

**GOVERNANCE PRACTICES AND FINANCIAL PERFORMANCE  
OF DEPOSIT TAKING SACCOS IN NAIROBI CITY COUNTY,  
KENYA**

**BY  
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## DECLARATION

I, Caroline Achieng Agutu, hereby declare that this MBA project is my novel conceptualization and has never been submitted in any institution for any award.

Signature:



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**D61/36873/2020**

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## SUPERVISOR'S APPROVAL

This research project prepared by Caroline Achieng Agutu titled "Governance Practices and Financial Performance of Deposit Taking Sacco's in Nairobi City County" has been handed in for approval with my endorsement as the appointed University Supervisor.



Signature

Date: **29<sup>TH</sup> NOVEMBER 2022.**

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## **DEDICATION**

This research study is dedicated to my wonderful family, particularly to my husband, daughter Lissette, and son Leone, for it is the sacrifice, aid prayers, and encouragement of my loved ones that has allowed me to see this endeavor through to its conclusion. Your prayers, encouragement and support has enabled to fulfill this I would have gotten to this level without your support.

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## **LIST OF ABBREVIATIONS**

|               |  |
|---------------|--|
| <b>BOD</b>    | Board of Directors                       |
| <b>CMA</b>    | Capital Market Authority                 |
| <b>NSE</b>    | Nairobi Security Exchange                |
| <b>RDT</b>    | Resource Dependence Theory               |
| <b>ROA</b>    | Return on Investments                    |
| <b>SACCOS</b> | Savings and Credit Cooperative Societies |
| <b>TI</b>     | Transparency International               |

## OPERATIONAL DEFINITION OF TERMS

|                                 |  |
|---------------------------------|--|
| <b>Board's Audit Committee</b>  | Members of Board of Directors in charge of audit oversight, which includes reviewing internal and external audit reports and choosing the independent auditor (Rawski & Yuxin Zheng, 2017).  |
| <b>Board's Independence</b>     | A situation in which all or the vast majority of a company's board members have no ties to the company beyond their roles as directors. People who work for the company might have no familial or other ties to the company's founders, notable figures, or high-ranking employees (Mahoney & Pandian, 2019).                |
| <b>Composition of the Board</b> | Describe who makes up a company's board of directors, as well as their expertise, knowledge and skill in management (Crawford & Curtis, 2016).   |
| <b>Corporate Governance</b>     | A company is governed and operated according to its policies, which include its rules, regulations, and procedures. In its most basic form, corporate governance involves striking a compromise between the various stakeholder groups—including those representing the company's shareholders. (Crawford & Curtis, 2016).   |
| <b>Deposit Taking Saccos</b>    | Saccos that accept both easily withdrawable as well as non-withdrawable deposits, make up a portion of the subsector that is considered to be its own distinct segment (Barker & Barr, 2017).  |
| <b>Financial Performance</b>    | Constitutes an individual's impression of the ability of a firm to earn profits by making use of the resources generated by the primary type of business it engages in. Additionally, one can use this phrase to talk about the general financial well-being of a company over a certain period (Berger <i>et al.</i> 2016). |

**Governance Practices**

The set of standards, limits, directives, and resolutions put in place to regulate corporate activities. A board of directors is vital in governance. Shareholders and proxy advisors are key stakeholders with the ability to influence governance (Berger *et al.* 2016).

## ABSTRACT

Excellent governance practices are critical to corporate performance in the twenty-first century. Effective governance practices are the foundation for successful strategic management practices. Governance concerns have been highlighted as a fundamental fault in the majority of organizations. The research aimed to analyze the effect of corporate governance practices on the financial performance of savings and credit cooperative societies, a sector that has been plagued by financial losses and closures due to mismanagement and other governance issues. Research into deposit-accepting SACCOs in Nairobi, Kenya, led to this conclusion. The theories of agency, stakeholders, and dependency on resources informed this study. This study made use of a cross-sectional research design and focused on the top-level management of 34 DT SACCOS within Nairobi City County. The researchers used a convenience sampling. In which the researcher selected one (1) Sacco leader to represent their Sacco's. Thus, the study involved 34 participants in the survey from 34 different Sacco's. Researcher utilized questionnaires to collect data. Quantitative methods were used in the study; specifically, descriptive statistics calculated with SPSS version 26 were used to look at the data and show a relation between good governance and financial performance. The technique of regression and also correlation analysis were employed. The analyzed data was presented using distribution tables for facility of comprehension. The study found that the independence of the board ( $r=.157$ ,  $sig=.206.05$ ), the composition of the board ( $r=.750$ ,  $Sig=.0000.5$ ), and the audit committee of the board ( $r=.277$ ,  $Sig=.0690.5$ ) all significantly contributed to financial performance at the 95% confidence level. The research found a positive correlation between the financial performance of DT Sacco's within Nairobi and the board's independence, composition, and audit committee. In light of the fact that not all of the independent advisory board's recommendations are followed, the report suggests that the management of Deposit Taking Sacco's ensure the board's full participation in decision making. Sacco's should think about expanding their boards so that they have access to more experts who can provide guidance on how to run the organization effectively. In conclusion, it is the responsibility of policymakers and the management of Deposit Taking Sacco's to take the lead in ensuring that all board members that compose the audit committee are capable of withstanding and resisting the external influence of manipulating financial data for personal gain.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background to the Study**

Governance practices comprise structures, methods and enactments, organizations utilize to manage their operations, achieve long-term sustainability, and reach their financial, operational, and strategic goals (Stapelon, 2018). Kang, Cheng, and Gray (2017) argue that governance can encompass a variety of behavior and best practices, such as developing a capable board, aligning strategies with objectives, taking responsibility for one's actions, maintaining a high level of ethics and integrity, clarifying one's roles and responsibilities, and successfully managing risk. Haslinda and Valentine (2015) argue that governance should build a framework of objectives tailored to the shareholders' requirements or products, thereby adjusting the oversight and innovation that improves profitability.

This research is hinged on the agency theory initiated by Jensen and Meckling (1976). This theory characterizes cooperatives' management as well its profitability. Although governance prescription for an agent is to design compliance-enforcing controls, monitoring rights, ratification of management decisions, and innovations to achieve financial performance are essential to an organization's ability to adapt, survive, grow, and sustain business success (Nkundabanyanga, 2016). According to Haslinda and Valentine (2015), governance should build an objectives framework that caters to the needs and wants of shareholders, thereby modifying the kind of oversight and creativity that boosts financial performance. Stakeholders Theory also supports the study by Freeman (1984). Arun and Turner (2018) argue that including stakeholders in corporate decision-making improves

outcomes for everyone involved. According to the OECD's 2017 Governance Report, which provides a clear definition of stakeholder.

Governance challenges among Sacco's in Kenya are manifested by ineffective internal control mechanisms, excessive risk-taking, circumvention of internal controls, the absence of or failure to comply with legal duties, the absence of risk management systems, insider abuses, and fraud. Odetayo (2019) argues that governance has always been a part of company law in Kenya long before the current governance requirements were established. Following established legal precedent, boards of directors must prioritize shareholder interests above all else. According to Rawski and Yuxin Zheng (2017), the SACCOS Act and Financial Reporting Standards mandate periodic disclosures of material information to shareholders and convening an Annual General Meeting at which shareholders can hold directors accountable.

Despite these limitations, problems arose in which SACCOS' directors engaged in illegal or otherwise unethical behaviour towards their shareholders, prompting the creation of Governance legislation. A company's board must be trusted to prioritize shareholder interests above everything else if investors put their money in that company (Nganga et al., 2018).

### **1.1.1 Governance Practice**

Governance constitutes the practice through which a group makes decisions, with the primary aim of fostering openness, transparency, autonomy, and accountability (Wang'ombe, 2013). The primary focus is on shielding small, dispersed shareholders from the greed of company leaders (Mallin & Christine, 2019). Governing comprises a set of networks in pursuit of a common goal. This governing process network can be within one

cluster of the society or the SACCO industry as a whole. It spells out the terms of interaction between the society and its stakeholder.

According to Ekadah and Mboya (2016), organizations face challenges when dealing with crises that require urgent attention but require a significant amount of time to resolve. Choe (2015) found that shareholders have difficulty choosing board members because the process should be made more accessible by using tools that consider how a Sacco's ownership structure is set up. Board member liability and how their duties are defined and made public should stay on the policy agenda because there are no suitable arrangements yet, which shows that governance cannot be done. Choe (2015) also said that the liability of board members should stay on the policy agenda.

A robust corporate governance structure can help a company attract investors, produce cash, and strengthen its financial base. This will ensure that businesses are long-lasting, efficient, and practical, benefiting society. As a result, poorly managed enterprises are more likely to have lower levels of profitability, a larger risk of bankruptcy, lower values, and lower dividend payouts to shareholders (Robert, Lyria, & Mbgogo, 2016).

Besides the directors' supervision role and the board's independence, CG is operationalized through the dual status of the chief executive officer, board diversity, size, and disclosure of information about the company to stakeholders (Kabwe & Chalu, 2020). As a result, every company works hard to ensure that its board is diverse and well-structured to carry out the assigned responsibilities effectively. However, corporate governance frameworks' parameters and scope of operations differ depending on the company or organization.

In Kenya, the SACCOs are regulated by the cooperative Act 1997. The Act defines the set-up, management and control mechanism the society should adopt. Even though Kenya's

Sacco operations have developed over the last two decades, it has been beset by severe failures due to operational flaws, mainly corporate governance (Labie, 2021). Most corporate failures in Sacco organizations, such as Ekeza Sacco's downfall, are mainly attributable to a lack of suitable corporate governance framework caused by low resources. Given that most Saccos in Kenya were licensed in 2009-2015, the sector is yet to achieve its full potential in promoting the financial inclusion of the Kenyan population.

### **1.1.2 Financial Performance**

The term financial performance describes the firm's capability to meet its financial targets effectively. It involves putting an economic value on an organization's decisions and actions. It is a means to compare one company's financial situation to another with comparable characteristics (Galloway, 2018). Financial indicators for performance are quantified based on the organization's solvency, liquidity, financial efficiency, and rate of obligation payback, among other metrics (Veiga, 2019).

The return on assets (ROA) is the financial success metric studied in this study. The ROA assesses a company's ability to convert assets into earnings. It demonstrates how well management uses the organization's assets to generate revenue. To calculate the ROA, divide the organization's net earnings by its average total assets. In most cases, ROA is expressed as a percentage, with a more significant percentage indicating that a company made more money with fewer assets (Odetayo, 2019).



### **1.1.3 SACCOS in Kenya**

The establishment of Kenya's first cooperatives may be traced back to the year 1908. Since then, the number of members and the resources they have at their disposal have grown exponentially. Another accurate measure is that cooperatives make up the GDP of 46%, 35% for Gross National Savings, and directly employ close to 500,000 people. They have made a considerable contribution to both the economy's expansion and the reduction of poverty among those with lower incomes. As of the 31st of December 2020, SASRA has granted licenses to 175 Deposit Taking Saccos.

According to the most up-to-date information from the World Council of Credit Unions (WOCCU), combined assets in Kenya's savings and credit societies are over US\$10 billion, with over US\$875 million reserves, and a membership of more than 8,551,540 people (Okoth, 2021).

