A SURVEY OF CORPORATE GOVERNANCE PRACTICES IN COOPERATIVE SACCO SOCIETIES IN NAIROBI

BY

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A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF MASTER OF BUSINESS ADMINISTRATION DEGREE, FOR THE FACULTY OF COMMERCE, UNIVERSITY OF NAIROBI

OCTOBER 2003

DECLARATION BY THE CANDIDATE

This research project is my original work and has not been presented for examination in any other university.

Signature:________________ Date: 6/11/03

Joseph Gichuru Wang'ombe

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

Signature:________________ Date: 7/11/2003

Professor Evans Aosa

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DEDICATION

This project is dedicated to my late mother, Eunice Wambui and my father Wang'ombe Miatu who brought me up in a disciplined way encouraging me to be the best at every stage. They gave me room to make independent decisions from high school, which has contributed greatly to the shaping of my career.

ACKNOWLEDMENTS

First and foremost, my sincere thanks go to the management of the University of Nairobi for starting the evening classes degree program without which I may not have enrolled for the MBA program. The holding of evening classes in main campus was a wise move that made us attend our classes with ease.

Special thanks go to my wife Gorreti, my son Duncan and daughter Eunice whose support has enabled me go through the MBA program. My wife always encouraged even when times were difficult and this gave me the morale to press on.

The lecturers at the Faculty of Commerce deserve praise for their tireless effort in teaching both day and evening classes and committing their valuable time to mold intellectuals in this country. I particularly enjoyed the interaction with the industry in some of the courses like Marketing with the Coordination of Margaret Obok. The strategic management videos were superb and made learning more interesting. Special thanks to Dr. Ogutu, Mr. Maalu and Prof. Aosa for the interesting strategic management classes and particularly the presentations. I sincerely thank Prof. Aosa for supervising me in this project and giving me proper direction.

The team of research assistants led by Ngugi deserves mention for their aggressive follow-up of the respondents ensuring that responses were received in good time.

Thanks to my friend James Mwangi who started the program earlier and motivated me to start even when I felt I was not financially ready.

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LIST OF ABBREVIATIONS

AGM:	Annual General Meeting
BOD:	Board of Directors
CEO:	Chief Executive Officer
CMA:	Capital Market Authority
CPA:	Certified Public Accountant
FASB:	Financial Accounting Standards Board
ICPAK:	Institute of Certified Public Accountants of Kenya
IFAC:	International Federation of Accountants
KPCU:	Kenya Planters Co-operative Union
MOARD:	Ministry of Agriculture & Livestock Development
NYSE:	New York Stock Exchange
OECD:	Organization for Economic Cooperation and Development.
PSCGT:	Private Sector Corporate Governance Trust
SACCO:	Savings and Credit Co-operative Society
UK:	United Kingdom
USA:	United States of America

ABSTRACT

Corporate governance is about promoting corporate fairness, transparency and accountability. This is a subject that has attracted a lot of interest in recent years due to unprecedented corporate collapses especially in America. Focus has been on strengthening the boards so that they can truly direct the affairs of the corporation. The board is required to direct the affairs of the corporation but not to manage them. Hence, there is the need to have a body responsible for governance separate and independent of management.

In Kenya, the Co-operative Act, 1997, regulates the co-operatives. This act has defined how co-operatives should be set up , managed and controlled. But just like other industries, regulation has not ensured the highest standards of governance and chapter 1 has some examples of governance problems reported co-operatives.

This study was conducted with the objective of establishing and explaining the corporate governance practices in the savings and credit co-operative societies (SACCOs). SACCOs form the backbone of the co-operative movement in Kenya (Republic of Kenya, 2002). The SACCOs main objective is the mobilization of savings and provision of credit to the members. The common bond requirement in SACCOs is usually fulfilled when people working in the same firm or industry get together to form a SACCO.

Three areas of governance were examined in the study. These were the independent body responsible for governance and separate from management, the principles of corporate governance as postulated by the Nolan Committee (1995) and the management of the organization

in accordance with the mandate of the founders. The study found that SACCOs have a big problem as far as having an independent body responsible for governance and separate from management. In most of the SACCOs studied, the management and the board were one and the same. Accountability was also found to be an area of weakness in SACCOs. The study found out that the relatively bigger SACCOs have invested in buildings, while the smaller ones invest excess funds in cash and near cash investments like treasury bonds and commercial paper. The SACCOs have stuck to the mandate of the founders but the investment in illiquid and unprofitable assets like buildings by some SACCOs has inhibited their lending capacities.

The study revealed similar management structures arising from the Co-operative Act regulation. Regulation will therefore have to be considered in the search for better governance practices in the SACCO sector. To overcome the problem of independent body for governance, the researcher recommends a review of the Act with a view to changing the management structures in co-operatives. However there is the issue of cost meaning that only co-operatives of certain sizes can afford to have structures allowing an independent governance body separate from management. The SACCOs studied reported that the Act has not been properly enforced and this is an issue that the Ministry of Co-operatives need to address as well.

The study was limited to Nairobi based SACCOs due to cost and time constraints. A number of co-operatives were not willing to participate in the study resulting in a response rate of 62%.

CHAPTER 1: INTRODUCTION

1.1 Background

ı broad terms, corporate governance refers to the processes by which organisations are directed, controlled and held ccountable. It encompasses authority, accountability, stewardship, leadership, direction and control exercised in rganisations. Corporate governance is a concept that is currently receiving a great deal of attention world-wide in oth private and public sectors (PSCGT, 2002). Recent developments have mainly been influenced by spectacular orporate collapses in the United States of America (USA) and Britain caused by fraud and mismanagement. There as also been repeated failure of the public sector in many countries of the world. Whereas most discussions have entered on public limited liability companies, corporate governance is a problem in all types of organisations.

1.2 Corporate Failures

he collapse of big organisations has cast doubts in the way corporations are managed and made accountable. nron, a Houston based energy trading company collapsed in early 2002 after reporting huge capital gains resulting rom fraudulent accounting where billions of dollars were hidden in off balance sheet special purpose entities and artnerships (*Kelly, 2002*).WorldCom was the biggest carrier of Internet traffic. WorldCom was caught hiding USD$ 3.85 billion in expenses after failing to wring strong earnings after its merger with MCI. Corporate expenses were reated as capital investments allowing the company to show hefty profits in the year 2001and for the first 3 months of 2002, rather than the losses it would have otherwise shown. The Securities Exchange Commission (SEC) sued VorldCom for fraud. Its shares fell from an all time high of £ 64.5 to 83p after the fraud was made public (Newsweek, July 8, 2002).

n Kenya, we have the case of Kenya Finance Bank, which went into liquidation in November 1998 after reporting profits the prior year as well as the immediately preceding years. The company was quoted in the Nairobi Stock Exchange and had a very high profile. The realisation that the profits earlier reported were a farce came as a shock to

a) Voluntary and open membership

b) Democratic member control

c) Economic participation by members

d) Autonomy and independence

e) Co-operation among co-operatives

f) Concern for community in general

Co-operatives can be registered with or without limited liability.

Minimum membership for registration is 10 and share capital restriction is such that no individual can hold more thar 20% of the issued and paid up share capital. Other safeguards include the prohibition of lending to a maximum of 5% of the share capital.

Co-operatives operate using the rule of one-man one vote regardless of shares held. There are general and specia general meetings where ordinary resolutions are passed by majority vote and special resolutions by 3/4 of members present and voting at a special general meeting. Dividend should not exceed 10% of funds per annum. Investment o funds is per restrictions contained in the act. Audit should be done every year by ministry-approved auditors. Annua returns must be submitted to the commissioner's office in the prescribed form. The commissioner has power to remove committees not performing their duties properly (Co-operative Act, 1997).Section 85 of the act specify the minimum professional and other qualification required for the appointment of accountant or other graded employees o a registered society.

