operative societies in Nairobi.

ii. To establish the Governance challenges at co-operatives level.

1.4 Importance of the Study

The Management of Co-operative Societies

The study is expected to be of benefit to the management of co-operative societies as they will find insight on the Governance challenges that come with the implementation of the corporate governance practices, hence may need to adjust where necessary.

Government and Policy makers

This study will give insight to the government and the policy makers especially in the areas of human resource and planning on the need to streamline the corporate governance implementation requirements so as not to shift the focus of the management on achieving the intended corporate governance targets, while neglecting their main objective of steering the society towards prosperity. Corporate governance should be meant to help organizations achieve their objectives by practicing good governance.

Academicians

To the academicians, the study will contribute to the existing body of knowledge of corporate governance in Kenya. It will also stimulate prospective researchers to replicate the study in other sectors of the economy.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Co-operative Societies

Co-operative society can be defined as a body of people who have agreed to cooperate with each other to attain a common objective, (Maina 1972). The International Co-operative Alliance (ICA) defines co-operatives as "autonomous association(s) of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise". Co-operatives are established to serve the interests of their members who range from consumers, producers and workers to the wider community. Briscoe and Ward (2000 p7) define a co-operative as a "self-help business owned and democratically controlled by the people who use its services". The cooperatives are aimed at participants doing a certain thing (or act) collectively, which they were previously doing individually. Origin of co-operatives is traced in the 18^{th} and early 19^{th} century in Germany. Today in East Africa, the cooperative movement functions as an important instrument, encouraged by the government to achieve mass participation in national development and thereby provide a means to raise the standard of living for the mass of the people, and more especially for the scattered rural areas.

2.1.1 Modern co-operative movement

This came into existence by establishment of Kenya Farmers Association (KFA) in 1908, in order to market the produce of the European settlers. In 1931, the first co-operative law to govern registration of co-operative societies in Kenya was enacted and the Kenya Farmers Association (co-operative) Limited and Kenya Corporative Creameries (KCC) were registered under it. In 1932 four co-operative societies had been registered. By 1944, only 21 co-operative societies had been registered of which 17 had been cancelled leaving only 4 in operation. Consequently, the government introduced a new co-operatives law, Co-operative Societies Ordinance, in 1945. The Ordinance dealt with such matters as registration of co-operatives, rights and liabilities of co-operatives members, duties and privileges of registered co-operative societies, inspection of affairs of registered societies, dissolution of co-operative societies, and settlement of disputes. From 1947 onwards, the number of registered co-operatives began to increase, (Juma 1990).

The development plan, 1966-1970, described the promotion of co-operatives as a major aim of the government. It assigned priority to the establishment of agricultural production and marketing co-operatives. It also considered the promotion of agricultural processing industrial co-operatives and consumer industrial and fisheries co-operatives. Also mentioned is the establishment of a co-operative college and a co-operative bank and encouragement of more District co-operative unions. In 1966, the 1945 Ordinance was repealed and all registered societies and their by-laws deemed to be registered under the replacing law.

The Cooperative Sector is one of the largest and most effective mobilizers of private resources in Kenya. Even though adequate statistics covering the entire sector have not yet been produced, it is estimated that about one in every five adult Kenyans is a member of some kind of cooperative. According to some estimates, more than half of Kenya's rural households are directly or indirectly associated with the cooperative movement. The movement currently embraces more than 10,000 societies and unions, accounting for a total annual turnover of about Ksh15 billion. By the end of December 2002, the total documented membership of the cooperative movement in the country was estimated by the Ministry of Cooperative Development to be over 1.3 million. Membership within the sector has been concentrated mainly in the agricultural sector with particular focus on the coffee, cotton, pyrethrum and sugar cane sub-sectors. However, in recent years, the nonagricultural sector has witnessed a dramatic expansion on the back of the savings and credit sub-sector. By the end of December 2002, the number of formal, registered savings and credit societies had risen to 4,020, with most of them being based in urban areas.

2.1.2 Co-operative Societies Act

It came into force on 31st December 1966. It has since gone through a number of amendments. The Co-operative Societies (amendment) act, 2004, referred to as "the principal act" highlights the rules that govern registration of societies where a co-operative can either be grouped as primary society, cooperation union, or apex society. Also included is the process and requirements of registration such as address, location details. The principal officer concerned with matters of registration of co-operative societies and ensuring their compliance with the provisions of the act rules and by- laws is the commissioner for co-operative development. Under the act, he has powers that allow him to interfere in the affairs of co-operative societies. The cooperative movement operates under the Ministry of Cooperative Development and Marketing. All cooperative Societies are registered with the Ministry and submit regular accounts and financial reports to the commissioner of cooperative for review, (Juma 1990).

The cooperatives are operated as independent legal entities and are guided by the Act and rules, as specified in the cooperative Act 2004. The savings and credit societies all over the country fall under the umbrella body Kenya Union of Savings and credit cooperatives (KUSCCO), (Juma 1989).

2.1.3 Governance in co-operatives

Control in the management of cooperatives is in the hands of the general meeting of members in which each member has a right to attend and vote. Day to day operations is overseen by a management committee whose members are elected by the general meeting of the society. Apart from the general meeting, the committee is the main policy making body for the society. (Wangombe J.G, 2003)

Corporate governance is about accountability, transparency, predictability and participation. Boards represent members and are the steward of interests – they should consider what is best for the co-operative membership as a whole. In co-operatives the board members are shareholders and they are emotionally connected to the organization on the basis of solidarity. Moreover co-operative leaders are people who must be led by the members. (Mburu M .N, 2004)

In terms of supervision of management there are some problem areas where board members have fallen short: These include (i) they are not interested in dealing with the hard facts and figures of their co-operatives, (ii) they lack a formal system of supervision of management with input-outputs consequence decision and (iii) there is lack of internal audit services and supervisory committees are weak and compromised as part of the board. (Mburu M.N, 2004)

The committee shall have (i) to enter into contracts, (ii) institute and defend suits and other legal proceedings and (iii) do all other things necessary to achieve the society's objects in accordance with its by-laws. Their responsibilities include (i) fund management (ii) regular meetings to conduct business (iii) send audited accounts to the registrar (iv) avail legal documents for inspection at registered offices, that is documents like certificate of registration, copy of Act, rules and registered by-laws, list of members and list of offices.

Shareholders in a co-operative are the members who have the following rights as per section 21 of the co-operative Act, 1997 (i) attend and participate in decisions taken at all annual and special general meetings of society and vote, (ii) Be elected to organs of the society subject to its by laws, (ii) access to all legitimate information and (iii) enjoy use of facilities and services of society subject to by-laws

Co-operatives are member based, member managed and member controlled. Members formulate the policies, which are left to management committee to implement (Wangombe, 2003).

2.2 The Concept of Corporate Governance

Corporate governance is a concept currently receiving a great deal of attention world wide in both the private and public sectors. Good governance ensures that the varying interests of stakeholders are balanced and decisions are made in a rational, informed and transparent fashion and these decisions made contribute to overall efficiency and effectiveness of the organization (Adembe, 2006).