Since the mid-1970s, saccos have undergone tremendous growth, with deposits and assets increasing at a rate of 25% annually, on average. SACCOs have grown rapidly, and there are now more than 3.7 million members. The 230 SACCOs that have FOSAs have branched out into banking by offering services like taking deposits, providing savings accounts, issuing debit cards, and facilitating domestic and international wire transfers (Ministry of Coop Development & Marketing, 2017). SACCOs play a crucial role in helping families and small and medium-sized businesses get the money they need (SMEs). They inspire people to put money aside for future use, which is good for the economy. Cooperatives are run by member-elected committees, who are responsible for hiring managers and staff to run the operation of Sacco. When this occurs, this staffs represents members by seeking out directives from higher-ups and being entrusted with carrying them

out in their stead. Co-operative agents are entrusted with the welfare of the societies they serve and as such are held to a higher standard than the average person. They are responsible to and responsive to the people in their societies.

#### **1.1.4 Sacco's in Nairobi City County**

Kenya's cooperative sector was decentralized in 2013, as mandated by the country's 2010 constitution. There are a total of 47 counties in Kenya, with Nairobi County being the nation's capital and the second-smallest county in the country. It is the country with the greatest number of DT-Sacco headquarters, with 34. The subsequent counties with the most DT-Saccos are Kiambu, Meru, and Nyeri, each of which has eight DT-Saccos. Kiambu has fourteen, and Meru and Nyeri each have twelve. In addition, except for the county seat, the county has created a total of 33 branch networks (SASRA Website, 2018).

The Big Four Priority Policy Agenda announced in December 2017 by the national government predicts that cooperative societies, especially Saccos, will play a big part in making sure that goals and outcomes are met. It is anticipated that the Sacco society, in its capacity as financial savings mobilizers and credit grantors, will significantly help implement the strategy for affordable housing by providing Kenyans with cash and other credit facilities. Annual SASRA Report (2017) DT-Saccos are confronted with intense levels of competition in Nairobi County, the location of the vast majority of Kenya's financial institutions, from businesses that provide services that are functionally equivalent to their own, such as insurance and pension plans, as well as the unofficial Rotating savings and credit association (ROCA). The success or failure of these DT-Saccos in the face of intense rivalry is directly correlated to the degree to which they have implemented strategies designed to provide them with an advantage over their rivals. Because there are

so many DT-Sacco headquarters there, Nairobi County was chosen as the setting for this investigation.

## **1.2 Research Problem**

Good governance practices are critical to corporate performance in the twenty-first century. Diverse board members are essential to keep the board balanced, which fosters effective monitoring and, as a result, improves the Sacco's financial performance. The degree of transparency and disclosure in governance dictates how easily external observers may detect business behavior (Akhtaruddin et al., 2019). The majority of financial organizations have long been concerned about governance difficulties. This has reduced trust in the private sector because good governance procedures allow for efficient and effective service delivery while also maintaining high levels of accountability and openness (Mallin & Christine (2017).

Crawford and Curtis (2016) estimate that 49 percent of SACCOS have had issues with their governance systems. This material represents the SACCOS's reality. This is because managing multicultural SACCOS involves managerial challenges. Mwangi and Kibicho (2019) researched the elements influencing strategy implementation success in the Sacco Industry and discovered that business bureaucracy in SACCO management is a severe impediment. According to a study undertaken by Nyariki, Wasonga, and Otieno (2019), SACCOS are characterized by resource governance and allocation issues, with resource theft resulting in abysmal performance in most cases.

There are several studies conducted in the area of governance and financial performance. For instance, Otwani (2018) researched the company financial performance on the Nairobi Stock Exchange and the moderating effect of board composition. It was noted that it is

critical to both identify policymakers with substantial participation and educate investors interested in the study to prevent underperformance and the subsequent bankruptcy of publicly traded enterprises. However, the investigation was limited to publicly traded firms, which may not have proved the use of certain governance practices. Ongore and K'Obonyo (2016) conducted a study on impact among various governance traits about a company's performance of financial status. The main findings revealed that managers and directors have been accused of failing to follow good governance procedures, which has resulted in business disasters such as the 2004 fall of Euro Bank, with Uchumi retail market receivership because of poor governance and near-bankruptcy of Unga Group. Mwengei (2017) specialized on the Board Structure and Financial Distress of Kenyan NSE-Listed Companies. Findings indicate a negative still statistically significant correlation between board autonomy and economic distress. Machora and Oluoch (2019) conducted research in Kisii County, Kenya, on the influence of audit committee features in certain Saccos' financial records. According to the study, impartial auditors can harm organizational capabilities, It was determined there is need to expand the size of audit committee in order to ensure that it can improve SACCO's financial performance. Finally, Mkabane (2020) studied how board independence affected teachers' Sacco in western part of Kenya. It was found that board independence positively correlates with teachers' SACCO growth.

Despite studies on governance methods, most studies have linked their findings to general financial institutions rather than deposit-taking Saccos, resulting in a research void. Similarly, none of the studies had an advisory board, the composition of the board's audit committee as the key objectives, or tried to link them with governance hence the knowledge gap exists. Based on the information gap, this research study aimed at answering the

question, 'how do governance practices affect a firm's financial performance of deposit - taking Savings and Credit Cooperative Societies in Nairobi City County?'

### **1.3 Research Objective**

The study entailed examining governance practices and their effects on the financial performance of DT. Saccos in Nairobi City County.

### **1.4 Value of the Study**

The usefulness of this study is pinned on theoretical contributions; examining various corporate governance ideas enables a better understanding of corporate governance's core goal, maximizing shareholder wealth by ensuring great social and environmental performance. Whether or not excellent governance improves economic performance and development is one of the main questions that remain unsolved. Despite various research attempting to demonstrate such a connection, there is still little proof that effective governance contributes to positive development results. For instance, the agency hypothesis suggests that corporate governance can reduce agency expenses, leading to improved business performance. This problem arises whenever two people, the principal and the agent, have to work together to solve a problem.

The studies on governance will be crucial for the Sacco industry because having knowledge of the components of effective corporate governance ensures that meetings would be undertaken by directors of the boards on a regular basis, continue to exercise authority above firms and have well-defined functions. In addition to this, bringing attention to an effective risk management system is helpful. Excellent corporate governance is essential to the success of any business and should be considered one of the firm's cornerstones.

The study will contribute towards policy development for the government authorities in Kenya who supervise the operations of Sacco-affiliated parties in developing relevant governance policies and Acts that guide governance implementation. Government agencies may obtain information that can be used to develop new governance policies to advance the SACCO industry to the next level.

### **1.5 Chapter Summary**

This chapter comprises the background of the study, addresses the governance practice, financial performance, overview of Saccos operating in Kenya, Saccos in Nairobi City County, the research problem, objectives, the value of the study, chapter summary and organization of the project based on the topic of the research; examining governance practices and their effects on the financial performance of DT. Saccos operating in Nairobi City County.

### **1.6 Organization of the Project**

This project has been structured as follows; chapter one comprises the introduction part, chapter two covers the literature review, chapter three constitutes the research methodology, chapter four comprises data analysis, results, and discussion. Lastly, chapter five constituting the summary, conclusions, and recommendation.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The chapter presents the theoretical framework, an experimental analysis, an overview summary, and research gaps.

#### **2.2 Theoretical Foundation**

A theoretical approach is one that is based on concepts related to a particular topic. It is a critical examination of the theoretical principles employed in the development of a research. Because of this critical review, it can aid in defining the variables to be measured and their relationships when finding the answer to the study question (Gujarati, 2017).

Therefore, this study is hinged on Agency Theory, Stakeholder Theory, and Resource Dependency.

##### **2.2.1 Agency Theory**

Agency Theory developed by Jensen and Meckling (1976), states that principals, and agents should work together when shareholders give corporate obligations to the committee members. There are only two things that make the agency theory popular. The idea is easy to understand and only needs two partners—managers and stockholders—to work. Second, agency theory states that people who work for or run an organization might have their own goals and self-interests. According to agency theory, shareholders should be able to rely on agents to look out for their financial interests and take appropriate action or make sound judgments on their behalf (Jensen & Meckling, 1976).

Agency theory tries to solve possible disagreements between owners (shareholders) and their agents (e.g., company executives). It deals with two types of claims: those that come up when the principal cannot prove what the agent is doing because it is hard or expensive to do so and those that come up when the principal's goals or intentions are at odds with those of the agent (Veiga, 2019).

This theory aids this study in comprehending challenges that arise when the audit committee's principal and agent have opposing opinions on audit risks. Due to varying risk aversions, the principal and agent may be tempted to engage in activities that contradict the organization's aims, undermining performance.

### **2.2.2 Stakeholders Theory**

Freeman (1984) described the Stakeholder Theory of Organization Management and Corporate Ethics, which addresses integrity and efficacy in organizational management. It implies that shareholders are simply one among many stakeholders in a corporation. Stakeholders in any organization include (Customers, employees, suppliers, the government, community (Arun & Turner, 2018).

Batt (2018) asserts that the successfulness of a business depends on the scale to which stakeholders are involved. In contrast to the Agency theory, the Stakeholder theory states that an organization's stakeholders are not just its shareholders. Arun and Turner (2018) conclude that all stakeholders are essential and can be trusted and that including them in decision-making affects how well the company does. The OECD's 2017 Governance Report, which clearly defines "stakeholder," backs up this point of view.



In this study, the theory aids in demonstrating that organizations are interdependent and thus not limited to the financial component of the firm; as a result, stakeholders enjoy personal satisfaction when a given board composition in an organization performs efficiently.

### **2.2.3 Resource Dependency Theory**

Resource Dependence by Pfeffer and Salancik was developed in 1978. The Theory is anchored on the notion that access and control of essential resources in an organization is a source of power. Dependence on essential resources affects the decisions and actions of an organization, which can be changed depending on the specific dependency scenario. The idea emphasizes how important it is to take into account the operating environment of an organization when conducting behavior analysis, and the capability of a company to attract, and keep the assets necessary to run its business is what determines its ability to be successful over the long term.

This concept expands on the importance of an organization's environmental connections to external resources, which, when appropriately utilized, can improve performance. The capabilities of directors, as well as the information resources that they bring to the table, were given more weight in order to increase productivity. Among the most important talents are strategic planning, leadership, control, and monitoring from the board. To improve business behaviour, board members should invest more time and money in training and mentoring managers (Hermalin & Weisbach, 2018).

The theory is vital to the research because it emphasizes that Strategic planning, leadership, control, and Board monitoring are all critical talents that significantly impact the

organization's financial performance. Sacco can also manage resource dependence by establishing strategic partnerships/relationships by inviting this talent to join the board

### **2.3 Governance Practices and Financial Performance**

The primary focuses of Maramba's (2019) research were on the CG practices and financial performance of Kenyan banks that were listed on the Nairobi Securities Exchange. Cross-sectional research designs were utilized in this study. For the purpose of this research, eleven commercial banks traded on the NSE in Kenya were chosen as examples. We were able to acquire data from a portion of the population that was considered to be representative of the whole by employing a methodical sampling strategy. The Multiple Regression Analysis and the Spearman Correlation Coefficient were the specific methods that were utilized. Therefore, it was discovered that factors such as board size, independence, board member education, board member gender diversity, and member ethnic composition had a substantial effect on financial performance of publicly traded commercial banks.

Researchers Sang, Naibei, and Cheruiyot (2017) looked into how SACCOs in the Kenyan county of Kericho fared financially and found a correlation between governance traits and success. The research employed both a descriptive survey method and a multiple regression analysis. Specifically, we looked at data from all 83 Saccos in Kericho. Leaders of several Saccos were sent questionnaires. From the Study findings, the capability of the audit committee to function independently of management contributes to an enhancement in the standards of the company's financial reporting. Accurate financial reports have been connected to audit committees chaired by independent auditors. On the other hand, the

effectiveness of managerial oversight may be diminished if the CEO has a hand in choosing board members, which is why an independent audit committee chair is preferable.