The 1997 revision of the Co-operatives Act stripped the co-operative ministry of roles such as education and training auditing and accounting and direction on rules and regulations. The revised Act changed the role of government fron a participant in co-operative affairs to a facilitator. Even after these changes, the minister contends that the Act ha proved inadequate, difficult to implement and has caused anarchy in the short period of its implementation. Th ɪvernment has now embarked on a mission to collect views from the stakeholders with a view to review the Co-ɪerative Act once again (Daily Nation, March 12, 2003).

1.4 Governance in Co-operatives

ontrol in the management of co-operatives is in the hands of the general meeting of members in which each member as a right to attend and vote. Day to day operations are overseen by a management committee whose members are lected by the general meeting of the society. Apart from the general meeting, the committee is the main policy aking body for the society. As per the Act, management committee shall direct the affairs of the society with powers:

a) To enter into contracts
b) Institute and defend suits and other legal proceedings
c) Do all other things necessary to achieve the society's objects in accordance with its by-laws

Their responsibilities include

a) Fund management
b) Regular meetings to conduct business
c) Send audited accounts to the registrar
d) Cause to be available legal documents for inspection at registered offices i.e. certificate of registration, copy of Act, Rules and the registered by-laws, list of members, list of officers.

n the conduct of the affairs of a co-operative society, the members of the management committee may delegate any ɪf its duties to an officer or officers of the society. The delegation shall nonetheless absolve the committee from its esponsibility of running the affairs of the co-operative society in a proper and business manner.

The shareholders in a co-operative are the members who have the following rights as per section 21 of the Co-operatives Act, 1997:

a) Attend and participate in decisions taken at all annual and special general meetings of the society and vote
b) Be elected to organs of the society subject to its by-laws

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a) Attend and participate in decisions taken at all annual and special general meetings of the society and vote
b) Be elected to organs of the society subject to its by-laws

c) Enjoy the use of all the facilities and services of the society subject to the society's by-laws

d) Access to all legitimate information

The shareholders have the following obligations:

a) Comply with the by-laws and decisions taken by the relevant organs of the co-operative society.

b) Buy and pay up for shares or make any other payments provided for in the by-laws

c) Meet the debts of the society in case of bankruptcy

The Act, 1997 requires that co-operatives have their accounts audited within three months after the financial year-end. These accounts should be approved by the members of the management committee and authenticated by at least 3 office bearers including the treasurer of the co-operative. These are the accounts to be presented at an AGM which should be held at least 3 months before the subsequent year end.

Co-operatives societies are member based, member managed and member controlled. Members formulate the policies, which are left to the management committee to implement. Thus, an elected committee is the governing body of a registered co-operative to whom the management of its affairs is entrusted and includes a board of directors. Depending on the size of the co-operative, BODs assume executive roles or supervisory roles. In large co-operative societies, the elected management committee assumes a supervisory role similar to that of non-executive directors in a company. Such co-operatives have employees and a senior management led by the general manager.

The way organizations are directed and controlled was the subject of the OECD 1999 report on principles of corporate governance. Governance issues are important to organizations and SACCOS are no exception. In the face of major scandals leading to the collapse of big corporations worldwide, there has been heightened attention to governance issues in the corporate sector. The same attention is expected in SACCOS which have also experienced governance problems.

1.5 Statement Of the Problem

The importance of corporate governance lies in the power that is given to the people running the affairs of the organization. In recent times, this power has not always been used in the best interest of shareholders, employees or society in general as illustrated in section 1.2. A World Bank review on corporate governance (1999) observes that major corporate failures are often the result of abuse of power and responsibilities and that only through an improved system of governance can organization address these issues.

Since independence, the co-operative movement has been playing a major role in the development of the country and has been recognized as a vital institution for mobilizing human and material resources for development programs (Republic of Kenya, 2002). The savings and Credit Co-operatives (SACCOS) form the backbone of the co-operative movement in Nairobi Province. Despite their enormous contribution to the economy, the co-operative sector just like other sectors of the economy has experienced governance problems. In rural areas, many producer co-operatives like tea and coffee have collapsed due to mismanagement. Poor governance leads to a situation where SACCOs members have to wait for several months before receiving their loans. The government has had to intervene in several SACCOS by removing the management committee and appointing a commission to run the affairs of the affected society. Harambee SACCO was run by a commission between 1992 and 1996(Republic of Kenya, 2002)

Not much research on corporate governance in the co-operative sector has been carried out. Recent studies on co-operative governance have been mainly on companies (Mucuvi (2002) – motor vehicle industry, Jebet (2001) – quoted companies, Wainana (2002) – Insurance Industry, Mwangi (2002) – Micro Finance Industry. In the co-operative sector Oyoo (2002) studied the financial performance of SACCOS before and after deregulation. Ongore (2001) looked at managerial response of co-operative sector to deregulation. The quality of governance at all levels is increasingly being seen as the most important factor in the success of organizations. This paper will answer the question; what governance practices are found in SACCOS?

1.6 Objectives of the Study

To establish and explain the corporate governance practices in the Sacco cooperative societies.

1.7 Importance of Study

It is expected that this study will provide valuable information to the following groups of people. To the members of SACCO society and the management, the study will highlight the type of governance in the sector. Typical governance problems will be analyzed and recommendations made on improvement. These sector players will appreciate better, the need for good governance in SACCOs and this in turn will make them ready to adopt better governance practices.

The study will provide a baseline on corporate governance in the SACCO sector which will be a useful basis for arguing case of governance guidelines for the cooperative sector. The ministry of co-operatives has been going round the country getting views from stakeholders on how they want their co-operatives managed. After the review of the Co-operative Act in 1997, the government is bracing itself for another review that will make the sector more effective in meeting its objectives.

To the academicians, this study will seek to improve understanding of corporate governance in the sector and serve as reference on status of governance at this point in time. Replicative studies can be carried out after several years to find out where the SACCO sector is in corporate governance. The study can also provide information on areas that need further research.

The current government of Kenya is concerned with governance issues and has already begun working at reforming the co-operative sector (Daily Nation, March 12, 2003). A study into the governance practices in co-operatives and comparison with best practice can lead to recommendations on better governance being entrenched into a new law on co-operatives.

CHAPTER 2: LITERATURE REVIEW

2.1 Definitions of Corporate Governance

Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment (Shleifer and Vishny, 1997). It is the mechanisms that are used to "govern" managers to ensure that the actions they take are consistent with the interest of key stakeholder groups (Hill and Jones, 2001). The governance framework determines whom the organisation is there to serve and how the purposes and priorities of the organisation should be decided. It is concerned with both the functioning of the organisation and the distribution o power aiming different stakeholders (Johnson and Scholes, 1997). In addition to shareholders, lots of other people are affected by the company and have a 'stake' in how it behaves. The company ought to take their various interests into account alongside those of shareholders in all its activities. They can all be regarded as investing in it each in thei own way, whether through their capital, their work lives, their purchasing loyalty, or their local support and infrastructure.

Corporate governance is the system by which organisations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance (OECD, 1999).

In the Kenya Gazette Notice no. 369 of 25th January 2002 corporate governance is defined as the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of realising shareholders long-term value while taking into account the interest of other stakeholders. It seeks to promote corporate fairness, transparency and accountability.

Broadly speaking, corporate governance generally refers to the processes by which organisations are directed, controlled and held accountable. It encompasses authority, accountability, stewardship, leadership, direction and control exercised in companies and corporations. Governance is concerned with structures and processes for decision making, accountability, control and behaviour at the top of organisations (PSCGT, 2002) The bottom line is about power, how it is used and controlled (Mullins, 1999)

2.2 Principles of Good Corporate Governance

The Cadbury report (1992) identified the three fundamental principles of corporate governance as openness, integrity and accountability. These principles are relevant to both private and public entities. The Cadbury's report defined these three principles in the context of the private sector and more specifically, of public companies. In the context of the public sector, these definitions need to be adapted to reflect the key characteristics of public sector entities, which distinguish them from the private sector. In particular, public sector entities have to satisfy a more complex range of political, economic and social objectives, which subject them to a different set of external constraints and influences; and are subject to forms of accountability to their various stakeholders which are different to those that a company in the private sector owes to its stakeholders (IFAC, 2001).