The concept "corporate governance" has attracted various definitions. Corporate governance is concerned with relationship between the internal governance mechanisms of corporations and society's conception of the scope of corporate accountability (Deakin and Hughes, 1997). Metrick and Ishii (2002) define corporate governance from the perspective of the investors as "both the promise to repay a fair return on capital invested and the commitment to operate a firm, efficiently given investment". The implication of this definition is that corporate governance has an impact on an investment. Cadbury Committee (1992) defines corporate governance as "the system by which companies are directed and controlled". According to Mayer (1997), corporate governance is concerned with ways of bringing the interest of investors and managers into line and ensuring that firms are run for the benefit of investors. It has also been defined by Keasey et al (1997) to include the structure, processes, cultures and systems that engender the successful operation of organizations. Corporate governance is concerned with the establishment of an appropriate legal, economic and institutional environment that would facilitate and allow business enterprises to grow and strive in order to maximize shareholders value while being conscious of the interests of other stakeholders and the society (Ademba, 2006)

Research into corporate governance in developing countries, especially comparative studies, typically is based on a broad definition of corporate governance which includes the relationships a company has with its wider stakeholders as well as its shareholders. According to Claessens (2003), corporate governance would include: The relationship between shareholders, creditors, and corporations; between financial markets, institutions and corporations; and between employees and corporations. Corporate governance would also encompass the issue of corporate social responsibility, including aspects such as dealing with the firm with respect to culture and the environment" (Claessens 2003, p.5).

In many developing countries, systems of corporate governance are frequently 'relationship-based' which can foster insider trading and corruption (Oman and Blume, 2005). Ensuring better governance of corporations, financial institutions and markets are increasingly recognized in developing countries despite the limited number of firms there with widely traded shares (Oman and Blume, 2005). According to Claessens, 2003 significant development in developing countries benefits can be linked to higher corporate governance standards in the private sector. These include better access to external finance, lower costs of capital and better firm performance. Until now little attention has been paid to the governance needs of other institutional forms of business such as co-operatives despite their considerable presence in many developing countries. The co-operative sector as a whole remains poorly understood and its specific governance challenges remain as yet largely unexplored.

2.3 Historical overview of corporate governance.

After independence the banking and financial industry in Kenya was highly controlled. The government relaxed the stringent rules in 1982 with the issuance of licenses to operate non-bank financial institutions (NBFI). The low capital requirement of only 5 million for non bank financial institution led to mushrooming of these institutions. The relaxed regulatory and supervisory systems, upon which the banking and financial institutions operated during this time, led to poor governance and management culture in the industry (Centre for corporate governance, 2004 p.5). 1980s saw the collapse of some banks, the first being rural urban credit finance company ltd which was liquidated. After this the government made changes in banking act as well as CBK act in order to curb further instability in the banking industry.

Despite the effort of government in streamlining the banking sector by introduction of statutory regulatory measures of containment, more banks still collapsed due to weak internal controls and bad governance and management practices. Some of the banks that collapsed then were continental bank of Kenya and continental credit finance ltd collapsed in 1986, capital finance ltd collapsed in 1987 and eurobank in 2002.

Adoption and emphasis on Corporate governance by many companies has seen it become a household name as these companies strive to compete and satisfy all their stakeholders. The CMA came up with guidelines on corporate governance that was gazetted on 31st may 2002. The guidelines were prepared for companies listed in Nairobi stock exchange but companies in private sector are encouraged to practice good corporate governance as well.

Consultative corporate sector held in November 1998 and March 1999 resolved that a private sector initiative for corporate governance be established to:

(i) Formulate and develop a code of best practice for corporate Governance in Kenya;

(ii) Explore ways and means of facilitating the establishment of a national apex body (the National corporate sector foundation) to promote corporate in Kenya;

iii) Co-ordinate developments in corporate governance in Kenya with other initiatives in east Africa, Africa, the Commonwealth and globally.

On 8th October 1999 the corporate sector at a seminar organized by the private sector initiative for corporate governance formally adopted a national code of best practice for corporate governance to guide corporate governance in Kenya, and mandated the private sector initiative to establish the corporate sector foundation, and collaborate with the global corporate governance forum, the commonwealth association for corporate governance, the African capital markets forum, Uganda and Tanzania in promoting good corporate governance (Edema , 2006).

2.4 Corporate governance mechanism

There are many mechanisms of controls that investors can use such as ownership structure, the BOD, external auditors, legal protection etc. Some of these mechanisms are discussed below:

(i) Shareholders and ownership structure

Shareholders are the main investors in firms as far as corporate governance is concerned. They have final claim on a firm’s assets in event of liquidations. Shareholders provide capital and appoint BOD at an annual general meeting to manage the company on their behalf. Mostly shareholders are too many to manage the company and therefore elect and appoint the directors to manage it on their behalf (Okatch, 2003).

There are several findings supporting the idea that large shareholders play an active role in corporate governance. In Japan, Kaplan and Minton (1994) concluded that companies with large shareholders are more likely to replace managers in response to poor performance than firms with few shareholders.

(ii) The BOD

They are elected by shareholders to be responsible over the company and ensure stakeholders' interests are upheld above every thing else (Okatch, 2003).

(iii) External auditors

They are elected by shareholders to safeguard the assets of shareholders and provide shareholders with external and objective check on directors' financial statements which form the basis of their report to shareholders (Wambua, 2001).External auditors should execute their duties diligently, fully and without fear or favor. External audits enhance corporate governance. By pointing out irregularities if any, the auditors play their role in corporate governance and this enhances value and reliability of information available to public on performance and solvency of institutions as well as instills discipline.

(iii) Legal protection

External financing has legal protection. If managers violate the contract, the shareholders / creditors have the right to posses the collateral; liquidate the assets or any other action allowed by law to safeguards their interests.

2.5 The importance of Corporate Governance

Many countries especially in emerging markets have plunged into economic crisis due to weak legal environment and poor governance systems. This triggered discussions on the importance of corporate governance (Sung, 2003).

If countries are to reap the full benefits of the global capital market and if they are to attract long term capital, their corporate governance arrangement must be credible and consistent with practices across borders (Muriithi A.M, 2004). Good corporate governance practices have become a necessity for every country and business enterprises (Jebet, 2001).

Several workshops have been held in Kenya regarding corporate governance. Workshops organized by the private sector corporate governance trust, NSE, CBK, ICPAK , and ACCA Kenya chapter have stressed the importance of corporate practices such as board composition and audit committees. Khemani & Leecher (2001) argue that competition is needed for a culture of good corporate governance to thrive. Competitive policy helps bring about efficiency, promote greater accountability and transparency in business decisions and lead to better corporate governance. Zingales (2000) discusses how the new types of firms that are emerging demand a re-evaluation of corporate governance.

2.6 The Principles of Good Corporate Governance

The Cadbury report (1992) has cited three fundamentals of good corporate governance as openness, integrity, and accountability relevant to both private and public sector. The report of Nolan committee (May 1995) stipulates seven principles that guide good corporate governance as selflessness, integrity, objectivity, accountability, openness, honesty and leadership. In all fields of human endeavor, good governance is founded upon the attitudes, ethics, practices and values of the wellbeing of the society.

The OECD principles of Corporate Governance (1999) was developed by the Organization of Economic, Co-operation and Development (OECD), in response to a call by the OECD council meeting, to develop, in conjunction with national government, other relevant international organizations and the private sector, a set of corporate governance standards and guidelines. These principles, agreed on in 1999, have formed the basis for corporate governance initiatives in both OECD and non-OECD countries. There is no single model of good corporate governance. However, work carried out in both OECD and non-OECD countries and within the organization has identified some common elements that underlie good corporate governance. The principles are built on these common elements and are formulated to embrace the different models that exist. For example, they do not advocate any particular Board structure (OECD, 1999). The corporate governance framework should protect and facilitate the exercise of shareholder's rights (OECD, 2004). Basic shareholder rights include: secure method of ownership registration, right to transfer shares, obtain relevant material information on the corporation on a timely basis, participate and vote in general shareholder meetings, elect and remove members of the Board.

Corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the Board, and the Board's accountability to the company and the shareholders (OECD, 2004). The appointment of the Chief Executive Officer (C.E.O) and senior staff should also be the role of the Board (C.C.G, 2003).