Kiptoo, Kariuki, and Nyabuto (2021) studied corporate governance and insurance company success in Kenya from 2013 to 2018. The data came from 51 Kenyan insurance companies with valid licenses as of December 31, 2018. According to regression study, corporate governance affects insurance companies' financial health. The data showed that board composition affected financial success favorably and negatively. Therefore, insurance companies with more non-executive directors did not perform better. Insurance companies must remove non-executive board members to boost financial performance. A diverse board of directors positively affects a company's commercial success, according to the study. This showed that insurance companies with more professional board members performed better. Insurance businesses need more qualified directors on their boards to improve their financial status. The studies also showed that a board's independence affects a company's financial success. Researchers found that companies with more independent directors are more successful.

The development of financial structures and products that enable a financial organization decrease risk or costs while continuing to provide services to the broader financial system is what is referred to as financial innovation (Barker & Barr, 2017). One definition of an invention is "a new product that makes it possible to produce existing services at a lower cost." An innovation can make it simpler for a new company to break into a market, which then has a ripple effect on other businesses. Companies that can secure their financial innovation will produce more innovative sales. Financial improvements achieved through

innovative ways may result in increased output and more effective service delivery (Alfaraih, Alanezi, & Almujaheed, 2016).

Managing an organization's liquidity entails ensuring it has enough cash and liquid assets to fulfil its expenses while accommodating client demands for withdrawals from savings and loans. A company's liquidity, or how readily it can pay off its obligations and invest in new prospects, is one factor that should be considered when evaluating a corporation (Chenhall & Morris, 2019). Every single SACCO needs access to liquid cash in order to finance development, make adjustments for changes in the balance sheet, and pay for withdrawals made by consumers.

Since capital serves as a buffer against shifting earnings, financial organizations can continue to exist during periods of loss or low turnover. Members can offer financial services with confidence since they have capital strength. Capital assures members that the company will continue to provide financial services. As a free source of investment, capital fosters expansion and protects a corporation against insolvency (Elwak) (2018). Any company that interacts with monetary transactions is required to have an adequate amount of capital. The presence of liquid assets and high standards of productivity run concurrently like peanut butter and jelly. How liquid a SACCO is can typically be determined by looking at two different ratios: the ratio of total deposits to total assets, and also the ratio of total loans to total deposits (Mahoney & Pandian, 2019).

Although it is so frequently employed as a control variable in empirical studies of corporate finance, firm size is one of the most essential elements; nonetheless, it is rarely cited in research articles despite the fact that it is one of the most important aspects. The size bands are determined by SASRA using the data from the financial reports. A SACCO is

considered to be of the large-tier category if its total assets are greater than \$5 billion. Other SACCOs have assets worth less than \$2 billion, while medium-tier SACCOs have assets worth less than \$5 billion but more than \$2 billion (Rawski and Yuxiang Zheng, 2017).

#### **2.4 Review of Related Studies and Research Gaps.**

The study by Kyoa (2017) addressed a study on how the composition of the board of deposit-accepting Saccos in Kiambu County, affected the Saccos' operational performance. This census-based investigation focused on 15 deposit-taking SACCOs in Kiambu County. A questionnaire was adopted to collect data, while board features and financial performance indicators of revenue and spending from 2002 to 2016 was used as secondary data. It was discovered that operational efficiency and risk are closely related, and that changing the board membership of Kiambu County deposit-taking SACCOs boosts operational efficiency. The research suggests that the ideal board of directors has a greater average education level, more average years of professional experience, and an even distribution of members between the sexes.

Chesire and Kinyua (2021) evaluated board independence as a predictor of business performance for Nairobi County deposit-taking cooperative savings and credit institutions. The research was conducted using a design that was descriptive and cross-sectional. The sample population consisted of managers who were employed by financial institutions in Nairobi County, Kenya. In their study primary data and also secondary data were utilized. This provided a general overview of the collected information; descriptive statistics were utilized. The study concludes that a company's effectiveness may be primarily gauged by the quality of its board of directors. SACCOs should have their governance code or policy because they are more directly tied with cooperative values.

Mkabane (2020) investigated how the presence of an independent board of directors for teachers' SACCOs in Western Kenya impacted the organizations' levels of development. The research was carried out in such a way that it described and clarified what had taken place. There are five teacher-run SACCO Societies in Western Kenya, and their boards, supervisory committees, and top executives have all been invited to this meeting. In this investigation, thorough questionnaires were used. For the purpose of analyzing the data, we made use of averages, percentages, and differences. In the course of the inquiry, both correlation analysis and also regression analysis were utilized. According to the findings, there was a correlation between board autonomy, and the expansion of teachers' SACCOs in Western Kenya. The Western Kenyan teachers' SACCOS should embrace board independence methods, such as giving board members the authority to evaluate SACCO finances and participate in strategic planning.

Machora and Oluoch (2019) researched how the characteristics of the audit committees of a few selected Saccos in Kenya's Kisii County impacted the financial reporting of those Saccos. The researcher utilized a method of research known as descriptive research for this study. The 166 individuals responsible for deposit-taking at SACCOs were the focus of this study. Their research incorporated descriptive technique and inferential forms of statistical analysis. According to the findings, there is a connection between the effectiveness of audit committees and the company's performance. The investigation revealed that independent auditors pose a threat to the prosperity of businesses. To improve SACCOS's overall financial performance, it important that the membership of the audit committee should be increased.

Ombaba, Mwengei, and Kosgei (2018) studied whether the presence of independent directors is critical in times of financial crisis in a study on board independence and financial sustainability of corporate enterprises in Kenya. Their study employed an exploratory research approach. From 2004 to 2013, 39 Kenyan-listed enterprises were employed as a study sample, including panel regression analysis, pooled regression, and random effects. It was found that a major factor in the collapse of large businesses is insufficient to control and oversight of the board of directors' strategic decision-making process.

Board structure and the effectiveness of financial institutions were the subjects of an empirical study by Mandala, Kaijage, and Aduda (2018) in the Nyanza area. Secondary data was gathered from Kenyan banks over a decade, from 2006 to 2015. The study employed descriptive correlational analysis as well as a cross-sectional survey approach. The results demonstrate that board structure independently affects the performance of financial institutions. The number of annual board meetings, which we can operationalize as board activity, had the second-largest independent impact on performance after board composition.

The financial efficiency of Kenyan companies listed on the NSE were studied by Otwani (2018), who looked into how board membership moderated the effects of other factors. Only publicly traded companies were included for this analysis. Descriptive and inferential statistics, including common statistical methods like Pearson's correlation coefficient and also regression analysis, were used to examine data. The study's findings suggest that recognizing influential authority is crucial for preventing publicly traded companies' underperformance and potential insolvency. Investors-to-be needs to be informed, too.

Onyim, Wanjare, Ooko and Oluoch (2017) sought to establish how the corporate governance practices of DT. Saccos in Western Kenya affected their financial performance in their study. The study's driving concepts were CEO qualities, board size, board independence, and transparency levels. The research made use of a cross-sectional survey. The information was acquired through the use of surveys and secondary data analysis. The data was evaluated using SPSS and the results were then presented statistically. In all of the DT. Saccos within Western Kenya, the study discovered a clear separation of authority regarding executive function. As a result, CEOs monitored the company's day-to-day operations while boards created policies and made decisions. Respondents agreed that directors should declare any financial links they have with companies that do business with the firm, that internal books of account are prepared, that external auditors are employed, and that insider trading should be prevented, according to the survey. Instead of the code's stated one-third minimum, this research suggests that boards should have at least 50%, non-executive directors. It further advised that the directors be picked from a list kept by the Institute of Directors



**Table 2.1: Summary of Empirical Studies and Research Gaps**

| Study   | Methodology   | Findings/Key Results   | Research Gaps   | Focus of the Proposed Study  |
|---|---|--|---|--|
| Board autonomy as a predictor of company performance based on deposit-taking cooperative SACCOs in Nairobi County, Kenya (Chesire & Kinyua, 2021) | Descriptive statistics, such as frequencies, percentages, means, coefficients of variation, and standard deviation, were used   | The success of any business or organization depends in large part on the quality of its board of directors and the care with which it is managed. Each SACCO needs its own governance code or policy to ensure its success.                                    | Failed to specify aspects of governance and their resultant effect on financial performance | Focuses on how aspects of governance influence financial performance among Sacco members.                                      |
| Effect of audit committee characteristics on the financial reporting of selected Saccos in Kisii County, Kenya (Machora and Oluoch, 2019).        | The study employed a descriptive research approach. The target population included 166 workers of SACCOs that accept deposits   | It is recommended that the size of the audit committee be raised in order to guarantee that it contains the expertise necessary to improve SACCOS's financial performance.   | This study focused specifically on audit committee as one aspect of governance.             | However, the current study selected a number of other variables that are not generalized governance and their financial impact |
| Board Composition and Financial Distress of NSE Listed Firms in Kenya (Mwengei, 2017).  | Research used exploratory research design. The research utilized panel regression analysis, in addition to pooled regression and random effects, the study sample size of consisted of 39 enterprises that are listed in Kenya. | According to the findings of the study, a lack of independence among board members has a strong and negative correlation with financial hardship. Despite this, there is a large and unfavorable correlation between board independence and financial trouble. | The study involved the NSE listed firms while current study focuses on DT Saccos.           | The current study seeks to address the Deposit taking saccos governance approaches   |

|   |   |   |   |   |
|---|---|---|---|---|
| <p>Association between the board structure and performance of financial institutions in the Nyanza region (Mandala, Kaijage &amp; Aduda, 2018).</p> | <p>The study used secondary data. The study employed both descriptive correlational research and cross-sectional survey design.</p> | <p>The results show that the composition of the board has a significant effect on the success of financial institutions. The number of annual board meetings served as a proxy for board activity, which in turn was found to have the strongest independent impact on performance.</p> | <p>The context of study were on financial institutions in general and this could have included the banks whose findings may not necessarily depicts actual picture in deposit taking SACCOS which the current study is seeking to address</p> | <p>However, the focus of the current research will be on specifically DT Saccos.</p>  |
| <p>Moderating effect of board composition on financial performance drivers of Nairobi Securities Exchange-listed firms (Otwani, 2018)</p>           | <p>Applied Standard statistical procedures, including Pearson's correlation and also regression analysis,</p>                       | <p>The research concluded that in order to prevent publicly traded companies from failing and going bankrupt, it is necessary to identify policymakers who can provide useful feedback on the direction government policy should go.</p>  | <p>The investigation was limited to public companies which may fail to show specific approaches of governance that are applied</p>  | <p>The current study however will address the major aspects of governance in DT Saccos and not necessarily organizations in</p> |

**Source: Researcher (2022)**

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The chapter highlights research design, population, instruments for gathering data, lastly techniques for conducting data analysis.

#### **3.2 Research Design**

The study made use of a cross-sectional research design. Cooper and Schindler (2013) emphasized on this particular research design aids the researcher to receive information that is both pertinent and accurate. It combines quantitative and qualitative data. Participants in the Descriptive Survey Design are those people who are most important to achieving the research objective. According to Kothari (2013), the objective of descriptive research is to give a comprehensive and precise description of a certain group, scenario, or event. One can get an answer to any of the following questions: "what," "where," "when," and "how." Within the framework of a descriptive research design, an investigation into one or more variables may be carried out utilizing any one of a number of research approaches. This kind of study looks at averages and frequencies and other statistical calculations pertaining to the governance and financial performance of DT Sacco's.