The report of the Nolan Committee, published in May 1995, identified and defined seven general principles of conduct that should underpin public life. The committee recommended that all public sectors entities should draw up codes of conduct incorporating these principles. The principles are selflessness, Integrity, objectivity, accountability, openness, honesty and leadership.

Corporate governance seeks to find the appropriate mechanisms for governing the relationships of constituent groups with the organisation so as to generate long-term value. It reduces conflict of interest among stakeholders and makes sure that the right people make the decisions. It ensures that corporate power is exercised in the best interest of society. It also helps the aligning of responsibility and authority to be able to achieve optimum conditions for growth and success (PSCGT, 2002).

Effective corporate governance ensures that long term strategic objectives and plans are established, and the proper management and management structure are in place to achieve those objectives, while at the same time making sure that the structure functions to maintain the company's integrity, reputation, and accountability to its relevant constituencies. The right system of checks and balances should be the basis of merit for any corporate governance system (Hunger and Wheelen, 1996).

2.3 Pillars of Good Corporate Governance

For corporations to be efficient and productive, they must apply good corporate governance practices that are framed on four pillars. First, there should be an *effective body* responsible for governance separate and independent of management to promote accountability, efficiency and effectiveness, probity and integrity, responsibility, transparency and open leadership. Secondly, there must be an *all inclusive approach* to governance that recognises and protects the rights of all members and all stakeholders. Thirdly, the corporation must be *governed and managed in accordance with the mandate granted by the founders and the society*, and they should take their wider responsibilities seriously in order to enhance sustainable prosperity. Finally, the corporate governance framework in the corporations should provide an *enabling environment* within which their human resources can contribute and bring to bear their full creative powers towards finding innovative solutions to shared problems (PSCGT, 2002).

2.4 Importance of Corporate Governance

Good corporate governance aims at the increased profitability and efficiency of business enterprises and their enhanced ability to create wealth for shareholders, increased employment opportunities with better terms for workers and increased benefits to stakeholders. The transparency, accountability and probity of business enterprises make them acceptable as caring, responsible, honest and legitimate wealth creating organs of society. The credibility of business enterprises enhance their capacity to attract investment in an internationally competitive environment. The enhanced legitimacy, responsibility and responsiveness of business enterprises within the economy and improved relationships with their various stakeholders comprising shareholders, managers, employees, customers, suppliers, host communities, providers of finance and the environment enhance their market standing, image and reputation. (PSCGT, 2002)

Good corporate governance ensures the highest standards of corporate responsibility, citizenship and business ethics in an effort to strengthen mutual social responsibility. It enhances the spirit of participatory development, create partnerships for progress and increases citizen engagement in establishing a secure and stable environment in which business enterprises can grow and thrive.

As far as the public sector is concerned, efficient use of resources and accountability strengthens the stewardship of these resources, improve management and service delivery, thereby contributing to improving peoples' lives. Effective governance is essential for building confidence in public sector entities – which is in itself necessary if they are to be effective in meeting their objectives (PSCGT, 2001)

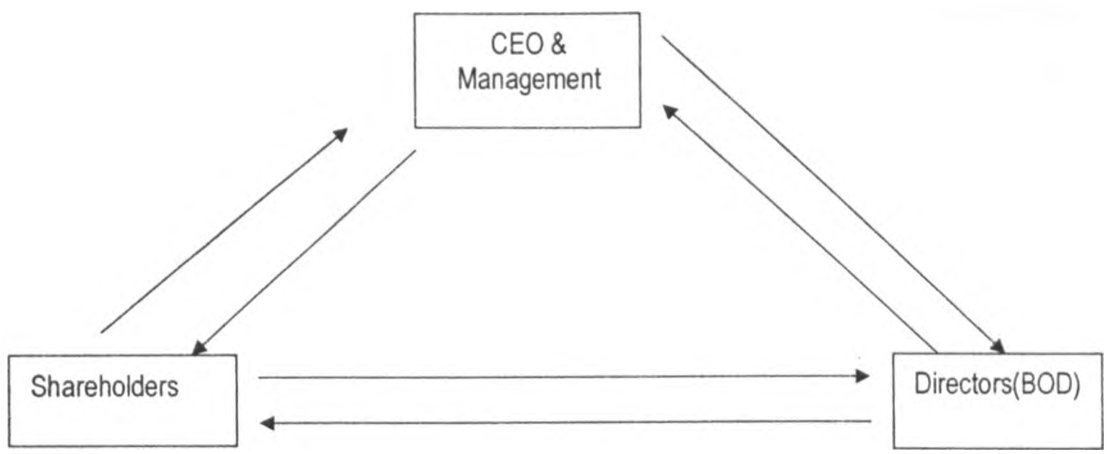
Progressive economic growth and social development over a prolonged period of time depends on decisions about allocation, utilisation and investment of resources. Strategic decisions about the allocation and utilisation of corporate resources are the foundations of investments in productive capacities that can make innovation and economic development possible. Corporate decisions on whether to invest, when to invest, how soon to invest, what to produce, and whether to employ ultimately affect incomes, employment needs and indeed livelihoods of the entire society (PSCGT, 2002).

The national capacity to compete in the borderless and liberalised global market increasingly depends on the competitiveness of individual corporations and their ability to produce highest quality of products and services that meet the test of international competition. A Corporation's competitiveness depends on the ability of the board of directors to apply and generate innovative ideas, acquire and apply knowledge and know how to push and integrate their corporation into the competitive global market (Hunger and Wheelen, 1996).

2.5 Corporate Governance Structure

Montomery and Kaufman (2003) acknowledge that the corporate balance of power is delicate. The three principa actors in this power game are the shareholders, management and the board of directors. The interrelationshi between them is key to effective governance. He depicts this relationship as a triangular relationship.

Fig 1: The Corporate Governance Triangle.



Source: Adapted from Montgomery and Kaufman. "The Board Missing Link", Harvard Business Review, March, 2003

2.5.1 Shareholders

Primarily, it is the money raised from shareholders, known as capital, which is used by an organisation to finance it operations. They do not have direct right in the property of the organisation but have an ownership interest in th organisation as a whole. They do not engage in daily management of the organisation. Instead, they elect person known as directors, who collectively as a board represent them and oversee the management on their behalf. Th shareholders control the long term direction of the organisation through the general meetings which in most type c organisations are held at least once a year. At the general meetings, they deliberate and vote on important issue such as election of directors and auditors. After appointing directors and auditors, they should satisfy themselves th an appropriate governance structure is in place. They are expected to remove directors if unhappy with their action. They should evaluate the performance of directors regularly. For them to be able to do this, they need to be properly informed about the company's activities in order to carry out their evaluation. (PSCGT, 2002)

One of the ways organisations report to their shareholders is through the annual audit reports. The reports are prepared with due regard to requisite disclosure requirements as per governing regulations. Many countries including Kenya have adopted the International Accounting Standards (IAS) which have progressively been improving on disclosure requirements. Stock exchange requirements enhance the accounting standards disclosures. Other sector regulatory requirements like in the banking and insurance also serve to protect shareholder's interest. The power of shareholders is also determined by their awareness level, which is influenced by their education level (Ongore, 2001).

Some highly publicised business failures have led to a questioning of the credibility of the corporate reporting process. Audit committees have been instituted in many organisations to check on the accounting and reporting process.
An audit committee usually consists of a majority of independent and non-executive directors. Important attributes of committee members should include broad business knowledge relevant to the company's business; keen awareness of the interests of the investing public; familiarity with basic accounting principles; and objectivity in carrying out their mandate and no conflict of interest.