2.7 Compliance Focus

An increasing focus on compliance and regulation has the potential to distract both the board and management from their key responsibilities. A likely outcome is that because boards become more preoccupied with compliance, senior management in turn will become more involved with this task: ‘‘in many companies a considerable amount of board time is spent on compliance with law rather than company performance’’ (Bosch, 2002, p. 276). A key thrust of corporate governance change is to make ‘‘management more accountable to boards and making boards more accountable to shareholders’’ (Bosch, 2002, p. 277). In doing so this may effectively restrict the scope of management to manage the business effectively in response to a turbulent and dynamic external environment.

While the stated intention of corporate governance change is not to over regulate or heavily prescribe, the actual substance of the changes proposed and implemented means that this is difficult to avoid. The move to regulate is premised on the view that corporate governance is generally too weak and in need of tighter definition and control. While control and regulatory frameworks may be functional from a purely legal or technical viewpoint, their operational impact on managers working in dynamic and rapidly-changing business environments may be problematic.

The overall goal of business and economic regulation, including corporate governance, is to improve market efficiency (Guasch and Hahn, 1999). This should enhance the operation of markets and facilitate the flow of capital between firms (Jensen, 1993). Therefore some level of corporate governance regulation is a necessary component of a well functioning economy. In countries that lack effective or well-developed economic regulatory frameworks, including systems of corporate governance, economic performance is likely to be impeded (Guasch and Hahn, 1999). Accordingly, the implementation of regulatory and governance frameworks in such countries is likely to be beneficial. For example, Hanousek and Kocenda (2003) provide evidence that in the Czech Republic, which is being transformed into a market-based economy, improvements in corporate governance resulted in improvements in the profitability of mass-privatized businesses.

2.8 The Form and Structure of Contemporary Organizations

Large public corporations operate in a constantly changing and evolving business environment. This is increasingly globalised, difficult to predict or forecast within, subject to rapid technological change and innovation and increasingly populated with new organizational forms and structures (Jensen, 1993; Quinn, 2002). Organizations operating within such an environment are increasingly recognized and defined less in terms of physical assets and location and more in terms of key personnel, intellectual capital, innovation and branding (Barkema et al., 2002). These are aspects for which the concept of ownership is often nebulous and more difficult to establish.

Corporate governance traditionally has been based on either the concept of agency theory or the need to ensure that managers work in the best interests of shareholders, or the broader idea of accountability to stakeholders (Hilmer and Donaldson, 1996).. The changing business environment means that the efficacy of a traditional corporate governance approach could be questioned. Managers cannot be instructed or compelled to act totally in the interests of shareholders via some form of contractual control system or external regulation. No form of contractual control or regulation can capture or foresee all circumstances relating to the operation of many contemporary corporations. In this sense a corporate governance approach that is increasingly one of a regulatory compliance is likely to be suboptimal in relation to longer-term business performance. As a result in some public corporations it may be more important for corporate governance to be focused to a greater degree on organizational design issues rather than prescriptive control and compliance. This means structures and processes that underpin and provide effective governance, but at the same time do not limit or distract management from responding to a dynamic and capricious external environment, would need to be devised. In other words, corporate governance systems should allow managers scope for flexibility and to make rapid change in relation to how they perceive the external environment and their management of ongoing operations (Weidenbaum, 2004).

2.9 Governance Problems at Co-Operative Level

The board oversight and management operational responsibilities are inadequately defined in the by-laws of Co-operative Societies. The major concerns include: key decisions on urgent matters such as change in interest rates, introduction of new products and services; professionalism of elected members to enable them assume highly technical responsibilities such as loan analysis and disbursement, budgeting and financial expenditure control; political pressure on board / committee members from external forces in implementation of co-operative activities; corruption, gross mismanagement and misappropriation of funds by elected officials; conflict of interest among co-operative officials; and failure to convene general meetings and hold general elections when due.

At Staff Level, the concerns include: job insecurity due to changes in the board/ committee members and terms and conditions of service; recruitment and dismissal process – this can encourage or discourage favouritism, tribalism , and nepotism – determines the competence of employed staff; presence / absence of personnel and administration policies and accounting procedures Manual, job descriptions and specifications and performance appraisal tools; lobbying and canvassing for the election of certain Board/ committee members for example relatives, and friends; and level of direct control of the co-operative by the members where if there is lack of direct control some managers can do business diversification that does not benefit the owners but meant for their own interests.

At Member level, the concerns include: **c**o-operative size - avoid splitting of viable co-operatives into small uneconomical units; resources, education and training; and staff salaries compared to those paid to other financial institutions. Members reject offering salaries that appear higher than what they earn from their employers, trade or businesses. Therefore attracting and retaining better qualified managers and staff is difficult... Other concerns include participation in decision-making structures by members. Lack of adequate participation in decision making by members can result in dominance of the co-operative by community elites who then use the funds to secure their own position. Another concern is when board members continue to exercise operational control even after professional managers have been appointed (CGAP, 2005).

CHAPTER THREE

3.0 RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter describes the study design and explains the research procedures followed. It includes the study population and the sampling design, description of the research tools, data collection and data analysis procedures.

3.2 Research Design

This study adopted a descriptive design aimed at determining the corporate governance practices and the challenges encountered by co-operative societies in Kenya in their implementation. A descriptive study is chosen because according to Cooper and Schindler (2001), it is concerned with finding out the 'who' the 'what' the 'where' and the 'how, of a phenomenon which is the concern of the study. The design has in the past been successfully used by Njoroge (2003) and Mazrui (2003). Mugenda & Mugenda, 2003 further notes that it portrays the fact as it really is; if another researcher goes to the field now, he or she will find the situation as described. Robson (2002) points out that descriptive study portrays an accurate profile of persons, events or situation.

3.3 The population

A population or universe for a survey is any group of individuals or institutions which have one or more characteristics in common that are of interest to the researcher. Mugenda & Mugenda, 2003 defines a population as an entire group of individuals, events or objects having common characteristics that conform to a given specification. Sanders et al (2003) further defines population as the full set of cases from which a sample will be taken. Co-operative societies in Kenya are formed by different people, according to the activities they perform. There is a population of 10,800 cooperatives in Kenya according to cooperative directory 2008. Nairobi alone has 1,109 active cooperative societies.

3.4 Study Sample and Sampling Technique

Probability sampling technique is based on the concept of random selection, a controlled procedure that assures that each population element is given a known non zero chance of selection. Stratified random sampling was used. The sample was stratified purposely to include the two major groups of cooperatives, SACCOs and non SACCOs, and then randomized. The populations was divided into relatively homogeneous groups and then selected at random from each stratum a specified number of elements and then combined the samples to form an overall sample. Because this is a fair way to select a sample, it is reasonable to generalize the results from the sample back to the population. The objective of random sampling is to select sample size (*n* units) out of the total population (N) such that each combination /outcome ($_{N}C_{n}$) has an equal chance of being selected.

N = the number of cases in the sampling frame

n = the number of cases in the sample

$_{\mathbf{N}}\mathbf{C}_{\mathbf{n}}$ = the number of combinations (subsets) of n from N

When conducting research, it is often impossible, impractical or too expensive to collect data from all the potential units of analysis included in the research problem. Hence smaller number of units, a sample, is often chosen to represent the relevant attributes of the whole set of units, the population. (Cooper and Schindler, 2001). A sample size of 35 from random sampling of 1,109 cooperative societies in Nairobi was used for the study. The sample size of 35 was made up of 20 SACCOs and 15 non SACCOs.

3.5 Data Collection

Primary data was collected using a questionnaire (see appendix). The use of a questionnaire was selected because it is convenient in obtaining the answers from the respondent. A questionnaire enables the researcher get first hand information about the work situation. It also provides an opportunity for anonymity to promote high response rate. A questionnaire with both open-ended and close-ended questions was used to collect the data. The close-ended questions were selected to guide and restrict the response to the study area of interest. Open-ended questions were also used to enable the respondent express their opinions not captured by the close-ended questions. Questionnaires were dropped to respondents and collected later by the researcher once filled. The response rate was good at 85% for SACCOs and 80% for non SACCOs.