#### **3.3 Target Population**

This are items, entities or a group of people that may be analyzed or used to collect information for analyses and share one or more characteristics make up the study population (Peil, 2016). The population of research was 34 deposit taking Saccos situated with offices in Nairobi County (SASRA-Licensed Saccos, 2020-sasra.go.ke).

### **3.4 Sample Design**

A population's sample frame includes all of the people, households, and organizations from which a representative sample can be drawn, or the material or equipment from which a sample is taken (Holborn & Langley, 2015). As a result, all 34 DT Sacco's were examined, with a particular emphasis on the Nairobi area.

In this study, convenience sampling was used, a non-probability sampling entail a sample that is drawn from a population that is easily accessible. The researcher chose one (1) individual to represent each of the 34 Saccos within Nairobi City County. Because of this, there were a total of 34 people who took part in the study. This strategy works well with convenience sampling because it is easy to use and has few limits on how many samples can be taken.

### **3.5 Data Collection**

In this project, a questionnaire was the primary data collection tool, because of its cost-effective instrument also it allows the researcher to perform in-depth research that may be put on surveys, and respondents who are difficult to reach can be easily reached by employing this approach of emailed questionnaires.

### 3.6 Operationalization of the Variables

Operationalization entails a process of defining a variable in terms of the precise Operations that are used to measure or manipulate it. Operationalization enables more clarity and accuracy when examining relationships between variables. Using this method, vague concepts are defined and given the opportunity to be quantitatively and experimentally measured. The systematic collection of data on processes and events that are not immediately obvious is made possible by operationalization (Krishnaswami, 2016).

The 3.1 illustrates the operational definition of independent variables and also dependent variables identified

**Table 3.1 Operationalization of Study Variable**

| <b>Variables</b>            | <b>Parameters</b>  | <b>Measurements/Scale</b> | <b>Data Collection Instrument</b> | <b>Tools of Data Analysis</b> |
|-----------------------------|--|---------------------------|-----------------------------------|-------------------------------|
| <b>Governance Practices</b> | <ul style="list-style-type: none"> <li>○ Board’s independent</li> <li>○ Composition of the Board</li> <li>○ Board’s Audit Committee Characteristics</li> </ul> | 5-point Likert Scale      | Questionnaire                     | Regression & Correlation      |
| Financial Performance       | <ul style="list-style-type: none"> <li>○ Financial Innovation</li> <li>○ Liquidity Management</li> <li>○ Revenues</li> </ul>                                   | 5-point Likert Scale      | Questionnaire                     | Regression & Correlation      |

**Source: Research Data (2022)**

### **3.7 Data Analysis**

Data analysis is the preparation of collected data for presentation in a clear and concise manner (Glass & Hopkins, 2015). To prepare a data set for integration with other data sets, it must first be cleaned, which entails locating and correcting inaccurate records or data base and deleting them from the table. Data coding is an analytical process in which information (like the results of a survey) is turned into a numerical form so that computer software can analyze it.

Since the data collected were numerical, descriptive statistics were used to find mean, standard deviation, frequencies, and percentage ratings. To demonstrate the relationship between governance and financial results, the study used SPSS 26, a statistical tool for the social sciences. Presentation of the results of the analysis was done using distribution tables for clarity. Correlation analysis was used as a statistical tool to figure out how closely the variables were linked. To figure out how the independent and dependent variables relate to each other, a correlation matrix was made. No relationship exists between the two variables if the correlation value is 0. A correlation of 1.0 indicates that the relationship is unambiguously positive or negative. Thus, interpretation of the numbers can take place between 0 (no association) and 1.0. (Perfect relationship).

The incorporation of model of regression was also performed to determine the interrelationships between various research variables.

To illustrate the governance practices and its effect on financial performance the study adopted the following model;

**Where**

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \alpha$$

Where: Y is dependent variable (financial performance),

B<sub>0</sub> is regression coefficient/constant/Y-intercept

β<sub>1</sub>=β<sub>2</sub> and β<sub>3</sub> are the slopes of the regression equation

X<sub>1</sub>= Board's Independence

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

X<sub>3</sub>= Board Audit Committee Characteristics

α Error term at 95% confidence level

## CHAPTER FOUR

### DATA ANALYSIS, RESULTS & DISCUSSION

#### 4.1 Introduction

This chapter presents the data analysis, results and the discussions. The chapter was further divided into the analysis of response rate, reliability tests, background information from respondents, and an analysis of variables.

#### 4.2 Response Rate

Response rate summary was presented as follows;

**Table 4.1 Response Rate**

| <b>Category</b> | <b>Frequency</b> | <b>Percentage</b> |
|-----------------|------------------|-------------------|
| Response        | 32               | 94                |
| Non-Response    | 2                | 06                |
| <b>Total</b>    | <b>34</b>        | <b>100</b>        |

**Source: Research Data (2022)**

The response rate was presented in table 4.1, it revealed that 34 questionnaires were distributed, however, 32 of the questionnaires were received, representing 94% of the total; the remaining 2 questionnaires constituted 06% that were not returned. Mugenda and Mugenda (2008) presented the explanation for this response rate, stating that a return rate of 50 percent is suitable for analysis and reporting, while that 60 percent is good, and of 70 percent more is excellent, hence final return rate of 94% was excellent for final analysis.



### 4.3 Reliability of Research Instruments

Cronbach's Alpha, a tool for determining internal consistency of data, was applied to the data in the study to check for reliability. Cooper and Schindler (2013) suggest that since Cronbach Alpha is a numerical scale from 0 to 1, a number between 0 and 0.6 indicates low reliability, while a score of 0.7 or higher indicates strong reliability and internal consistency.

**Table 4.2 Reliability Test**

| Variables                               | Number of Items | Cronbach Alpha Values $\alpha > 0.7$ | Recommendations |
|---|-----------------|--------------------------------------|-----------------|
| Boards Independence                     | 0.970           | 6                                    | Reliable        |
| Composition of the Board                | 0.973           | 6                                    | Reliable        |
| Board's Audit Committee Characteristics | 0.968           | 6                                    | Reliable        |
| Financial Performance                   | 0.953           | 6                                    | Reliable        |

**Source: Research Data (2022)**

The reliability test provided the results in which board independence had a coefficient of [0.970] while composition of the board had [0.973] whereas board's audit committee had [0.968] and financial performance had [0.953]. As a result, every variable possessed an internal consistency measurement that was greater than 0.7. Due to the fact that they all scored higher than the 0.7 threshold, the findings indicated that all of the variables could be relied upon.

### 4.4 Background Information of Respondents

The demographical information analysis of respondents was intended to address the gender of respondents, age, working experience of all participants, and their highest level of education accomplished. The analysis was as follows;

#### 4.4.1 Gender of Respondents

The gender responses captured the male and female participants in the study.

**Table 4.3 Respondents' Gender**

| Category     | Frequency | Percentage |
|--------------|-----------|------------|
| Male         | 17        | 53         |
| Female       | 15        | 47         |
| <b>Total</b> | <b>32</b> | <b>100</b> |

**Source: Research Data (2022)**

According to table 4.3, the results showed that 53% were male respondents while 47% were female. The analysis revealed that their fair representation of both gender in this particular research study.

#### 4.4.2 Age of Respondents

The presentation of findings was on the age of those who took part in the research exercise.

**Table 4.4 Age of Respondents**

| Categories    | Frequencies | Percentage   |
|---------------|-------------|--------------|
| 18-30 years   | 2           | 6.3          |
| 31-37 years   | 4           | 12.5         |
| 38-45 years   | 6           | 18.8         |
| 46-53 years   | 5           | 15.6         |
| Over 54 years | 15          | 46.9         |
| <b>Total</b>  | <b>32</b>   | <b>100.0</b> |

**Source: Research Data (2022)**

It was established that 6.3% of those who participated in the survey were between the ages of 18 and 30 years as shown in the presentation. It was also clear from the presentations that the largest demographic was composed of 46.9% of respondents who were over 54 years. Other respondents who were 12.5% were aged between 31-37 years as those between the ages of 38-45 years were 18.8% and lastly 15% of respondents were aged between 46-53 years.

#### 4.4.3 Work Experience

The table below constituted the work experience of respondents.

**Table 4.5 Work Experience**

| <b>Category</b> | <b>Frequency</b> | <b>Percentage</b> |
|-----------------|------------------|-------------------|
| Below 1 year    | 1                | 3.1               |
| 1-5 years       | 3                | 9.4               |
| 6-10 years      | 2                | 6.3               |
| 11-15 years     | 13               | 40.6              |
| Above 15 years  | 13               | 40.6              |
| <b>Total</b>    | <b>32</b>        | <b>100</b>        |

**Source: Research Data (2022)**

Work experience among respondents' was provided on Table 4.4 in the study which showed that 3.1% of respondents had less than a year of work experience, 9.4% had 1-5 years, 6.3% had 6-10 years, 40.6% had 11-15 years of service at the work place and still 40.6% had more than 15 years of service in the Saccos. This indicated that most respondents had been with the Saccos for 11-15 years and over 15 years, giving them the necessary level of expertise to discuss the topical issues being researched.

#### 4.4.4 Level of Education

The presentation focused on participants' educational attainment.

**Table 4.6 Level of Education**

| <b>Category</b>        | <b>Frequency</b> | <b>Percentage</b> |
|------------------------|------------------|-------------------|
| O-education level      | 3                | 9.4               |
| College Diploma        | 5                | 15.6              |
| University degree      | 19               | 59.4              |
| Postgraduate level     | 3                | 9.4               |
| Other specified levels | 2                | 6.3               |
| <b>Total</b>           | <b>32</b>        | <b>100</b>        |

**Source: Research Data (2022)**

The summarized data was based on the participant's educational level in this study.

Table 4.6, showed that a total of 9.4% of those who took part had a 0 education level, 15.6% had a diploma education level, 59.4% had bachelor's degree, 9.4% had a postgraduate degree, and 6.3% had other qualifications. These responses suggested that university graduates represented the most of the respondents, indicating that the respondents were well-informed regarding matters of governance and Sacco's performance.