The audit committee deals with the annual audit for reporting to outsiders as well as the internal audit. By playing a proactive role, audit committees can enhance credibility of financial reports and strengthen communication between auditors and management. This in turn improves the quality of information reported to the market and enables investors to make informed decisions (IFAC, 2001).

2.5.2 Board of Directors (BOD)

The BOD is the link between the people who provide capital (shareholders) and the people who use that capital to create value. Their primary role is to monitor and influence the performance of management on behalf of the shareholders in an informed way. Efficient corporations can only be established and developed by responsible, creative and innovative boards. Indeed, without efficient corporations, a country will not create and produce wealth fast enough or generate employment opportunities.

In a legal sense, the board is required to direct the affairs of the corporation but not to manage them. It is charged by law to act with due care (sometimes called due diligence). Directors must act with that degree of diligence, care and skill which ordinary prudent people would exercise under similar circumstances in like positions. If a director or the board as a whole fails to act with due care and as a result, the corporation is in some way harmed, the careless director or directors can be held personally liable for harm done.

Hunger and Wheelen (1996) outlines three basic strategic management roles for boards. First, to monitor by acting through its committee, staying abreast of developments both inside and outside the corporation. The board can thus bring to management's attention developments that management might have overlooked. At minimum, a board should carry out this task. Secondly, a board can examine management's proposals, decisions, and actions; agree or disagree with them; give advice and offer suggestions; and outline alternatives. More active boards do so in addition to monitoring management's activities. Thirdly, a board can delineate a corporation's mission and specify strategic options to its management. Only the most active boards take on this task in addition to the previous two.

The boards of most publicly owned companies are composed of both inside and outside directors. Inside directors are officers or executives employed by the corporation. Some countries like Germany adopt a two-tier board system where there is an executive board and a supervisory board (IFAC, 2001).

Traditionally, the CEO of the corporation decided whom to invite to board membership and merely asked the shareholders for approval. The main criteria used by most CEOs in nominating board members were that they be compatible with the CEO and that they bring some prestige to the board. The danger of such a practise is that the CEO might select only board members who in the CEO's opinion, will not question or disturb the company's policies and operations. Moreover, directors selected by the CEO often feel that they should go along with any proposal made by the CEO. Thus board members find themselves accountable to the very management they are charged to oversee. As a result, increasingly the tendency is for a special board committee to nominate new outside board members for election by shareholders (IFAC, 2001).

2.5.3 Management

These comprise the CEO and his senior management team. Their primary responsibility is performance. To management and especially the CEO, is responsible to the board of directors for overall management of the corporation. Specific top management tasks vary from firm to firm and reflect an analysis of the mission, objectives strategies and key activities of the corporation (Johnson and Scholes, 1997). Generally, effective top managers ar people who see the business as a whole, who can balance the present needs of the business against future needs who can make sound timely decisions.

There is a tendency for top management to draw back to functional work. We can also have top managers perceivin only those aspects and responsibilities of their function that is compatible with their abilities, experience, an temperaments as their role. And, if the board of directors fails to state explicitly what it considers to be the bas responsibilities and activities of top management, the top managers are free to define their jobs themselves. Therefo important tasks can be overlooked until a crisis occurs (Johnson and Scholes, 1997).

The Federal republic of Germany pioneered the practice of including corporation workers on the board. However, th need to work for the corporation as a whole and at the same time to represent the workers creates role conflict an stress among worker directors, thus reducing their effectiveness (Gareth and Charles, 2001).The CEO delegat responsibility for performance to the employees. As such, every employee needs to be accountable for his or he expected contribution towards the successful delivery of outputs. Ideally, the CEO should enter into performanc contract with senior executive officers who should in turn enter into performance contracts with their subordinates. Thi would ensure that individual responsibility for management decisions is established and that individuals ar accountable for their actions in the organisation (IFAC, 2001).

A fairly common practice especially at the US was to have the chairman of the board also serve as CEO. However, th recent thinking is that CEOs should not serve as chairman because of the potential for role conflict. It is difficult for th board to oversee top management if the chairman is top management. For this reason, law in Germany, th Netherlands and Finland separates the chairman and CEO roles. Similar laws are being considered in most countrie of the world and the provision has already been included in regulatory authority's guidelines like those by capit market authorities in Kenya (CMA, 2002).

2.6 Reforming Corporate Governance

Scandals like that of Enron described in chapter one have shown the importance of pursuing profits within ethic bounds, and the danger of executives and shareholders enriching themselves by extorting the public or employee Toothless codes of ethics like Enron's are no help. Ethical concerns must grow teeth – which mean biting into refor of corporate governance. While most proposals for reform today merely tinker at the margins, some get to the heart the matter (Estes, 2002). A number of practices have come up to strengthen corporate governance.

In the wake of Enron, WorldCom and a slew of other scandals, America no longer trusts its corporate leaders to tell the truth without being warned by the sound of prison doors slamming. In America, chief executives are swearing in front of a notary that " to the best of my knowledge", their latest annual and quarterly reports neither contain an "untrue statement" nor omit any "material fact". The oaths are only the first wave in a flood of new regulations enveloping companies in America (Kelly, 2002).

Stock exchanges in many countries of the world are coming up with new rules aimed at restoring the quality of disclosure by preventing harmful conflicts that were evident in the most spectacular recent bankruptcies. The NYSE requires firms to get shareholders approval for all stock option plans. They must also have a majority of independent directors in their boards and only independent directors on the audit committees and the committees that select chief executives and determine pay. US companies are now prohibited from providing subsidised loans to executives, and require bosses to reimburse incentive-based compensations if profits are found to have been misstated. In Kenya, the Capital Markets Authority issued guidelines for observance by public listed companies in Kenya, in order to enhance corporate governance practices by such companies. These guidelines came into effect on 14th January, 2002(CMA, 2002).

There are moves to ensure auditors really audit by making them fully independent. Auditors are not the tools of management. They are the eyes and ears of shareholders (who own the company) and no bonds or other deals should be put above the ownership of shareholders (without their permission). Instead of having companies as the "bosses" of their own auditors – selecting and paying the firms they want to work with – a Corporate Accountability Commission could assign auditors and pay them from fees assessed on companies. The commission would be empowered to expand reporting requirements beyond stockholder needs to encompass data needed by other stakeholders – such as pollution emissions, wages and benefits paid, and corporate welfare received (Estes, 2002).

There is insistence that accountants rotate audit partner overseeing a firm's accounts and that auditors can no longer sell certain non-audit services to audit clients. Auditors have too often chosen to ignore skeletons in corporate cupboards. Accounting partners will no longer be able to jump directly into upper management at client companies. In Kenya, we are all too familiar with the case of Unga Ltd in Kenya where a managing consultant moved in to became Managing Director and within a short time run down the company (Market Intelligence, 1998).

If we're tired of boards with "no inkling" of what's going on, we should seek directors who have a clue. If the problem is that CEOs will appoint cronies, make board elections a real horse race: allow persons to self-nominate and run, being elected one by one, not as a slate. In short, get some real governance going (*Kelly, 2002).*

Today, a corporate duty of loyalty is due only to shareholders, not to any other stakeholders, and Enron behaved accordingly – using tricks to drive electricity prices up 900 percent in California and thus fuelling a spike in the company's share price. Such piracy against the public good would be outlawed under a state Code for Corporate Citizenship, proposed by Robert Hinkley, formerly a partner with the law firm Skadden, Arps, Slate, Meagher & Flom. His change to the law of directors' duties would leave the current duty to shareholders in place, but amend it to say shareholder gain may not be pursued at the expense of the community, the employees, or the environment.

Earlier last year, both Enron and Arthur Andersen were suspended from contracting with the federal government. Yet suspensions like these remain far too rare, as companies with far worse records still feed at the government trough in massive amounts. Carolyn Maloney, a New York Democrat on the House Government Reform Committee, plans to introduce legislation requiring a central database of contractor violations. Ultimately, contract suspensions or debarments should be required for companies who face more than one criminal conviction or civil judgement in three years as recommended by the Project on Government Oversight (POGO) in its May 2002 report "Federal Contractor Misconduct". If companies faced threat of contract suspension, ethics would become a genuine bottom-line concern – which is the only way to make ethics real to these folks.