3.6 Data Analysis

Data was first edited for completeness and consistency. Statistical package for social sciences (SPSS) was used to analyze study data. Descriptive statistics such as frequencies and percentages were used to analyze the data. Output of the data analysis was presented using frequencies, percentages, tables, graphs and charts.

CHAPTER FOUR

4.0 DATA FINDINGS, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter discusses the data findings, analysis, interpretation and presentation. The topic of research was a study of corporate governance practices and challenges in corporative societies in Nairobi. The targeted respondents for this study were the general managers of the various corporative societies sampled out. Quantitative data was analyzed using the SPSS tools and presented by the use of tables, pie charts and the bar graphs while content analysis was used for qualitative data through comparison of the various responses from the respondents. The chapter is divided into four major sections including the introduction, demographic information, corporate governance practices as well as the analysis for qualitative data.

4.2 Demographic Information

This section gives personal information of the respondents. The information contained in the section include name of the corporative of the respondents, their designations, who the external auditors are in the corporative, number of years the corporative have been in Kenya, number of executive directors as well as number of non-executive directors. In addition, the researcher tries to find out if there is a separation of the post of the CEO and the chairman.

Table 4.1: Time of Establishment

	Frequency	Percent
5-10 years ago	4	13.8
11-15 years ago	6	20.7
16-20 years ago	2	6.9

over 20 years ago	17	58.6
Total	**29**	**100.0**

Table 4.1 illustrates the time when the corporative was established in Kenya. From the table, 58.6% of the respondents said that the corporative was established more than 20 years ago. Only 13.8% of the respondents said it was established less than 5 years ago. This shows that the corporative movement has been in Kenya for a very long time. This is also illustrated in the bar graph below.

Figure 4.1: Time of Establishment

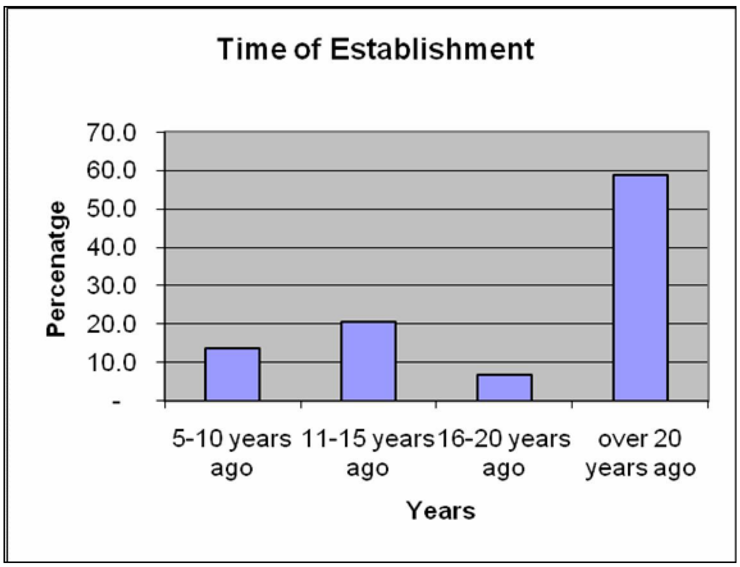


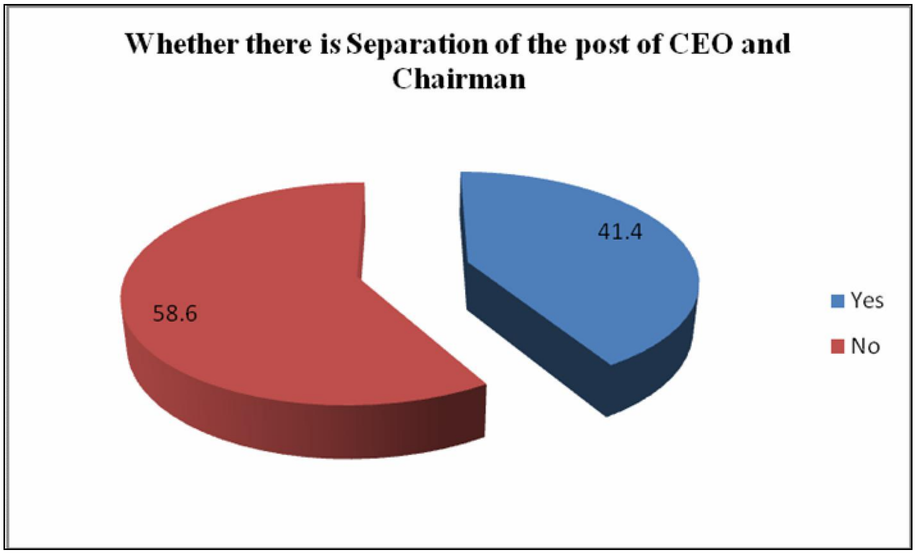
Table 4.2: Whether there is separation of the post of CEO and Chairman

	Frequency	Percent
Yes	12	41.4
No	17	58.6

Total	**29**	**100**

Table 4.2 shows whether there is separation of the post of CEO and Chairman. From the table 58.6% of the respondents said there was no separation of post of CEO and chairman. Only 41.4% said there was separation. This shows that there is no separation of post of CEO and chairman. The same information is illustrated in the pie chart below.

Figure 4.2: Whether there is separation of the post of CEO and Chairman



4.3 Corporate Governance Practice

Table 4.3: Extent to which Shareholders rights are protected by the Management of the Co-operative

	Frequency	Percent
Small extent	2	6.9
Large extent	14	48.3
Very large extent	13	44.8

Total	29	100.0

Table 4.3 illustrates the extent to which share holders rights are protected by the management of your Co-operative. From the table 48.3% of the respondents said share holders rights are protected by the management of the Co-operative to a large extent, while 44.8% of the respondents said shareholders rights are protected by the management to very large extent, only 6.9% of the respondents said the rights of the shareholders are protected to small extent. This is an indication that shareholders rights were protected to a large extent. The same information is illustrated in the pie chart below.

Figure 4.3: Extent to which Shareholders rights are protected by the Management of the Co-operative

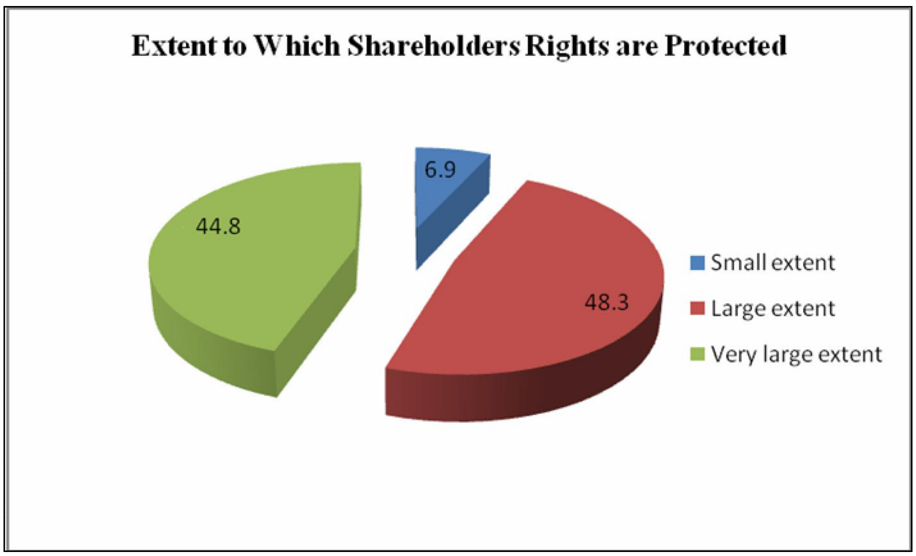


Table 4.4: Extent to which Shareholders' rights to transfer shares is upheld by the management of the Co-operative