## 4.5 Analysis of Variables

### 4.5.1 Board's Independence and Financial Performance of Saccos

The findings presented were drawn from the study which addressed how board's Independence had influence on financial performance of Saccos

**Table 4.7 Board's Independence and Financial Performance of Saccos**

| <b>Board's Independence</b>  | <b>SD</b> | <b>D</b>  | <b>N</b>  | <b>A</b>  | <b>SA</b> | <b>Mean</b> | <b>Std. Dev</b> | <b>CV</b> |
|--|-----------|-----------|-----------|-----------|-----------|-------------|-----------------|-----------|
| It is possible that the financial performance of the Sacco might be significantly improved | (4)12.5%  | (11)34.4% | (10)31.3% | (4)12.5%  | (3)9.4%   | 2.71        | 1.14            | 42.0      |
| Involvement level of directors that considered executive in the everyday Saccos operations | (3)9.4%   | (5)15.6%  | (3)9.4%   | (10)31.3% | (11)34.4% | 3.65        | 1.35            | 36.9      |
| Stakeholders do monitor and evaluate their boards  | (1)3.1%   | (2)6.3%   | (2)6.3%   | (15)46.9% | (12)37.5% | 4.09        | 0.99            | 24.2      |
| The board of directors has the duty to oversee   | (7)21.9%  | (5)15.6%  | (10)31.3% | (5)15.6%  | (5)15.6%  | 2.87        | 1.36            | 47        |
| Board challenges that the organization will face in regard to governance                   | (2)6.3%   | (2)6.3%   | (1)3.1%   | (11)34.4% | (16)50.0% | 4.15        | 1.16            | 32.7      |
| There is a direct connection between how independent the board is                          | (3)9.4%   | (2)6.3%   | (1)3.1%   | (10)31.3% | (16)50.0% | 4.06        | 1.29            | 31.7      |

**Source: Research Data (2022)**

The effect of board independence on the financial performance of Saccos was analyzed and presented in Table 4.7. Majority of those who took part (34.4%) disagreed with the idea that increasing the percentage of independent directors and non-executive directors would significantly improve the financial performance of the Sacco. Only 9.4% of respondents strongly agreed, while 31.3% took no stance, as shown by the data ([mean, 2.71 & Std. dev, 1.14]. The motive of this research was to ascertain if the degree to which executive-level directors participate in the day-to-day running of Saccos has a significant bearing on the financial health of those organizations. In a show of support or disapproval, 34.4 percent of respondents expressed their full support, 9.4 percent were ambivalent, and 9.4 percent were outright opposed. A majority agreed with the statement, as measured by the average score (3.65 out of 4.0) and the standard deviation (1.91). dev, 1.35]. The research also aimed to determine whether or not stakeholders routinely monitor and evaluate their boards of directors to ensure that their independence capacity is maximized. According to the responses, 37.5 percent of people strongly agreed with the concept, 6.3 percent were neutral, and 6.3 percent strongly disagreed. With a mean and std. dev of 4.09 and 4.13, respectively, the vast majority of respondents strongly agreed. Dev, 0.99].

According to the results the responsibility of monitoring and managing the Sacco's operations lies with directors. Some 31.3 percent of respondents were agnostic, 15.6 percent agreed, and 21.9 percent strongly disagreed. Those who took no side in the debate eventually came to this conclusion, which was supported by the data (mean = 2.87, SD = 0.01). 1.36]. Last but not least, the study aimed to determine if the financial success of DT Saccos within Kenya is correlated with the degree to which their boards are free to make their own decisions. Fifty percent of respondents provided strong agreement, 9.4 percent provided strong disagreement, and 3.1

percent provided no opinion at all. The vast majority of participants approved, as shown by a mean score of 4.06 and a std. dev of. 1.29].

#### 4.5.2 Board Composition and Financial Performance of Saccos

The findings presented were drawn from the study which addressed how the composition of the board affect Financial Performance of savings and credit cooperative societies.

**Table 4.8 Board Composition**

| <b>Board Composition</b>   | <b>SD</b> | <b>D</b>  | <b>N</b> | <b>A</b>  | <b>SA</b> | <b>Mean</b> | <b>Std. Dev</b> | <b>CV</b> |
|--|-----------|-----------|----------|-----------|-----------|-------------|-----------------|-----------|
| The chairman of the board is often a non-executive                         | (2)6.3%   | (3)9.4%   | (4)12.5% | (5)15.6%  | (11)56.3% | 4.06        | 1.29            | 31.7      |
| Because of the possibility of specialization                               | (5)15.6%  | (12)37.5% | (1)3.1%  | (7)21.9%  | (7)21.9%  | 2.96        | 1.46            | 49.3      |
| It is possible to make some strategic choices by utilizing the information | (4)12.5%  | (2)6.3%   | (2)6.3%  | (4)12.5%  | (20)62.5% | 4.06        | 1.45            | 35.7      |
| The compensation of the board of directors is calculated according         | (3)12.5%  | (2)34.5%  | (2)11.2% | (8)13.3%  | (17)34.4% | 4.06        | 1.31            | 32.2      |
| Directors of the board are constitutionally required                       | (5)15.6%  | (1)3.1%   | (2)6.3%  | (3)9.4%   | (21)65.6% | 4.06        | 1.52            | 37.4      |
| There is a connection between the make-up of the boards of directors       | (2)6.3%   | (3)9.4%   | (3)9.4%  | (11)34.4% | (13)40.6% | 3.93        | 1.21            | 30.7      |

**Source: Research Data (2022)**

Table 4.8 shows the influence of board composition on savings and credit cooperative societies' financial performance. As per results, 56.3% of those who participated strongly agreed that the

board chairman is often an independent non-executive director, 12.5% were neutral, and 6.3% strongly disagreed. Majority strongly agreed, and inferred by mean, 4.06, and SD. 1.29]. The study also found that a large board size is preferred due to specialization. 37.5% of respondents disagreed, 21.9% agreed, and 3.1% were neutral. The majority who disagreed confirmed the results, as shown by [mean, 2.96 & SD. 1.46]. A study sought to determine whether strategic choices can be made using the information and understanding of more experts. While 62.5% of respondents strongly agreed, 12.5% agreed, and 6.3% were neutral. The idea was supported by a score of [mean, 4.06 & SD. 1.45].

Whether the board of directors' pay is established on a predetermined structure. A total of 34.5% of respondents disagreed, 34.4% strongly agreed, and 11.2% were neutral. Majority of respondents disagreed, as indicated by [4.06 & SD]. 1.31]. A study determined whether board directors are constitutionally required to oversee and control all Saccos' activities. Still, 65.6% of respondents strongly agreed, 15.6% strongly disagreed, and 6.3% were neutral. Most respondents strongly agreed, inferred by a score of [mean, 4.06 & SD]. 1.52]. The responses on whether the composition of DT Sacco boards in Kenya affects financial performance, 40.6% of respondents strongly agreed, 9.4% were neutral, and 6.3% strongly disagreed. Findings unveiled that most participants strongly agreed with the statement (Mean, 3.93, SD). 1.21].



### 4.5.3 Board Audit Committee Characteristics and Financial Performance of Sacco's

The findings presented were drawn from the study which addressed how the board audit committee characteristics on Financial Performance of Saccos.

**Table 4.9 Board Audit Committee Characteristics**

| Board Audit Committee Characteristics  | SD        | D        | N       | A         | SA        | Mean | Std. Dev | CV   |
|--|-----------|----------|---------|-----------|-----------|------|----------|------|
| Board's audit committee members are professionally qualified.                          | (6)18.8%  | (1)3.1%  | (1)3.1% | (12)37.5% | (12)37.5% | 3.71 | 1.48     | 39.8 |
| The Audit Committee operates independently as a board in itself                        | (4)12.5%  | (4)12.5% | (1)3.1% | (2)6.3%   | (21)65.6% | 4.00 | 1.54     | 38.5 |
| The Audit Committee adheres to the one-third gender criterion in its membership makeup | (12)37.5% | (8)25.0% | (2)6.3% | (3)9.4%   | (7)21.9%  | 2.53 | 1.60     | 63.2 |
| Recommendations of the Audit Committee are implemented by the board accordingly        | (7)21.9%  | (6)18.8% | (1)3.1% | (14)43.8% | (4)12.5%  | 3.06 | 1.43     | 34.9 |
| The qualities of the board audit committee   | (4)12.5%  | (2)6.3%  | (1)3.1% | (5)15.6%  | (20)62.5% | 4.09 | 1.44     | 35.2 |
| The audit committee is mostly made up of people who can read                           | (2)6.3%   | (5)15.6% | (1)3.1% | (12)37.5% | (12)37.5% | 3.84 | 1.27     | 33.0 |

**Source: Research Data (2022)**

Findings were reported in table 4.9 and were drawn from the study that showed the influence of board audit committee features on financial performance of saccos. From the responses, the study established that board's audit committee members are professionally qualified. From the responses, it was backed by 37.5% of the participants who strongly agreed. However, 18.8% of respondents strongly disagreed and 3.1% of the participants were neutral. This signified the most were in support and was consequently evidenced by a score of [mean, 3.71 & Std. 1.48].

The investigation further indicated that the Audit Committee acts autonomously as a board in

itself. From the responses, 6.6% of the participants agreed to the statement whereas 12.5% strongly objected, and 3.1% as well were neutral. From the majority, it was proven that they supported the statement and this was shown by a score of [Mean, 4.00 & Standard deviation. 1.54]. In further analysis, the study tried to demonstrate if the Audit Committee adhered to the one-third gender criterion in its membership mix. From the responses, 37.5% of respondents strongly disagreed while 21.9% strongly agreed and 6.3% of respondents were neutral. This meant the majority disagreed on the statement; thus, it was evidenced by a score of [mean, 2.53 & Standard deviation. 1.60].

The study intended to discover whether recommendations of the Audit Committee are adopted by the board appropriately, the response rate ascertained that 43.8% of respondents agreed to the statement while 21.9% strongly objected and 3.1% of respondents were neutral. The replies suggested that majority agreed and this was corroborated by [mean score of 3.06, and Std. deviation. 1.43]. Other study findings on whether the qualifications of the board audit committee have something to do with how well DT Saccos in Kenya fare financially. The results showed that 62.5% of respondents strongly agreed whereas 12.5% of respondents strongly disagreed and lastly 3.1% of respondents were impartial. From the majority, it was proven that majority were in agreement and this was also proved by [Mean, 4.09 & Standard deviation. 1.44]. Lastly, the study aimed to identify whether the audit committee is largely made up of persons who can read and understand the Sacco's financial accounts. From response, it was revealed that 37.5% of the participants strongly agreed (SA) with the notion while 3.1% of respondents were neutral and 6.3% of respondents strongly objected. This was validated by majority who strongly agreed and had a score of [mean, 3.84 & Standard deviation. 1.27].

#### 4.5.4 Financial Performance of Saccos

The presentation of finding was based on establishing the state of Financial Performance among Saccos.

**Table 4.10 Financial Performance of Saccos**

| <b>Financial Performance</b>  | <b>SD</b> | <b>D</b>  | <b>N</b> | <b>A</b>  | <b>SA</b> | <b>Mean</b> | <b>Std. Dev</b> | <b>CV</b> |
|---|-----------|-----------|----------|-----------|-----------|-------------|-----------------|-----------|
| Financial improvements may result in increased output                                 | (3)9.4%   | (1)3.1%   | (2)6.3%  | (4)12.5%  | (22)68.8% | 4.28        | 1.30            | 30.3      |
| Members of a cooperative anticipate receiving benefits stemming from group ownership, | (8)25.0%  | (6)18.8%  | (2)6.3%  | (6)18.8%  | (10)31.3% | 3.12        | 1.64            | 52        |
| The ability of a SACCO to finance assets  | (2)6.3%   | (2)6.3%   | (3)9.4%  | (15)46.9% | (10)31.3% | 3.90        | 1.11            | 28.4      |
| A growing proportion of cooperatives engage   | (1)3.1%   | (1)3.1%   | (3)9.4%  | (11)34.4% | (16)50.0% | 4.25        | 0.98            | 23.0      |
| Sacco functions and risk profile demand additional                                    | (11)34.4% | (10)31.3% | (1)3.1%  | (3)9.4%   | (7)21.9%  | 2.53        | 1.58            | 62.4      |
| SACCO organizations have a sound governance   | (5)15.6%  | (11)34.4% | (2)6.3%  | (6)18.8%  | (8)25.0%  | 3.03        | 1.49            | 48.1      |