Business schools are reassessing their approach to educating future business leaders. If history is a guide, this wil trigger a new round of classes in business ethics. But will they do any good? Some pundits argue that a graduate business curriculum cannot shape the morality of students who at an average age of 28, already have a wel developed sense of right and wrong. In Kenya, Strathmore University is offering ethics classes in accounting and management courses.

In Kenya, all public officers beginning with the president down to the councillor must submit their declarations of wealth now that the Public Officers Ethics Bill, 2003 has become law. Co-operative societies' committee members and the two most senior public officers of a co-operative society who are not members of the committee will be required to do likewise as will public officers of a co-operative society in job group H and above or equivalent. The bill requires public officials to make annual declarations on their income, assets and liabilities. The bill also sets out a code of conduct that prohibits a wide range of behaviour by public officers. Prohibited behaviour includes solicitation of favours using public office, keeping of gifts, use of information acquired through public office for personal benefit, sexual harassment, partisan political conduct by civil servants and different forms of conflicts of interest (Daily Nation, 4 February, 2002).

2.7 History of Co-operative Societies

Modern co-operatives started in Europe over 150 years ago and have spread to most parts of the world such that today, there is hardly any country where co-operatives do not exist (Gachara,1990). In Kenya, the history of the co-operative movement can be traced to 1908 when co-operative production and marketing was first established by the European farmers at Lumbwa near Kericho (Ouma,1998). Government involvement in co-operatives started in 193 when the first co-operative ordinance was enacted in order to regularise the operations of co-operative societies. Hitherto, co-operatives were registered under business law. A new act came into place in 1945. This act was revised in 1966 to give way to the present co-operative societies act cap 490 of the laws of Kenya.

SACCOS in Kenya are a recent development starting in 1964 with the formation of the first two SACCOS in Kirinyaga and Machakos. These were Mwea Tebere for rice and Vya Parish Community. SACCOS as we know them today can be properly traced to 1969 when the Ministry of Co-operatives and Social Services decided that savings and credit co-operatives would only be for salary earners while credit production schemes would be for the rural areas (M'Ituri(1979)

2.8 Salient Features of Co-operatives in Kenya

In Kenya, Co-operatives form a segment of the private sector that has a special role to play in promoting economic development, especially in drawing poverty groups into more productive activities. Since independence, the movement has been recognised as a vital institution for mobilising human and material resources for various development programmes (Republic of Kenya, 2002). Nairobi is the economic hub of the country and almost all the economic activities in the country are found here. Nairobi also has the highest concentration of urban population and employed labour force. This has favoured the growth of diverse and varied co-operative societies.

Table 1: Status of Nairobi Based Co-operatives as at 31st December 2001

Division	Total No. of Societies			
	Active	Dormant	Newly Registered	Total
Total	1000	462	162	1624

Source: MOARD, Department of Co-operative Development; Annual Report for 2001

Co-operatives cover the full range of business sizes from micro level credit associations, community projects, and crop production to substantial players in the banking, insurance, agriculture marketing and supply sectors (Ongore, 2001).

2.9 Saving and Credit Societies (SACCOs)

SACCOS are part of the financial system in Kenya. They receive savings from members in the form of shares o deposits and from this created pool, they serve the credit needs of members through personal loans. Session Pape No 4 of 1987 on "Renewed Growth through the co-operative movement" lists the following aims of SACCO Societies:

a) Mobilization of savings by encouraging members to have proper savings accounts through which they ca conduct their financial transactions and thereby minimize the keeping of cash at homes. This helps in harnessin the would be idle cash and creation of national wealth.
b) Providing security and protection of members deposits
c) Establishing adequate credit facilities for members
d) Encouraging utilization of capital mobilized within the SACCO for the benefit of members
e) Allowing members through their selected directors to determine how the resources of the Sacco societies shoul be invested for their own benefit.

In Nairobi Province, the membership within societies stood at 683,233 as at December 2001 and with a share capit of Kshs. 35,115,118,499 and turnover of Ksh. 3.5billion. The saving and credit co-operatives (Saccos) form th backbone of the co-operative movement in Nairobi province. Out of the 1624 registered societies in the province, 123 are Saccos(Republic of Kenya,2002).

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Population

Salary earners who have a common board of employment form SACCOs to help them bring their savings together fo onward lending to each other. Nairobi as the capital city of Kenya is the economic hub of the country and almost all the economic activities are found here. It has the highest concentration of urban population and employed labour force This has favoured the growth of SACCOs in Nairobi. Additionally, all the countrywide SACCOs have thei headquarters in Nairobi. The researcher chose Nairobi province for the study in order to cover a wide section of the SACCO movement. According to the Ministry of Co-operative Development report for the year 2001, there were 162 registered co-operative societies in Nairobi. 1235 of these were SACCOs of which 1000 were recorded as being activ in the year 2001. The population consist of these 1000 active SACCOs.

3.2 Sample

The population is large and a study of the whole population was not feasible due to time and cost constraints. sample of size 50 was drawn using the simple random sampling technique. It was expected that at least 30 SACCO would respond, which is a reasonable sample for a finite population of 1000. Other studies in the sector have yielde an over 60% response rate. Gachara(1990) had a 68% response rate.

3.3 Data Collection

From the principles and pillars of corporate governance, the researcher categorised corporate governance into thre main facets and prepared a questionnaire around the same. The questionnaire had three sections in line with th variables being investigated. Section A was on the independent body responsible for governance and separate fro management. Section B covered the five basic principles of corporate governance; that is accountability, Efficienc and Effectiveness, integrity and fairness, responsibility, and transparency. Section C covered the aspect management of the organisation in accordance with the mandate of the founders and society.

A self-administered questionnaire was hand delivered to all the 50 respondents' society. In five cases, pers interviews were conducted with the aim of cross checking information provided by the respondents. Follow up done on telephone and questionnaires were collected when filled up. The questionnaires focussed on all the aspects of corporate governance and were filled in by senior management of co-operatives in the positions of Ge Manager/Manager, Treasurer, Chairman and Secretary.

3.4 Data Analysis

The results of the study were analyzed using descriptive statistics. Descriptive statistics are used to describe the features of the data in a study. They provide simple summaries about the sample and the measures. Together simple graphics analysis, they form the basis of virtually every quantitative analysis of data. Descriptive statistic used to present quantitative descriptions in a manageable form. Data checking was done to make sure tha recorded values were plausible. Coding and editing was done before entering the data into the SPSS (Stat Package for Social Sciences) for the analysis.

CHAPTER 4: DATA ANALYSIS AND FINDINGS

4.1 INTRODUCTION

In this chapter, the data from the completed questionnaires was summarized and presented in frequency tables and percentages. Out of a sample of 50 Nairobi based SACCOs, 31 gave responses giving a 62% response rate. A great majority of these SACCOs have been in existence for more than 10 years as shown in Table 2 below.

Table 2: Period of Existence

Year of establishment	Frequency	Percentage	Cum Percent
1965-1970	2	6%	6%
1971-1975	8	26%	32%
1976-1980	5	16%	48%
1981-1985	7	23%	71%
1986-1990	2	6%	77%
1991-1995	3	10%	87%
1996-2000	1	3%	90%
2001-2002	3	10%	100%
Total	**31**	**100%**	

Source: Own survey

Table 3, 4 and 5 gives administrative details of the SACCOs studied. From Table 3, it can be seen that the SACCOs studied ranged from small to very big with 13% having over 10,000 members. 16% have a share capital exceeding Ksh. 500 million as per Table 5 below.