	Frequency	Percent
No Extent	3	10.3
Small Extent	2	6.9

Large Extent	5	17.2
Very Large Extent	19	65.5
Total	**29**	**100.0**

Table 4.4 is a Likert scale illustrating the extent to which share holders rights to transfer shares is upheld by the management of the Co-operative. From the 65.5% of the respondents agreed that the right of shareholders to transfer their shares were upheld by the management to a very large extent, 17.2% said to shareholders rights were upheld to large extent, while 10.3% said it was upheld to small extent. Only 6.9 of the respondents said shareholders right were upheld to no extent. This shows that shareholders rights to transfer their shares were highly upheld by the management. The same information is illustrated in the bar graph below

Figure 4.4: Extent to which Shareholders' rights to transfer shares is upheld by the management of the Co-operative

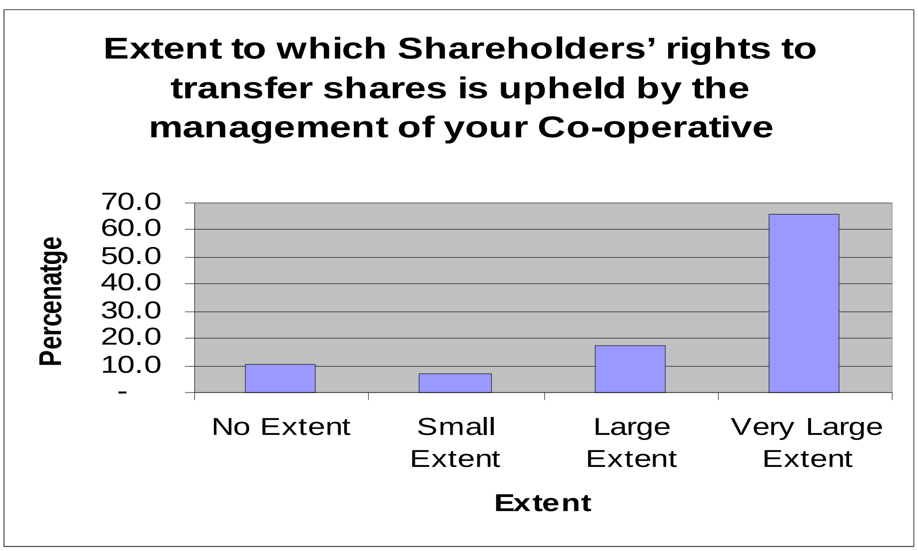


Table 4.5: Whether the co-operative have training programs for management committees

	Frequency	Percent
Yes	23	79.3
No	6	20.7
Total	**29**	**100.0**

Table 4.5 depicts whether the co-operative have training programs for management committees. From this table, 79.3 of the respondents said that the co-operative had training programs for management committees, while only 20.7% of the respondents said there were no training programs for management committees. The same information is illustrated in the pie chart below

Figure 4.5: Whether the co-operative have training programs for management committees

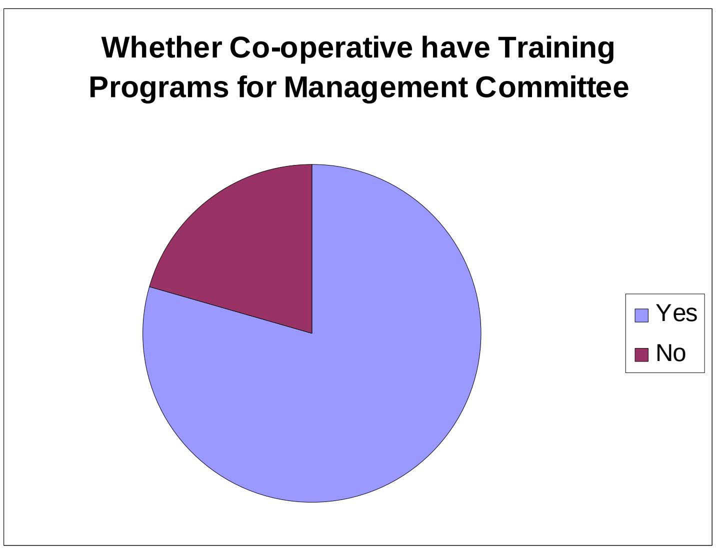
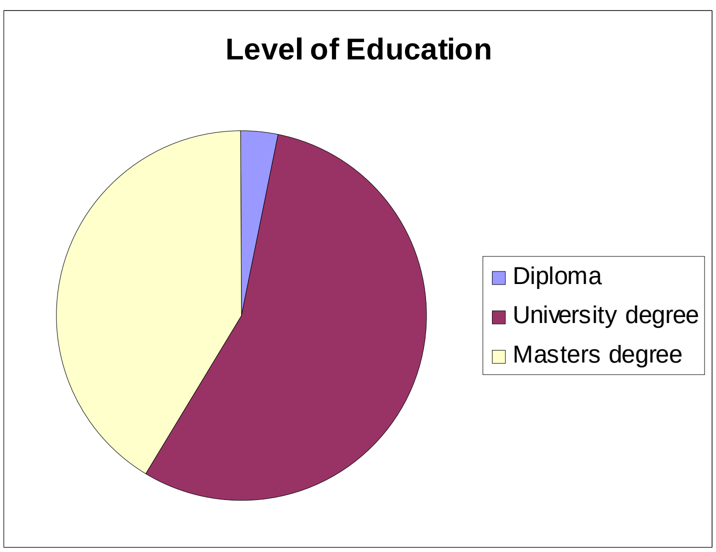


Table 4.6: The highest level of education for a committee member

	Frequency	Percent
Diploma	1	3.4
University degree	16	55.2
Masters degree	12	41.4
Total	**29**	**100.0**

Table 4.6 depicts the highest level of education for a committee member. From the table, 55.2% of the respondents said that the committee members had university degree as level of education, 41.4% master degree level of education, while only 3.4% said that the committee members had diploma level of education. This shows that majority of the management committee members had degree level of education. This is also shown in the pie chart below.

Figure 4.6: The highest level of education for a committee member



4.4 Governance Challenges at Co-operative Level

Table 4.7: whether change have led to improvement or decline on how the society is managed

	Frequency	Percent
Improvement	28	96.6
Decline	1	3.4
Total	**29**	**100.0**

Table 4.7 shows whether there has been change in terms of how the society is run since the introduction of corporate governance in the organization. From the 96.6% of the respondents said there has been improvement, while 3.4% of the respondents said there has been decline. This shows that the running of the society has improved since the introduction of corporate governance in the organization. The same information is illustrated in the pie chart below.

Figure 4.7: whether change have led to improvement or decline on how the society is managed

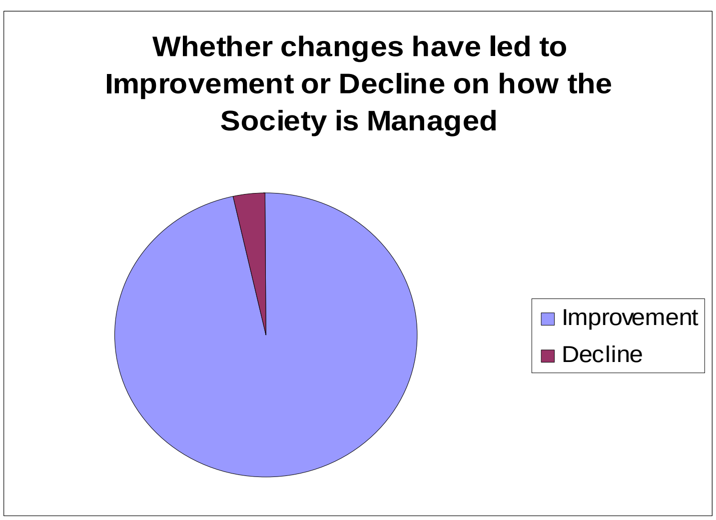


Table 4.8: Whether professionalism is a consideration in electing board/ committee members

	Frequency	Percent
Yes	22	75.9
No	7	24.1
Total	**29**	**100.0**

Table 4.8 shows whether professionalism is a consideration in electing board/ committee members. From the table 75.9% of the respondents agreed that professionalism was a consideration when electing board/ committee members, while 24.1% of the respondents said professionalism was not really a consideration when electing board/ committee members. This is also shown in the pie chart below.