**Source: Research Data (2022)**

The findings presented on table 4.10 were intended to establish the state of financial performance of the saccos in the study. The study's findings revealed that financial improvements may result in increased output and more efficient service delivery via innovative methods. As a result, the responses revealed that 68.8% strongly agreed, 6.3% were neutral,

and 9.4% strongly disagreed with the statement. The majority of those who took part strongly agreed, as evidenced by [mean, 4.28, and standard deviation, 1.30]. Further investigation revealed that cooperative members anticipate receiving benefits from group ownership, such as cost savings, increased accountability, and improved financial performance. From responses, 31.3% of those who took part strongly agreed, 25.0% disagreed, and 6.3% were neutral. The findings uncovered that the vast majority of people agreed completely. The majority of participants strongly agreed, and they received a score of [mean, 3.12 & standard deviation, 1.64]. Other study findings sought to determine whether a SACCO's ability to finance assets and meet commitments is reflected in its liquidity. According to the responses, 46% of those polled agreed, 6.3% disagreed, and 9.4% were undecided. The majority of respondents were used to confirm agreement, which was supported by [Mean, 3.90, and Standard deviation, 1.11]. A study was conducted to determine whether a growing proportion of cooperatives engage in financially responsible activities. This was demonstrated by 50% of respondents who SA, 9.4% who were neutral, and 3.1% who strongly disagreed. The conclusion was made based on the majority of respondents who strongly agreed, as evidenced by [Mean, 4.25 & Standard deviation, 0.98]. Respondents also indicated that Sacco functions and risk profile necessitate additional capital above and beyond the legal constraints, which was supported by 34.4% who strongly disagreed, 3.1% who were neutral, and 21.9% who strongly agreed. Majority however disagreed to the statement and was supported by [Mean, 2.53 & Standard deviation. 1.58]. Lastly, additional studies aimed to demonstrate if SACCO groups have a strong governance structure, encouraging public trust. From the responses, it was discovered that 34.4% of respondents were not in agreement with this remark whereas 6.3% were neutral and lastly 25.0% were absolutely agreeing. The majority of respondents stated that they did not agree, hence the equivalent result was [mean, 3.03 & standard deviation, 1.49].

## 4.6 Correlation Analysis

### 4.6.1 Correlation Analysis between governance practices and their effects on the financial performance of DT. Saccos.

The Pearson correlation was adopted to dictate the supremacy of the relationship between governance practices and their effects on the financial capability of DT. Saccos in Nairobi City County. The final outcome is displayed in table 4.9 where Pearson correlation was adopted to discover the dominancy of a linear relationship between two distinct variables. This relationship influences how well SACCOs perform financially. When the Pearson coefficient is lesser than 0.3, it indicates that the correlation is inadequate. When the correlation is greater than 0.5, it indicates that there is a strong relationship between the variables studied. Table 4.11 summarizes the correlation analysis.

**Table 4.11 Correlation Analysis**

|                          |                     | <b>Correlations</b>   |                      |                          |                         |
|--------------------------|---------------------|-----------------------|----------------------|--------------------------|-------------------------|
|                          |                     | Financial performance | Board's Independence | Composition of the Board | Board's Audit Committee |
| Financial performance    | Pearson Correlation | 1                     | .684**               | .928**                   | .893**                  |
|                          | Sig. (2-tailed)     |                       | .000                 | .000                     | .000                    |
|                          | N                   | 32                    | 32                   | 32                       | 32                      |
| Board's Independence     | Pearson Correlation | .684**                | 1                    | .776**                   | .769**                  |
|                          | Sig. (2-tailed)     | .000                  |                      | .000                     | .000                    |
|                          | N                   | 32                    | 32                   | 32                       | 32                      |
| Composition of the Board | Pearson Correlation | .928**                | .776**               | 1                        | .916**                  |
|                          | Sig. (2-tailed)     | .000                  | .000                 |                          | .000                    |
|                          | N                   | 32                    | 32                   | 32                       | 32                      |
| Board's Audit Committee  | Pearson Correlation | .893**                | .769**               | .916**                   | 1                       |
|                          | Sig. (2-tailed)     | .000                  | .000                 | .000                     |                         |
|                          | N                   | 32                    | 32                   | 32                       | 32                      |

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

The purpose of the presentation in table 4.11 was to show how the correlation analysis was carried out. The study's goal was to determine which way the strength was leaning in terms of the connection that exists between the numerous variables that are thought to affect the SACCOs financial performance. As a result, at the 1% significance level, the link that exist between an independent board and SACCO financial performance was calculated to be  $r=0.684$ . As per the study, a positive relationship existed between the board composition and Financial Performance of SACCO's, with a correlation value of 0.928 and a level of significance of 1%. However, the researcher discovered a substantial positive relationship between the features of the board audit committee and SACCO's financial performance, with a correlation of 0.893 at a 1% level of significance.

#### **4.6.2 Multiple Regression Analysis**

The study employed multiple regression analysis to investigate the magnitude of the relationship that prevailed between the dependent variable, which was the Financial Performance of SACCOs, and the independent variables, which were board independence, board composition, and board audit committee. In other words, the significance of the relationship between these three factors were investigated. The research was successful in determining whether or not a certain independent variable had impact on a particular dependent variable. The summary of the model was presented in table 4.11 as shown in the following:

**Table 4.12 Multiple Linear Regression Analysis Model Summary**

**Model Summary**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics |          |     |     |               |
|-------|-------------------|----------|-------------------|----------------------------|-------------------|----------|-----|-----|---------------|
|       |                   |          |                   |                            | R Square Change   | F Change | df1 | df2 | Sig. F Change |
| 1     | .938 <sup>a</sup> | .881     | .868              | .47297                     | .881              | 68.850   | 3   | 28  | .000          |

a. Predictors: (Constant), Financial performance, Board's Independence, Composition of the Board & Board's Audit Committee Characteristics.

The model summary found that differences in the Financial Performance of SACCOs can be explained by differences in the independence of the board, the composition of the board, and the characteristics of the board audit committee, with a R square of 0.881 (88.1%). Consequently, the remaining 11.9% could be attributed to extraneous factors that were not taken into account when developing the model.

**4.6.3 Analysis of Variance**

In this research, the analysis of variance technique known as ANOVA was used to assess how well the model can be fit for use in the research. The findings were summarized on table 4.13.

**Table 4.13: ANOVA**

| Model |            | ANOVA <sup>a</sup> |    |             |        |                   |
|-------|------------|--------------------|----|-------------|--------|-------------------|
|       |            | Sum of Squares     | df | Mean Square | F      | Sig.              |
| 1     | Regression | 46.205             | 3  | 15.402      | 68.850 | .000 <sup>b</sup> |
|       | Residual   | 6.264              | 28 | .224        |        |                   |
|       | Total      | 52.469             | 31 |             |        |                   |

a. Dependent Variable: Financial performance

b. Predictors: (Constant), board's independence, composition of the board and board's audit committee characteristics

Table 4.13 displays the results of an analysis showing that the Board's Independence, Board Composition, and Board Audit Committee Characteristics significantly affect the DT. Sacco Financial Performance. It was determined that the significance level provided by the regression model was 0.000%, showing that the data utilized in this research was appropriate for drawing inferences about the population parameters with a level of significance of less than 0.005%. Divide the average of the regression by the average of the residue to obtain the value of the constant F (68.850). The significance level of 0.000 shows that the data are useful for making inferences; in this case, the Financial Performance of DT. SACCOs is the dependent variable, and the predictor factors are Board independence, board composition, and board audit committee characteristics. Meaningful conclusions could be drawn from the data. As this is less than the nominal significance level of 0.05, researcher infer that the data are sufficient to support the findings drawn, thus, the value is estimated to be lower than the approximate values of less than 0.005.

**Table 4.14: Regression Coefficient Results**

The table 4.14 shows the coefficient of the variables that were used in this research study and they consisted of Board's Independence, Composition of the Board, Board's Audit Committee Characteristics and Financial performance.

| Model |                          | Coefficients <sup>a</sup>     |            | Standardized Coefficients Beta | t     | Sig. |
|-------|--------------------------|-------------------------------|------------|--------------------------------|-------|------|
|       |                          | Unstandardized Coefficients B | Std. Error |                                |       |      |
| 1     | (Constant)               | .631                          | .291       |                                | 2.171 | .039 |
|       | Board's Independence     | .157                          | .121       | .138                           | 1.294 | .206 |
|       | Composition of the board | .750                          | .170       | .746                           | 4.411 | .000 |
|       | Board's Audit Committee  | .277                          | .146       | .316                           | 1.895 | .069 |



a. Dependent Variable: Financial Performance  
**Source: Survey Data, (2022)**

The findings unveiled a positive and statistically significant association between board independence and SACCO financial performance ( $\beta$ ) 0.157,  $t=1.294$ ,  $p$  value 0.05. When other factors are not taken into account, the analysis suggested that increasing board independence by one unit would improve SACCO financial performance by 0.1.157 units.

The findings unveiled a positive and statistically significant link between SACCO board composition and financial performance ( $\beta$ ) 0.750,  $t=1.411$ ,  $p0.05$ ). According to the analysis, if everything remained constant, a one-unit change in board audit committee characteristics would affect the level of Financial Performance of SACCOs by 1.411 units.

The attributes of the board audit committee were found to have a positive and significant relationship with SACCO financial performance ( $\beta$ ) 0.277,  $t=1.895$ ,  $p$  value 0.05). All else being equal, the analysis suggested that a one-unit change in the characteristics of the Board's audit committee would increase the SACCOs' Financial Performance by 0.277 units.

#### **4.7 Discussion of Results**

This paragraph contextualizes the findings from the previous section within theoretical and empirical frameworks pertinent to the governance practices on the financial performance of DT. Saccos within Nairobi. Therefore, the analysis in respect to past studies findings and also theoretical underpinning was hereby addressed.

##### **4.7.1 Linkages to the Theory**

The findings obtained from the study significantly linked the board's independent on financial performance of Sacco's. The results implied lack of involvement by independence advisory

board in decision making affects the Sacco's Financial Performance, the finding implied that the advisory has to participate in decision making as well other than giving advisory matters to the management without getting involved on how funds are allocated by their representatives to address the financial requirements of the members of the SACCOs. As a result, this is considered related to Agency theory which emphasizes on two types of claims: those that come up when the principal can't prove what the agent is doing because it's hard or expensive to do so, and those that come up when the principal's goals or intentions are at odds with those of the agent (Veiga, 2019). The advisory board was less involved in resource allocation engagements, as a result, this could contribute in management redirecting resources in less functional areas within the SACCOS and limiting efficiency operation to realize Financial Performance. This is considered to be related Agency theory which tries to solve possible disagreements between owners (like shareholders) and their agents (for example, company executives).

The findings based on the composition of the Board were found to be linked to financial performance of D.T. SACCOs. The results implied that the chairman of a SACCO was expected to take a pivotal role in directing the board's activities, ensure that the organization's values were reflected in its actions, and boost its Financial Performance even though SACCOs are not linked to any political party. The study's subsequent responses confirmed that, due to the potential for specialization, a large composition of board size should be preferred over a small size. Because of this, it became clear that the board needed to be expanded in order to accommodate the inclusion of specialists from a variety of fields. This was also emphasized in Resource Dependency Theory where a greater emphasis was placed on the abilities and other knowledge resources that directors can bring to the organization in order to improve performance. Strategic planning, leadership, control, and Board monitoring are all critical talents. To improve business

behavior, board members should invest more time and money in training and mentoring managers (Hermalin & Weisbach, 2018). For this reason, some strategic decisions well-suited to impact society can draw on the knowledge and intelligence of a larger group of experts.