Table 3: Membership 2002

Number of Members	Frequency	Percent	Cumulative Percent
Less than 100 Members (small)	5	16.1	16.1
100-999 Members (small/medium)	9	29.0	45.2
1000-2999 Members (medium)	5	16.1	61.3
3000-10000Members(big)	8	25.8	87.1
Over 10000 Members (very big)	4	12.9	100.0
Total	**31**	**100.0**	

Source: Own survey

Table 4: Share Capital

Share capital in Ksh.	Frequency	Percent	Cumulative Percent
Below 10million	8	25.8	25.8
10 million - 99 million	7	22.6	48.4
100million - 500 million	10	32.3	80.6
500million-1 billion	5	16.1	96.8
Over 1 billion	1	3.2	100.0
Total	**31**	**100.0**	

Source: Own survey

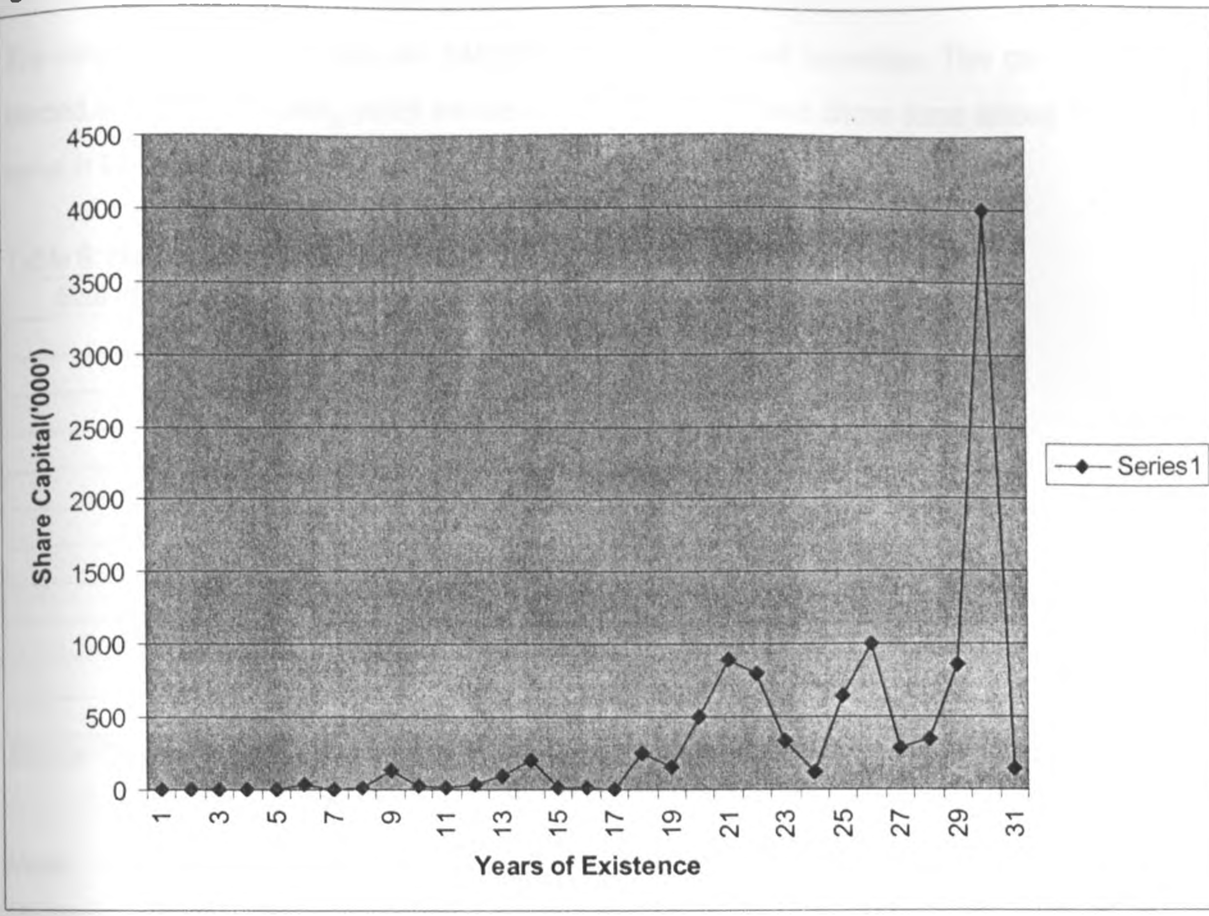
Table 5: Number of employees

No. of Employees	Frequency	Percent	Cumulative Percent
None	6	19.4	19.4
0-10	14	45.2	64.5
11-50	8	25.8	90.3
51-100	1	3.2	93.5
Over 100	2	6.5	100.0
Total	31	100.0	

Source: Own survey

Whereas 19% of the SACCOs studied did not have employees, 2 SACCOS or 6.5% had more than 100 employees. This shows that some of the SACCOs studied were big corporations.

Fig 2: Share Capital and Years of Existence



The graph above shows a trend that indicates that the longer the years of existence, the higher the share capital.

4.2 CORPORATE GOVERNANCE BODY

The corporate governance body for SACCOs is the management committee. This committee is elected at the AGM following which the elected committee members chose some among them to serve in the executive committee.

Table 6: Management Committee

Size of Committee	Frequency	Percent	Cumulative Percent
3	1	3.2	3.2
4	1	3.2	6.5
5	2	6.5	12.9
7	4	12.9	25.8
8	1	3.2	29.0
9	13	41.9	71.0
10	1	3.2	74.2
11	2	6.5	80.6
12	5	16.1	96.8
13	1	3.2	100.0
Total	**31**	**100.0**	

Source: Own survey

Mean	8.87
Median	9
Mode	9

Table 7: Size of Executive Committee

No. of Executive Committee	Frequency	Percent	Cumulative Percent
1	1	3.2	3.2
2	3	9.7	12.9
3	6	19.4	32.3
4	19	61.3	93.5
5	1	3.2	96.8
6	1	3.2	100.0
Total	**31**	**100.0**	

Source: Own survey

The most common size of management committee is 9 as indicated in Table 5 above. The size of management committees varies from 3-13 but the size of executive committee do not vary as much with 61% of the executive committees being made up of 4 members. The regression analysis on Table 8 below shows that size of the committee is not dependent on the size of the SACCO as defined by the number of members.

Table 8: Regression of Membership on Executive Members

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.312	.097	.066	.92

a Predictors: (Constant), Membership 2002
b Dependent Variable: No. of Executive Committee

Table 9: Management Committee level of Education

	Frequency	Percent	Cumulative Percent
Highest level - High School/Diploma	7	22.6	22.6
Highest level - University degree	13	41.9	64.5
Highest level –Masters Degree	8	25.8	90.3
No response	3	9.7	100.0
Total	**31**	**100.0**	

Source: Own survey

Table 9 shows the highest level of education reached by members of the management committee. This was a sensitive question and 3 of the SACCOS studied were unwilling to give a response to this question. Others were not specific as to the number in each category. The summary on Table 9 therefore analyses the highest level of education reached by members of the SACCOs studied. The table shows that 67.7% of the SACCOS have people in their committees who have university education.

Table 10: Cheque Signatories

	Frequency	Percent	Cumulative Percent
Senior Employees sign	8	25.8	25.8
Senior employees do not sign	23	74.2	100.0
Total	**31**	**100.0**	

Source: Own survey

Though 25 of the SACCOs studied had employees as per Table 5, only 8 of these or 32% had at least one employee as a signatory to the bank accounts.

Table 11: Frequency of Management Committee Meetings

	Frequency	Percent	Cumulative Percent
Less than once per month	4	12.9	12.9
Once per month	24	77.4	90.3
More than once per month	3	9.7	100.0
Total	**31**	**100.0**	

Source: Own survey

Table 12: Quorum of Management Committee Meetings

Percentage of Committee	Frequency	Percent	Cum Percent
40%-49%	1	3%	3%
50%-59%	16	52%	55%
60%-69%	6	19%	74%
70%-79%	3	10%	84%
80%-89%	2	6%	90%
90%-100%	3	10%	100%
Total	**31**	**100%**	

Source: Own survey

Table 11 shows that most of the SACCOs hold their management committee meetings once per month. Table 12 shows that only one of the SACCOs studied had a requirement of less than 50% as the quorum for the management committee meeting. 16 % of the SACCOs studied had set a very high quorum requirement of 80% and above.