Figure 4.8: Whether professionalism is a consideration in electing board/ committee members

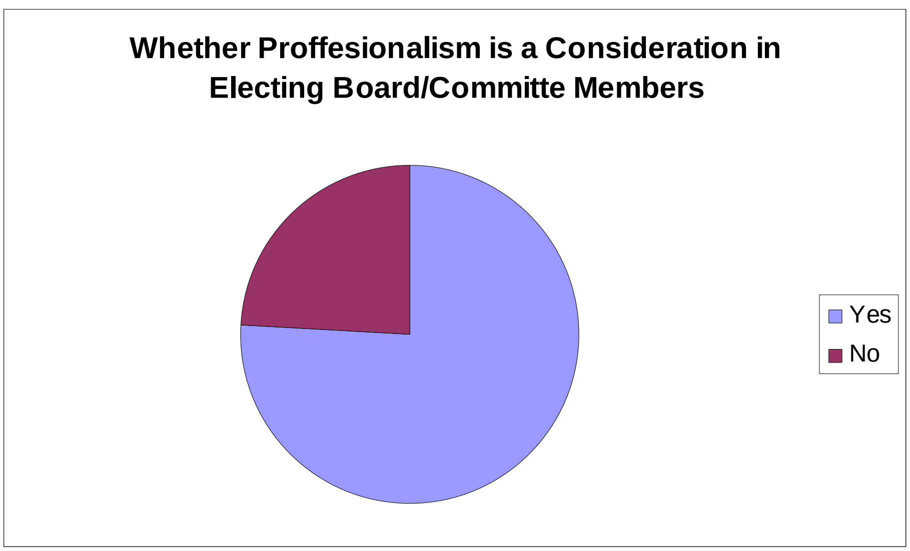


Table 4.9: Whether you normally have collusions between board members and supervisory committee to protect one another's interest

	Frequency	Percent
Yes	7	24.1
No	22	75.9
Total	**29**	**100.0**

Table 4.9 shows whether there are collusions between board members and supervisory committee to protect one another's interest. From the table a majority of 75.9% of the respondents said there were no collusions while 24.1% of the respondents said there were collusions. This shows that there were no collusions between board members and supervisory committee. The same information can be illustrated in the pie chart below.

Figure 4.9: Whether you normally have collusions between board members and supervisory committee to protect one another's interest

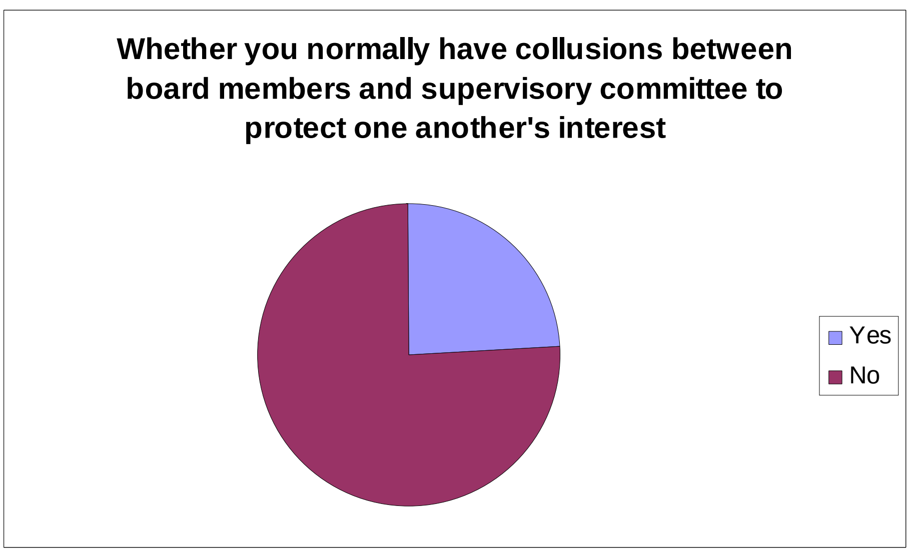


Table 4.10: Cases of corruption, mismanagement and misappropriation of funds by elected officials in a year

	Frequency	Percent
None	22	75.9
1-5 cases	7	24.1
Total	**29**	**100.0**

Table 4.10 shows whether there are cases of corruption, mismanagement and misappropriation of funds by elected officials in a year. From the table 75.9% of the respondents said there were no cases of corruption, mismanagement and misappropriation of funds by elected officials, while 24.1% said that there were cases of corruption, mismanagement and misappropriation of funds by elected officials. This shows that cases of corruption, mismanagement and misappropriation of funds by elected officials were few. The same information is illustrated in the pie chart below.

Figure 4.10: Cases of corruption, mismanagement and misappropriation of funds by elected officials in a year

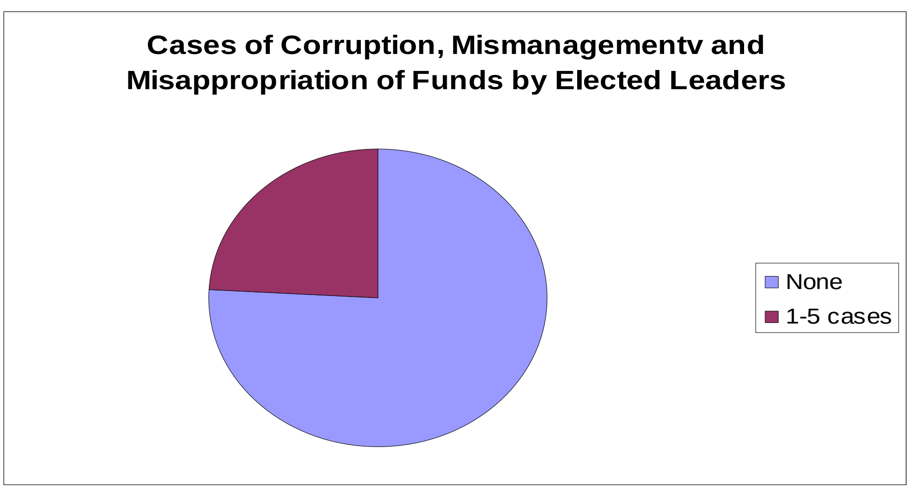


Table 4.11: Occasions in 2007 that the organization received political pressure from external forces to implement activities that counter the management ethics and standards

	Frequency	Percent
None	15	51.7
1-5 cases	13	44.8
over 10 cases	1	3.4
Total	**29**	**100.0**

Table 4.11 shows on how many occasions in 2007 that the organization received political pressure from external forces to implement activities that counter the management ethics and standards. From the table 51.7% of the respondents said there were no such occasion, 44.8% of the respondents said there were at most five cases. Only 3.4% of the respondents said there were over 10 cases. This shows that the organization did not receive so much political pressure from external forces to implement activities that countered the management ethics and standards in the year 2007. This is also shown in the bar graph below.