The results from this study showed that board's audit committee characteristics had influenced financial performance of DT. Saccos. The results revealed that the audit committee of the board has the capacity to perform its duties despite the presence of pressure from outside sources. From this assertion, it implied that board's audit committee was meeting governance principles of being ethically right. The study established that compliance auditing promotes good governance in the SACCOs by considering the risk of frauds from Board's audit committee. This was a revelation that being risk averse from audit practices enables the organization to protect their own resources resulting to greater Financial Performance. This goes in line with how ethics was found to promote good governance by identifying weaknesses and deviations of law and regulations in SACCOs. The theoretical foundation were not closely related to the findings provided considering that Arun and Turner (2018) in Stakeholders Theory concluded that all stakeholders are important and can be trusted, and that including them in decision-making has an effect on how well the company does.

#### **4.7.2 Linkages to the Empirical Literature**

The findings obtained from the study significantly linked the board's independence on financial performance of Saccos ( $\beta=0.138$ ,  $\text{Sig.}=.206>05$ ). The results implied that lack of involvement by independence advisory board in decision making affects the Sacco's Financial Performance, the finding implied that the advisory has to participate in decision making as well other than giving advisory matters to the management without getting involved on how funds are allocated by their representatives to capture the financial needs of the members of the SACCOs.

Respondents further showed that the advisory board was less involved in resource allocation engagements, as a result, this could contribute in management redirecting resources in less functional areas within the SACCOS and limiting efficiency operation to realize Financial Performance. The study established from majority of those who took part disagreed that the independent board of directors had the legal power and responsibility to monitor and control Sacco activities independently. Since majority disagreed, it implied that the advisory board was incapacitated in a way to make concrete contribution about governance to attain great finance performance. The findings were similar to those of Brawley (2018) who established that advisory board involvement; do challenge what a Sacco may face in regard to governance. However, the study established that various cases of improper administration may force independent advisory board to reconstitute the senior management.

The findings based on the composition of the Board were found to be linked to financial performance of D.T. SACCOs. The results were evidenced by ( $\beta$ )=0.746, Sig.=.000<05). The results implied that the chairman of a SACCO was expected to play a critical role in directing the board's activities, ensure that the organization's values were reflected in its actions, and boost its Financial Performance in spite the fact that SACCOs are not associated with any political party. The study's subsequent responses confirmed that, due to the potential for specialization, a large composition of board size should be preferred over a small size. Because of this, it became clear that the board needed to be expanded in order to accommodate the inclusion of specialists from a variety of fields. For this reason, some strategic decisions well-suited to impact society can draw on the knowledge and intelligence of a larger group of experts. Similar conclusions were drawn from an analysis of the factors that affect performance of companies listed on the NSE by Ayako, Kungu and Githui (2019). The research team found that larger

boards typically produce better returns on investment than their smaller counterparts. In addition, listed companies with large boards tend to have a higher ROA.

The results from the study showed that board's audit committee characteristics had influenced financial performance of DT. Saccos. This was shown by ( $\beta$ )=0.316, Sig.=.069>05). Findings revealed that the audit committee of the board has the capacity to perform its duties despite the presence of pressure from outside sources. From this assertion, it implied that board's audit committee was meeting governance principles of being ethically right. The study established that compliance auditing promotes good governance in the SACCOs by considering the risk of frauds from Board's audit committee. This was a revelation that being risk averse from audit practices enables the organization to protect their own resources resulting to greater Financial Performance. This goes in line with how ethics was found to promote good governance by identifying weaknesses and deviations of law and regulations in SACCOs. However, these findings were not similar to Mahoney and Pandian (2019) who established that shareholders's confidence in the Sacco's financial reports had reduced after discovery of accounts being manipulated to reflect the wishes of the directors.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter entails summary, conclusion and recommendations. It categorized into the following sub-section comprising of introduction, summary of findings, conclusion, policy recommendations, limitations of the research and suggestion for further research.

#### 5.2 Summary of the Study

The analysis was conducted out to ascertain the link between governance practices and financial performance of the deposit taking Saccos in Nairobi County. The results show that board's independence had effect on financial performance Saccos. The response revealed that it is possible that the financial performance of the Sacco might be greatly improved by increasing the proportion of independent directors and directors that are not executive. This was evidenced by [mean, 2.71 & Std. dev, 1.14]. The involvement level of directors that considered executive in the everyday Saccos operations is an important component that has a substantial impact on the Sacco's overall financial performance as indicated by score of [mean 3.65, & Std. dev, 1.35]. The stakeholders do monitor and evaluate their boards of directors on a structured basis, majority strongly agreed with a score of [mean, 4.09 & Std. Dev, 0.99]. Still, the directors have the duty to oversee and control the business of the Sacco as evidenced by [mean, 2.87 & Standard deviation. 1.36]. On whether there is a direct connection between how independent the board is and how well DT Saccos in Kenya do with their money. Majority of respondents, supported and this was inferred by [Mean, 4.06 & Standard deviation. 1.29].

The analysis established that the composition of the board had influence on Financial Performance of SACCOS. The results unveiled that the chairman of the board is often a non-executive director who is independent as evidenced by a score of [mean, 4.06, & Standard

deviation. 1.29]. The possibility of specialization, a large board size is favored over a small board size, the results were confirmed by the majority that disagreed, hence, evidenced by a score of [mean, 2.96 & Standard deviation. 1.46]. Whether it was possible to make some strategic choices by utilizing the information and understanding provided by a larger pool of experts. Most of participants strongly agreed to the idea and it was established by a score of [mean, 4.06 & Standard deviation. 1.45]. The analysis on whether compensation of the board of directors is calculated according to a structure that has already been established. Majority disagreed [4.06 & Standard deviation. 1.31]. Still, on whether directors of the board are constitutionally required and endowed with the power to oversee and exert control over all Saccos activities. Majority strongly agreed [mean, 4.06 & Standard deviation. 1.52]. The responses on whether there is a connection between the make-up of the boards of directors at DT Saccos in Kenya and the level of financial performance achieved by those Saccos. Majority strongly agreed to the statement shown by [Mean, 3.93 & Standard deviation. 1.21].

The summary drawn from the study on whether Board Audit Committee Characteristics had influence on Financial Performance of Saccos revealed that board's audit committee members are professionally qualified as evidenced by a score of [mean, 3.71 & Std. 1.48]. The Audit Committee operates independently as a board in itself as supported by the majority by a score of [Mean, 4.00 & Standard deviation. 1.54]. The Audit Committee adheres to the one-third gender criterion in its membership make up, majority strongly disagreed as evidenced by a score of [mean, 2.53 & Standard deviation. 1.60]. Whether Audit Committee are implemented by the board accordingly, majority agreed [mean score of 3.06 & Standard deviation. 1.43]. Other study findings on whether the qualities of the board audit committee have something to do with how well DT Saccos in Kenya do financially. Majority agreed by [Mean, 4.09 & Std. dev. 1.44].

The Pearson correlation findings, indicated that correlation between an independent board and the Financial Performance of SACCOs was found to  $r=0.684$  at the 1% significance level. From the additional analysis, it was discovered that there is a positive relationship between the composition of the board and Financial Performance of SACCOs, with a correlation coefficient of 0.928 and a confidence level of 1%. However, the researcher also found that there is a significant positive association between the characteristics of the board audit committee and the Financial Performance of SACCOs, with a correlation of 0.893 at a significance level of 1%. The analysis drawn from regression analysis, the findings unveiled a positive and substantial relationship between board independence and Financial Performance of SACCOs ( $\beta$ ) 0.157,  $t=1.294$ ,  $p$ -value 0.05. There existed a positive and substantial correlation between SACCO board composition and Financial Performance ( $\beta$ ) 0.750,  $t=1.411$ ,  $p=0.05$  and lastly, on board audit committee characteristics were found to have a positive and significant relationship with SACCOs Financial Performance ( $\beta$ ) 0.277,  $t=1.895$ ,  $p$ -value 0.05).

### **5.3 Conclusion of the Study**

In conclusion, the study established that various cases of improper administration may force advisory board to reconstitute the senior management, still, the board was less involved in resource allocation engagements, as a result, this could contribute in management redirecting resources in less functional areas within the organization.

Large board composition is preferable to a small one, because specialization is a possibility. As a result, the board's size should be increased to allow for the availability of experts with a variety of skill specialties. Due to the potential for specialization, the study came to the conclusion that a large composition of board size should be preferred to a small size. As a result,



it is possible to use the expertise of a larger group of specialists to reach particular strategic decisions that can change the performance of society.

The investigation came to the conclusion that the board's audit committee contains traits that allow it to withstand and resist the influence in the course of discharging its tasks. As a result, compliance auditing fosters good governance in firms by ensuring that the risk of fraud is taken into consideration by the audit committee of the board. The auditing procedures make it possible for the organization to safeguard their own resources, which ultimately results in improved Financial Performance.

#### **5.4 Implication of the Study**

The study's findings and conclusions have a significant impact on how governance practices affect the financial performance of DT. Saccos in Nairobi County. As a result, this part discusses the imputation of the study's findings for theory, policy, and practice.

##### **5.4.1 Implication to the Theory**

The findings obtained from the study significantly linked board's independent on financial performance of the Saccos. The results implied that lack of involvement by independence advisory board in decision making affects the Sacco's Financial Performance, the finding implied that the advisory has to participate in decision making as well other than giving advisory matters to the management without getting involved on how funds are allocated by their representatives to address financial needs of the members of the SACCOs. As a result, this is considered related to Agency theory which emphasizes on two types of claims: those that come up when the principal can't prove what the agent is doing because it's hard or expensive to do so, and those that come up when the principal's goals or intentions are at odds with those of the agent (Veiga, 2019). The advisory board was less involved in resource allocation engagements, as a result, this could contribute in management redirecting resources in less functional areas within the SACCOS and limiting efficiency operation to realize Financial Performance. This is

considered to be related Agency theory which tries to solve possible disagreements between owners (like shareholders) and their agents (for example, company executives).

The findings based on the composition of the Board were found to be linked to financial performance of D.T. SACCOs. The results implied that the chairman of a SACCO was presumed to play a crucial role in directing the board's activities, ensure that the organization's values were reflected in its actions, and boost its Financial Performance even though SACCOs are not associated with any political party. The study's subsequent responses confirmed that, due to the potential for specialization, a large composition of board size should be preferred over a small size. Because of this, it became clear that the board needed to be expanded in order to accommodate the inclusion of specialists from a variety of fields. This was also emphasized in Resource Dependency Theory where a greater emphasis was placed on the abilities and other knowledge resources that directors can bring to the organization in order to improve performance. Strategic planning, leadership, control, and Board monitoring are all critical talents. To improve business behavior, board members should invest more time and money in training and mentoring managers (Hermalin & Weisbach, 2018). For this reason, some strategic decisions well-suited to impact society can draw on the knowledge and intelligence of a substantial group of experts.

The study findings revealed that board's audit committee characteristics had influenced financial performance of DT. Saccos. The results also shows that the audit committee of the board has the capacity to perform its duties despite the presence of pressure from outside sources. From this assertion, it implied that board's audit committee was meeting governance principles of being ethically right. The study established that compliance auditing promotes good governance in the SACCOs by considering the risk of frauds from Board's audit

committee. This was a revelation that being risk averse from audit practices enables the organization to protect their own resources resulting to greater Financial Performance. This goes in line with how ethics was found to promote good governance by identifying weaknesses and deviations of law and regulations in SACCOs. The theoretical foundation was not closely related to the findings provided considering that Arun and Turner (2018) in Stakeholders Theory concluded that all stakeholders are important and can be trusted, and that including them in decision-making has an effect on how well the company does.