Table 13: Training Program

	Frequency	Percent	Cumulative Percent
Have training program	26	83.9	83.9
No training program	5	16.1	100.0
Total	**31**	**100.0**	

Source: Own survey

Only 16% of the SACCOs studied do not have training programs for their management committees. However many could not outline the major items included in the training program with a majority quoting Kenya Union of Savings and Credit Co-operative Organizations (KUSCCO) as the training program accessed by their management committee members.

Table 14: CEO

CEO	Frequency	Percent	Cumulative Percent
General Manager	11	35.5	35.5
Chairman of MC	16	51.6	87.1
Management Committee (MC)	4	12.9	100.0
Total	**31**	**100.0**	

Source: Own survey

Table 15: Recruitment of GM

Recruitment by	Frequency	Percent	Valid Percent
Management Committee	11	35.5	100.0
Missing	20	64.5	
Total	**31**	**100.0**	

Source: Own survey

Table 14 and 15 shows the person occupying the CEO position in the SACCOs studied and the body that recruits the general manager. 36% of the SACCOs studied had the General Manager as the CEO while 52% had the chairman of the management committee as the CEO. The management committee in all cases recruits the General Manager.

4.3 PRINCIPLES OF CORPORATE GOVERNANCE

Table 16: Statement on Corporate Governance

Statement	Frequency	Percent	Cumulative Percent
1. Creates legitimate organizations managed with integrity, honesty and transparency	10	32.3	32.3
2. Creates effective, efficient and sustainable organizations	6	19.4	51.6
3. Recognition and protection of shareholders rights	3	9.7	61.3
4. Inclusive approach based on democratic ideas, legitimate representation and participation.	7	22.6	83.9
5. Though Important difficult to implement due to its complexity and cost involved	0	0	83.9
6. First 4	1	3.2	87.1
7. First 3	3	9.7	96.8
8. All five	1	3.2	100.0
Total	**31**	**100.0**	

Source: Own survey

The greatest proportion of SACCOs studied (32%) rank first the importance of corporate governance in creating legitimate organizations that are managed with integrity, honesty and transparency. None of the SACCOs studied see corporate governance as being difficult to implement due to its complexity and costs involved. As per Table 16,only one SACCO did not rank the five factors.

Table 17: Last AGM

Date of AGM	Frequency	Percent	Valid Percent	Cumulative Percent
2002	8	25.8	27.6	27.6
2003 - by August 2003	21	67.7	72.4	100.0
Total	29	93.5	100.0	
Missing	2	6.5		
Total	**31**	**100.0**		

Source: Own survey

72% of the SACCOs studied had held their annual general meeting (AGM) by end of August 2003. 28% are still to hold their AGM, 8 months after the December 31st year-end.

Table 18: Frequency of Annual General Meetings

	Frequency	Percent	Cumulative Percent
Once per year	28	90.3	90.3
Twice per year	1	3.2	93.5
Adhoc – not determinate	2	6.5	100.0
Total	**31**	**100.0**	

As per Table 18, a great majority of SACCOs studied (90%) hold their AGMs once per year.

Table 19: Period with current auditors

Period	Frequency	Percent	Valid Percent	Cumulative Percent
One year	4	12.9	13.8	13.8
2 years	8	25.8	27.6	41.4
3 years	8	25.8	27.6	69.0
Over 3 years	9	29.0	31.0	100.0
Total	29	93.5	100.0	
Missing	2	6.5		
Total	**31**	**100.0**		

Source: Own survey

Table 20: Role of external auditor

	Frequency	Percent	Valid Percent	Cumulative Percent
No other role	13	41.9	43.3	43.3
Other roles	17	54.8	56.7	100.0
Total	30	96.8	100.0	
Missing	1	3.2		
Total	**31**	**100.0**		

Source: Own survey

Table 19 shows the period that the SACCOs studied have been with their current auditor while Table 20 indicates whether the auditor plays any other role besides audit. Out of the 30 SACCOs that have appointed auditors, 57% have the auditor playing other roles besides audit. These other roles include taxation, internal audit and book-keeping.

Table 21: Internal audit reporting

	Frequency	Percent	Valid Percent	Cumulative Percent
Reports to GM	5	16.1	31.3	31.3
Reports to Chairman of MC	3	9.7	18.8	50.0
Reports to MC	3	9.7	18.8	68.8
Reports to supervisory committee	2	6.5	12.5	81.3
Chief Finance Officer	3	9.7	18.8	100.0
Total	**16**	**51.6**	**100.0**	
Missing	15	48.4		
Total	**31**	**100.0**		

Source: Own survey

Of the 16 SACCOs reporting to have an internal audit function, 50% have the function reporting to either the General Manager or the Chairman of the Management Committee with 31% reporting to the General Manager while 19% report to the Chairman of the executive committee. Only 12% has the internal audit function reporting to the supervisory committee.

Majority of these SACCOs(40%) ranked 'vouching' as the most important function of the internal audit function while budgetary control and procedure compliance had 27% and 20% respectively.

Table 22: Staff Recruitment Methods

	Frequency	Percent	Valid Percent	Cumulative Percent
Ads in newspapers	14	45.2	56.0	56.0
Staff/members reference	3	9.7	12.0	68.0
Recruitment agents	2	6.5	8.0	76.0
1st two methods	2	6.5	8.0	84.0
All the three	2	6.5	8.0	92.0
Other(fliers, posters etc)	2	6.5	8.0	100.0
Total	25	80.6	100.0	
Missing	6	19.4		
Total	**31**	**100.0**		

Source: Own survey

Table 23: Code of Conduct for employees

	Frequency	Percent	Valid Percent	Cumulative Percent
Have	20	64.5	80.0	80.0
Do not have	5	16.1	20.0	100.0
Total	25	80.6	100.0	
Missing	6	19.4		
Total	**31**	**100.0**		

Source: Own survey

Most of the SACCOs with employees (56%) do their recruitment through newspaper adverts but a sizeable portion (12%) use staff/members references as per Table 22. 80% of the SACCOs studied have a written code of conduct for their employees as per Table 23.

Table 24: Frauds occurrence

	Frequency	Percent	Cumulative Percent
Yes this year	1	3.2	3.2
Yes last 3 years	6	19.4	22.6
Yes this year and last 3 years	2	6.5	29.0
No fraud	22	71.0	100.0
Total	**31**	**100.0**	

Source: Own survey

From Table 24, we see that 29% of the SACCOs studied have experienced fraud in the last three years.

4.4 FOUNDERS MANDATE

Table 25:Role of Management Committee

	Frequency	Percent	Valid Percent	Cumulative Percent
Monitor through committee	8	25.8	25.8	25.8
Examine mgt proposals, give advice, offer suggestions & outline alternatives	10	32.3	32.3	58.1
Delineate mission and specify strategic options	7	22.6	22.6	80.6
No ranking- all three	4	12.9	12.9	93.5
No ranking - two choices	2	6.5	6.5	100.0
Total	**31**	**100.0**	**100.0**	

Source: Own survey

Table 25 indicates that according to the SACCOs studied, the most important role of management committee is to examine management proposals, give advice, offer suggestions and outline alternatives. Of second importance is the role of monitoring through committees, staying abreast of development both inside and outside the organization.

Table 26: Mission

	Frequency	Percent	Cumulative Percent
Unique mission articulated	4	12.9	12.9
Generic mission articulated	27	87.1	100.0
Total	**31**	**100.0**	

Source: Own survey

As per Table 26, only 13% of the SACCOs studied gave a unique mission for their organization. The rest was a generic mission of SACCOs; i.e. encourage thrift and provision of loans to members.