Figure 4.11: Occasions in 2007 for Any Political Pressure

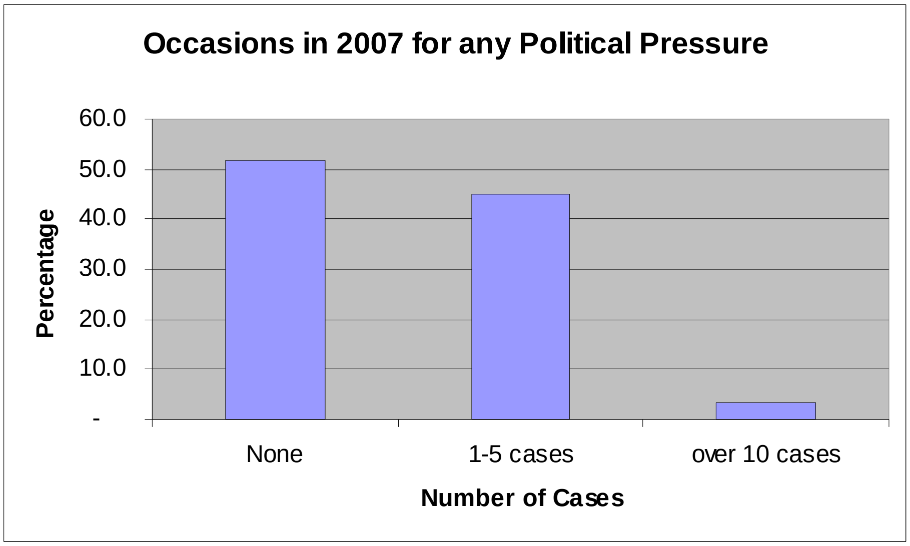


Table 4.12: Major complains by the co-operative members

	Frequency	Percent
Low dividends	8	27.6
Delay in giving loans	14	48.3
Favoritism in giving loans	2	6.9
No answer	5	17.2
Total	**29**	**100.0**

Table 4.12 depicts major complains by the corporative members. From the table 48.3% of the respondents said delay in giving loans was the major complain, 27.6% said low dividend was also a complain, 6.9% said there was favoritism in giving loans, while 17.2% did not have any answer. This shows that delay in giving loans

was the major complain by the corporative members. This is also shown in the bar graph below.

Figure 4.12: Major complains by the co-operative members

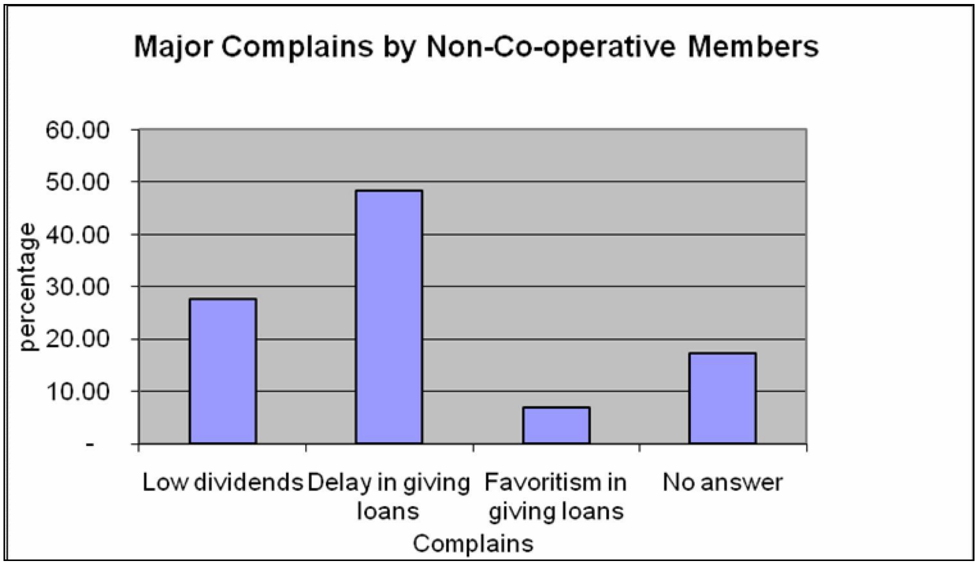


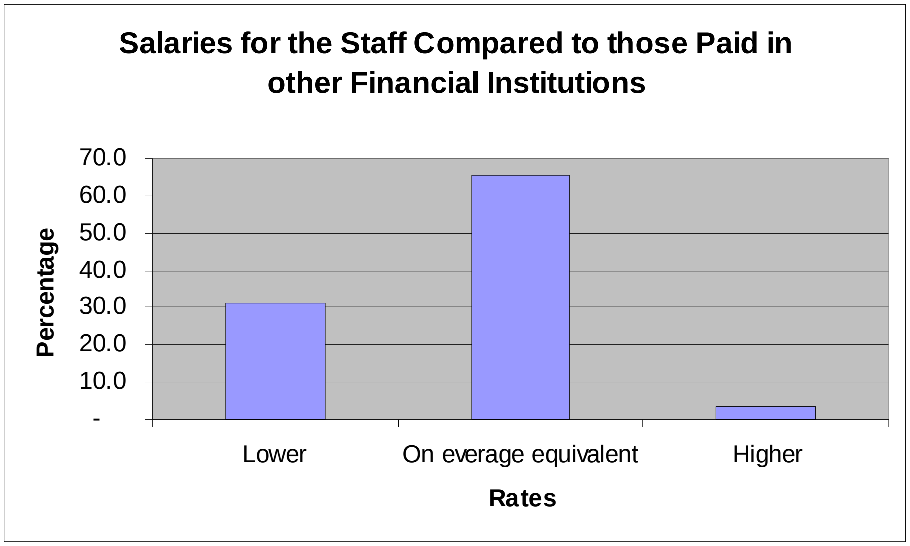
Table 4.13: Salaries for the staff compared to those paid to other financial institutions

	Frequency	Percent
Lower	9	31.0
On average equivalent	19	65.5
Higher	1	3.4
Total	29	100.0

Table 4.13 shows salaries of staff compared to those paid to other financial institutions. From the table a majority of 65.5% said that the staff salary was on average equivalent, 31% said staff salaries were low compared to other financial institutions, while 3.4% of the respondents said that the staff salaries were higher than

those of other financial institutions. This shows that majority of the staff earns average salary. This can also be illustrated in the bar graph below.

Figure 4.13: Salaries for the staff compared to those paid to other financial institutions



4.5 Content Analysis

This section analyzes the data that was qualitative in nature. On a survey of implementation of corporate governance practices in co-operative societies in Kenya, majority of the respondents said that there was poor attitude and a total failure to embrace change by members of staff. This caused a negative impact on the implementation of the corporate governance in the organization. This could be due to the belief of living with old traditional policies and procedures by members of staff

Concerning what could have attributed to the negative impact of the implementation of the corporate governance in the organization, most of the respondents said there was lack of staff commitment, poor management committee and policies as well as lack of advanced facilities and technologies. Other respondents said that there was poor attitude and members of the staff totally failed to embraced change. This could have been due to the fact that the members of staff felt that implementation of such governance could have led to change that could have affected the normal running of the organization. In addition to this the respondents also said there was complain of staff members and shareholders.

Majority of the respondents said there should be proper training, proper strategy, adequacy of information as well as staff members to have positive attitude. This could be so as to have skilled employees as well as the smooth running of the organization. This enables the cooperatives to achieve corporate governance in their operations.

On whether the organization operates a Front Office Savings Account (FOSA), majority of the respondents said that their cooperative does not operate a FOSA. This shows that most cooperatives lack this kind of savings account.