#### **5.4.2 Implication to Managerial Practice**

This study commended that the management of Deposit Taking Saccos should ensure that the independent advisory board takes full participation in decision making considering that some of the advices they provide to the management may not necessary be put in action. Therefore, having them in decision making committees may help to ensure that whatever is suggested is finally put in action. In cases where there is discovery of improper administration of tasks, the independent advisory board should consider reconstituting the senior management so that they can work towards meeting organizational goals and achieve an attainable Financial Performance.

This study commended that policy makers and the management of Deposit Taking Saccos should consider going for larger composition of the board in order to have a larger platform of skilled members who are able to offer professional advice on the running of the SACCOs through increased pool of experts. The management should ensure that adequate resources are made available for remuneration of the board members to ensure there is cooperation of the board and the management in the efficient running of the Saccos to achieve collectively, great Financial Performance.

The study recommends that the policy makers and the management of Deposit Taking Saccos should be at the forefront in ensure that all the personnel undertaking roles in board's audit committee possesses qualities of withstanding and resisting the external influence of manipulating financial data for personal gain. Tough rules and harsh consequences of unethical behavior should be met if the board's audit committee does not engage properly on their mandate of producing reliable financial data. By advocating against such vices will help give a true picture of the financial position to the board of governance so that appropriate financial decision can be made to enhance increased Sacco performance.

#### **5.4.3 Implication to Policy**

The SACCO performance in terms of savings volume and portfolio size is typically indicative of good governance. Sound governance practices will lead to sound management and operations. In turn, these elements will result in superior performance. The SACCO's long-term viability and existence are dependent on sustained expansion. Similarly, a poorly managed SACCO is unlikely to regularly demonstrate good performance and annual growth. Regardless of the SACCO's normal membership qualifications, individuals will surely have diverse interests, opinions, and beliefs.

In governance, it critical that all parties concerned reach an agreement on all issues concerning the operation of SACCOs. The most effective way to do this is through an all-inclusive participatory approach, open systems and operations, and full member responsibility. Chairpersons and other people in positions of leadership should be open to new ideas. SACCO governance and management organs must adhere to methods and procedures that produce results rapidly while making the most efficient utilization of available resources. The outcomes should meet the needs of clients and stakeholders. This is an indication of good governance. To

improve everyone's economic status and contribute to the society's purpose, all members and consumers should have an equal opportunity to use SACCO services. As a result, they should have access to the same opportunities and services as SACCOs. Members' share capital, savings deposits, or any combination of the two as agreed upon, could serve as the foundation for fair participation. When people have ideas, they should not be muted, ignored, or prevented from speaking up in the governance organs.

### **5.5 Limitations of the Research**

When first attempting to acquire permission to access the SACCOS, the researcher ran into a bureaucracy-related problem. Because of this, the management had stressed in the beginning that the regulations had to be followed, even if doing so had proven to be a laborious procedure. The researcher adhered to all of the guidelines to the letter in order to ensure that the required information for this investigation was well obtained.

The challenge on accessibility to Sacco was initially experienced. Considering the problems pertaining to the workplace that perceived as sensitive, not all organizations are able to voluntarily allow people onto their premises. In order to overcome this impediment, it was necessary to reassure respondents that the research would only cover educational goals. As a result, their cooperation would highly be appreciated.

### **5.6 Areas Suggested for Future Research**

The study addressed the governance on Financial Performance of DT Saccos. However, for completeness of this line of research, consideration should be made on undertaking further research relating to similar topic. However, other researchers should consider focusing on other financial institutions who are expected to meet governance goals.

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## APPENDICES

### Appendix I: List of Saccos Approved by Sasra-Nairobi County

1. Afya
2. Airport
3. Ardhi
4. Asili cooperative
5. Amica
6. Chai
7. Boresha
8. Comoco
9. Elimu
10. Imarika
11. Harambee
12. Hazina
13. Jamii
14. Kimisitu
15. Kenversity
16. Kenya bankers Association
17. Kenya police DT
18. Kingdom
19. NSSF
20. Magereza
21. Maisha bora
22. Mwalimu national
23. Mwito
24. Nacico
25. Nyati
26. Smep
27. Shoppers
28. Stima
29. Safaricom
30. Shirika
31. Telepost
32. Tembo
33. Ukulima
34. Yetu

## Appendix II: Letter of Introduction



**UNIVERSITY OF NAIROBI**  
**FACULTY OF BUSINESS AND MANAGEMENT SCIENCES**  
**OFFICE OF THE DEAN**

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Our Ref: **D61/36873/2020**

October 26, 2022

### TO WHOM IT MAY CONCERN

**RE: INTRODUCTION LETTER: CAROLINE ACHIENG AGUTU**

The above named is a registered Master of Business Administration Student at the Faculty of Business and Management Sciences, University of Nairobi. She is conducting research on: "**Governance practices and Financial Performance of Deposit Taking Sacco in Nairobi County, Kenya.**"

The purpose of this letter is to kindly request you to assist and facilitate the student with necessary data which forms an integral part of the Project.

The information and data required is needed for academic purposes only and will be treated in **Strict-Confidence**.

Your co-operation will be highly appreciated.

A handwritten signature in black ink, appearing to read 'Philip Mukola'.

**PHILIP MUKOLA (MR.)**  
**FOR: ASSOCIATE DEAN, GBS & R**  
**FACULTY OF BUSINESS AND MANAGEMENT SCIENCES**

*PM/mi*

### **Appendix III: Introductory Letter**

To: Chief Executive Officer

Dear Sir/Madam

#### **RE: GOVERNANCE PRACTICES AND FINANCIAL PERFORMANCE OF DEPOSIT TAKING SACCOS, NAIROBI CITY COUNTY, KENYA**

In reference to the above subject, I'm a student at the University of Nairobi pursuing a master of Business Administration (MBA) degree in strategic Management. To fulfill the requirement of being awarded this degree I am required to conduct research referred, in the above subject.

In this regard, I kindly request your assistance and consideration by completing this questionnaire in its entirety.

You may rest assured that details provided will be kept strictly confidential.

Thank you for volunteering your valuable time to participate in this survey

Yours Faithfully

Caroline Agutu

Mobile:+254724290651

## **Appendix IV: Questionnaire**

### **Ref. Data Collection,**

#### **Instructions**

Kindy place a mark on the statement you agree with;

#### **Section I: General Data**

##### **1. Respondent's Gender**

Male

Female

##### **2. Respondent's Age**

18-30 years

31-37 years

38-45 years

46-53 years

Over 54 years

##### **3. Respondent's Period of Service**

Below 1 year

1-5 years

6-10 years

11-15 years

Over 15 years

##### **4. Respondents Level of Education**

O-level

Diploma level

Bachelor's degree

Postgraduate degree

Others (specify) .....

**KEY: Where 5- strongly agree, 4-gree, 3-Undecided, 2-Disagree, 1-strongly Disagree**

**SECTION II: GOVERNANCE PRACTICES**

**(i) Board’s Independence and Financial Performance of Saccos**

Mark the boxes that correspond to the level of agreement that you feel best describes your opinion you feel about each of the stated questions.

| <b>Questions</b>   | <b>5</b> | <b>4</b> | <b>3</b> | <b>2</b> | <b>1</b> |
|--|----------|----------|----------|----------|----------|
| It is possible that the financial performance of the Sacco might be significantly improved by increasing the proportion of independent directors and directors that are not executive.           |          |          |          |          |          |
| Involvement level of directors that considered executive in the everyday Saccos operations is an important component that has a substantial impact on the Sacco's overall financial performance. |          |          |          |          |          |
| Stakeholders do monitor and evaluate their boards of directors on a regular basis in order to optimize their independence capacity   |          |          |          |          |          |
| The board of directors has the duty to oversee and control the business of the Sacco.  |          |          |          |          |          |
| Board challenges that the organization will face in regard to governance is mainly as a result of non-independent board or management constitution   |          |          |          |          |          |
| There is a direct connection between how independent the board is and how well DT Saccos in Kenya do with their money.   |          |          |          |          |          |

**(ii) Board Composition and Financial Performance of Saccos**

Mark the boxes that correspond to the level of agreement that you feel best describes your opinion you feel about each of the stated questions.

| <b>Questions</b>  | <b>5</b> | <b>4</b> | <b>3</b> | <b>2</b> | <b>1</b> |
|---|----------|----------|----------|----------|----------|
| The chairman of the board is often a non-executive director who is independent.   |          |          |          |          |          |
| Because of the possibility of specialization, a large board size is favored over a small board size.  |          |          |          |          |          |
| It is possible to make some strategic choices by utilizing the information and understanding provided by a larger pool of experts.                          |          |          |          |          |          |
| The compensation of the board of directors is calculated according to a structure that has already been established.  |          |          |          |          |          |
| Directors of the board are constitutionally required and endowed with the power to oversee and exert control over all Saccos activities.                    |          |          |          |          |          |
| There is a connection between the make-up of the boards of directors at DT Saccos in Kenya and the level of financial performance achieved by those Saccos. |          |          |          |          |          |

**(iii) Board Audit Committee Characteristics and Financial Performance of Saccos**

Mark the boxes that correspond to the level of agreement that you feel best describes your opinion you feel about each of the stated questions.

| <b>Questions</b>   | <b>5</b> | <b>4</b> | <b>3</b> | <b>2</b> | <b>1</b> |
|--|----------|----------|----------|----------|----------|
| Board's audit committee members are professionally qualified.  |          |          |          |          |          |
| The Audit Committee operates independently as a board in itself  |          |          |          |          |          |
| The Audit Committee adheres to the one-third gender criterion in its membership makeup.                          |          |          |          |          |          |
| Recommendations of the Audit Committee are implemented by the board accordingly.                                 |          |          |          |          |          |
| The qualities of the board audit committee have something to do with how well DT Saccos in Kenya do financially. |          |          |          |          |          |
| The audit committee is mostly made up of people who can read and understand the Sacco's financial statements.    |          |          |          |          |          |

**SECTION III: FINANCIAL PERFORMANCE OF SACCOS**

Mark the boxes that correspond to the level of agreement that you feel best describes your opinion you feel about each of the stated questions.

| <b>Questions</b>  | <b>5</b> | <b>4</b> | <b>3</b> | <b>2</b> | <b>1</b> |
|---|----------|----------|----------|----------|----------|
| Financial improvements may result in increased output and more efficient service delivery through innovative ways   |          |          |          |          |          |
| Members of a cooperative anticipate receiving benefits stemming from group ownership, including cost savings, increased accountability, and improved financial performance. |          |          |          |          |          |
| The ability of a SACCO to finance assets and meet commitments is reflected in its liquidity   |          |          |          |          |          |
| A growing proportion of cooperatives engage in financially responsible activities   |          |          |          |          |          |
| Sacco functions and risk profile demand additional capital above and beyond the legal restrictions  |          |          |          |          |          |
| SACCO organizations have a sound governance mechanism, promoting public trust   |          |          |          |          |          |

**Thank you for your contributions**



## Appendix V: Turnitin report



29<sup>TH</sup> NOVEMBER 2022.

GOVERNANCE PRACTICES AND FINANCIAL PERFORMANCE OF  
DEPOSIT TAKING SACCOS IN NAIROBI CITY COUNTY, KENYA by  
CAROLINE ACHIENG AGUTU D61/36873/2020

### ORIGINALITY REPORT

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| <b>6</b> | <b>erepository.uonbi.ac.ke:8080</b><br>Internet Source   | <b>1%</b>     |
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