CHAPTER FIVE

5.0 RESEARCH SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

From the findings the researcher found that majority of the cooperatives were established over 20 years ago in Kenya and there is no separation of post of CEO and chairman. Regarding the extent to which shareholders rights are protected by the management of the Co-operative, the researcher found out that shareholders rights were protected to a large extent and those shareholders had the right to transfer their shares because this was highly upheld by the management. In addition to this the researcher found out that the corporative had training programs for the management committee. The researcher also found that the majority of committee members had university degree level of education and the introduction of corporate governance in the organization had improved the running of the society. Professionalism was a consideration when electing board/ committee members, and there were no collusions between board members and supervisory committee

The researcher found out that, cases of corruption, mismanagement and misappropriation of funds by elected officials were few and the organization did not receive so much political pressure from external forces to implement activities that countered the management ethics and standards in the year 2007. From the findings the researcher established that delay in giving loans was the major complain by the corporative members and majority of the staff earned average salary as compared to other financial institutions. In addition to this, there was poor attitude and a total failure to embrace change by members of staff .This gave a negative impact on the implementation of the corporate governance in the organization due to the belief of living with old traditional policies and procedures by members of staff. According to findings, majority of the organization did not operate a FOSA.

5.2 Conclusion

From the findings, the researcher can conclude that shareholders enjoyed the right of transferring their shares because this was highly held by the management. Moreover, the researcher can conclude that most of the cooperatives had training programs for their committee members and that majority of the management committee members had degree level of education. The researcher can also conclude that the introduction of corporate governance in the organizations had improved the running of the societies. Professionalism is a consideration when a member is being elected as a board or a committee member. The researcher can also conclude that there were few cases of corruption, mismanagement and misappropriation of funds by elected officials, corporate governance can be achieved if there is proper training, proper strategy, adequacy of information as well as staff members to have positive attitude towards the implementation of the corporate governance practices. Poor attitude by staff members can lead to total failure in the implementation of the corporate governance in the organization.

5.3 Recommendations

The researcher recommends that corporate governance practices should be implemented in all co-operative societies in Kenya since from the findings the researcher found out that its introduction led to the improvement of the running of the society. To avoid complains by the corporative members, the researcher would like to recommend that the co-operative societies should not delay in giving loans to their members. In addition, the management should enlighten their members on the benefits of corporate governance practices so that there would not be any failure during its implementation. The researcher also recommends that these societies should have proper management committee and policies as well as advanced facilities and technologies to ensure smooth running of the society.

5.4 Suggestion for Further Studies

The researcher carried out the research on corporate governance practices and their implementation challenges in co-operative societies in Nairobi. Further studies on implementation of corporate governance practices in co-operative societies can also be carried out in other areas outside Nairobi as well which will enable researchers to come up with concrete recommendations as well as conclusion on the corporate governance practices as practiced in cooperatives. In addition the study should be expanded to include other sectors like the non-governmental organizations on the corporate governance practices and their implementation challenges in general.

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APPENDICES

Appendix I Letter of Introduction

March, 2009

Dear Respondent

<u>REF: REQUEST FOR RESEARCH DATA</u>

I am a Master of Business Administration (M.B.A.) student at the University of Nairobi. I am required to submit as part of my course work assessment a research project report on **"A survey of implementation of corporate governance practices in co-operative societies in Kenya".** To achieve this, you and your organization are one of those selected for the study. I kindly request you to fill the attached questionnaire to generate data required for this study. This information will be used purely for academic purpose and your name or the name of your organization will not be mentioned in the report. Findings of the study, shall upon request, be availed to you.

Your assistance and cooperation will be highly appreciated.

Thank you in advance.

Eunice Mutunga.	**Mr. Anyangu**
M.B.A. Student- Researcher	**Supervisor**
University of Nairobi	University of Nairobi

Appendix II Questionnaire

SECTION A: GENERAL INFORMATION

1. Name of the Co-operative………………………………………………..
2. What is your designation? ……………………………………………….
3. When was the Co-operative established in Kenya?

Less than 5 years ago [ ]

5-10 years ago [ ]

11- 15 years ago [ ]

16-20 years ago [ ]

Over 20 years ago [ ]

4. Who are the external auditors of the Co-operative?...
5. Number of Executive Directors ……………………………………………….
6. Number of Non –Executive Directors……………………………………………
7. Is there a separation of the post of the CEO and the Chairman?

Yes [ ] No [ ]

SECTION B: CORPORATE GOVERNANCE PRACTICES

8. State the extent to which the following statements regarding the management of your Co-operative are correct.

	No extent 1	**Small extent 2**	**Large extent 3**	**Very large extent 4**
a) The shareholders rights are protected by the Co-operatives				
b) The shareholders' right to transfer shares is upheld in the Co-operatives				
c) The shareholders obtain relevant material information on the Sacco on a timely basis				
d) Shareholders participate and vote in general shareholders meeting				
e) Shareholders elect and remove members of the Board				
f) Shareholders have effective redress for violation of their rights				
g) Insider trading and abusive self dealings are prohibited				
h) Members of the Board and executive are required to disclose to the board whether they are directly, indirectly or on behalf of				

third parties have material interest in any transaction or matter directly affecting the society.				
i) The management ensures timely and accurate disclosure is made on all material matter regarding the society including financial position and performance.				
j) The management ensures strategic guidance of the society, the effective monitoring of management by the Board and the Boards accountability to the society and the shareholders				
k) The appointment of CEO and senior staff is done by the Board.				

9. Does your co-operative have training programs for management committees? Yes [ ] No [ ]

10. What is the management committee member's highest level of education?

High school [ ]

Diploma [ ]

University degree [ ]

Masters degree [ ]

SECTION C: GOVERNANCE CHALLENGES AT CO-OPERATIVE LEVEL

11.a) With the introduction of corporate governance in your organization, has there been a change in terms of how the society is run? Yes [ ] No [ ]

b) If yes, has the changes led to improvement or decline on how the society is managed? Improvement [ ] Decline [ ].

12 If your answer was decline, indicate the extent to which the decline can be attributed to the following?

	To no extent **1**	**Small extent** **2**	**Large extent** **3**	**Very large extent** **4**
The Board and management have concentrated on achieving the goals of corporate governance at the expense of the normal management of the society.				
Implementation of corporate governance consumes a lot of time				
Corporate governance has brought a lot of bureaucracy in management				

13. In your own view, what could be attributed to the negative impact of the

implementation of the corporate governance in your organization? ……………..

…………………………………………………………………………………….

…………………………………………………………………………………….

14. How can this problem be redressed to ensure that the intention of corporate

governance is achieved in co-operative societies? ……………………………...

………………………………………………………………………………………

………………………………………………………………………………………

15. Is professionalism a consideration in electing board / committee members?

Yes [ ] No [ ]

16. Do you normally have collusions between board members and supervisory committee to protect one another's interest, e.g. insider loans and high managers' salaries? Yes [ ] No [ ]

17. If yes how often does it happen?

Every month -1- [ ] Once a year-2- [ ] More than once in a year-3- [ ]

18. How many cases of corruption, mismanagement and misappropriation of Funds by some elected officials do you have in a year?

None [ ] 1 - 5 cases [ ] 6 – 10 cases [ ] Over 10 cases [ ]

19. On how many occasions in year 2007 did you receive political pressure from external forces to implement activities that counter the management ethics and standards?

None [ ] 1 - 5 cases [ ] 6 – 10 cases [ ] Over 10 cases [ ]

20. Do you operate FOSA (Front Office Savings Activity) and if you do how does affect the running of your Co-operative? …………………………………………..

………………………………………………………………………………………

……………………………………………………………………………………..

21. What are the major complains by the co-operative members?

Low Dividends [ ]

Delays in giving loans [ ]

Favoritism in giving loans [ ]

22. Salaries for the staff compared to those paid to other financial institutions.

Lower [ ] on average equivalent [ ] Higher [ ]