Table 27: Development loans duration

Repayment Period	Frequency	Percent	Valid Percent	Cumulative Percent
36-48 months	12	38.7	41.4	41.4
24-36 months	12	38.7	41.4	82.8
Less than 24 months	5	16.1	17.2	100.0
Total	**29**	**93.5**	**100.0**	
Missing(only short term)	2	6.5		
Total	**31**	**100.0**		

Source: Own survey

Table 28: Waiting period for development loans

Waiting period	Frequency	Percent	Valid Percent	Cumulative Percent
Less than 1 month	11	35.5	37.9	37.9
1-3 months	12	38.7	41.4	79.3
3-6 months	3	9.7	10.3	89.7
6-12months	1	3.2	3.4	93.1
Over one year	2	6.5	6.9	100.0
Total	**29**	**93.5**	**100.0**	
Missing	2	6.5		
Total	**31**	**100.0**		

Source: Own survey

Table 27 and 28 looks at durations of the loans given by the SACCOS and the waiting period from application to receipt of loans. In all the SACCOs studied, the loans were mainly divided into two classes; long term and short term. The short-term loans include school fees and emergency loans and are mainly repaid within 12 months. The most common waiting period for development loans is between 3-6 months. However, we have 2 SACCOs reporting a waiting period of over one year for development loans.

Table 29:Investments (largest investments)

Largest Investments	Frequency	Percent	Valid Percent	Cumulative Percent
Land	1	3.2	4.0	4.0
Buildings	8	25.8	32.0	36.0
Bonds	3	9.7	12.0	48.0
Fixed deposit	7	22.6	28.0	76.0
Shares in public or private co.	6	19.4	24.0	100.0
Total	**25**	**80.6**	**100.0**	
Missing	6	19.4		
Total	**31**	**100.0**		

Source: Own survey

Table 30: Investment Decisions

Decision making body	Frequency	Percent
AGM	18	72%
Management Committee	7	28%
Total	**25**	**100%**

Source: Own survey

Table 29 indicates that of the SACCOs holding investments, the greatest proportion (32%) have their major investments in buildings. Though a great majority of the SACCOs make investment decisions at the annual general meeting (AGM) a sizeable number (28%) make their investment decisions in their management committee meetings as per Table 30.

4.5 GENERAL

Through open ended questions SACCOs were asked to discuss the problems that they face and their suggested solutions. The most common problems in the SACCOs studied are ranked below starting with the problem that was discussed by most of the SACCOs(Table 31).

Table 31: Ranking of problems faced by SACCOs

Rank	Problem
1	Cash flow
2	Low income
3	Retrenchments, resignations
4	Delay in remittance of contributions by employer
5	Communication between members and management
6	Poor management and leadership
7	High overhead and wastage

Source: Own survey

The SACCOs main objective is to provide loans to members and cash flow, which was identified as the most common problem in Table 31 inhibits their ability to meet this objective. Further discussions revealed that the cash flow problem is caused by misappropriation of cash either through corrupt deals or improper investments.

CHAPTER 5: SUMMARY, DISCUSSIONS AND CONCLUSIONS

5.1 SUMMARY OF FINDINGS

SACCOs as we know them today were first established in 1969. The study had SACCOs established in 1969 up to the year 2002. As shown in figure 1, older SACCOs generally have more share capital. This arises from the fact that share capital continually builds up as members are obligated to make monthly contributions. The result of this is that the very big SACCOs are the ones that were established many years ago.

The study found out that there is low correlation of the size of the executive committee and the membership. The executive committee positions are outlined in the Co-operative Act and hence the presence of at least 3 executive committee members in most of the SACCOs.

The study found out that in most SACCOs, there is no independent body responsible for corporate governance that is separate from management. In all the SACCOs studied, the management committee exercised executive functions like signing of cheques. Some of the SACCOs that had employees had only the management committee signing cheques. Additionally, more than half of the SACCOs studied had the Chairman of the Management Committee as the CEO as per Table 14. This is contrary to modern thinking where the CEO should not serve as Chairman because of potential role conflict. It is difficult for the board to oversee management if the chairman is top management.

The management committees meet regularly with most meeting at least once per month. This is a good level of interaction and it can be concluded that the management committees are kept abreast of developments within the SACCOs. The quorum for management committee meetings has been set at 50% and above meaning that representation is good in the decision making body. A high percentage of the SACCOs have management committee members who have university education and none reported having management committee members who have only primary school level of education. One SACCOs reported that they have put a minimum level of education as a requirement to join the management committee. The study shows that people running SACCOs generally have good level of education. Most of the SACCOs also report that they have a training program for the management committee.

As per Table 16, SACCOs recognize the importance of corporate governance. The study explored the operation of the seven principles of corporate governance; that is selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

SACCOs have 31st December as the year-end. Most of the SACCOs had audited their books to the end of year 2002 and had held their AGM by end of August 2003 when this study was being carried out. Almost all the SACCOs have the AGM once per year.

Majority of the SACCOs studied had their external auditors playing other roles besides audit as per Table 20. Though many SACCOs have an internal audit function, only 12% have the function reporting to the supervisory committee. In all other cases, the function reports to management.

Majority of SACCOs recruit their staff using advertisement in the newspapers and formal interviews as per Table 22. A number of SACCOs studied have a written down code of conduct for their employees.

Frauds are common in the SACCOs studied as shown in the number of SACCOs that have experienced frauds in the last three years. One in every five SACCO having fraud perpetrated means that fraud is a major problem in SACCOs.

The SACCOs studied see the most important role of management committee as being the examination of management proposals, giving advice, offering suggestions and outlining alternatives. Next in their ranking was the role of monitoring through committees staying abreast of developments both inside and outside the organization.

Most SACCOs have lived to their mission of providing loans to members and over 80% are able to give loans extending for over 24 months. The duration of time from application to processing is fairly reasonable with 79% reporting 6 months and below as per Table 28. However, there is a small percentage of SACCOs whose members have to wait for more than one year from application to receipt of development loans. The SACCOs short term loans are issued within one month for all cases and have a repayment period of 12 months.

Of the SACCOs studied, almost half reported having their major investments in illiquid assets like land and building. The investment decisions are made at the AGM with only 28% making the investment decisions in management committee meetings.

In the general discussion on problems facing SACCOs, the biggest problem identified was cash flow management. This results from improper financial management where lending rules are not applied appropriately and where cash is tied to unprofitable assets. Cash flow problems lead to a backlog in issuing of loans and the use of expensive borrowing facilities to meet financial obligations. Other causes of cash flow problem is wastage especially in the area of purchases where due to vested interests, the SACCOs purchase items at several times their normal costs.

5.2 DISCUSSIONS

The high proportion of SACCOs recording more than 10 years of existence as per Table 1 is an indicator of the stability of the SACCO sector. The fact that 39% of the SACCOs studied had a membership above 3000 and 19% had shareholding above Ksh. 500 million indicates that SACCO societies are becoming big organizations controlling a lot of resources. This underlines the importance of SACCOs in the economy. A country's ability to achieve sustainable prosperity depends on decisions about allocation, utilization and investment of resources.

Despite the general lack of independent body responsible for governance, the governance body can be said to be well informed going by the level of education and involvement through frequent meetings. The issue of a governance body seriously needs to be considered if SACCOs are to comply with convectional corporate governance standards. The chairman of the management committee should not serve as CEO because of the potential for role conflict. It is difficult for the committee to oversee management if the chairman is part of management.

The SACCOs score very poorly in the seven principles of corporate governance as defined by the Nolan Committee (1995). These principles are selflessness, integrity, objectivity, accountability, openness, honesty and leadership. Adherence to these principles brings in a system of checks and balances thereby providing an enabling environment through which set objectives and plans are achieved.

The other roles played by the SACCO auditor's compromise their independence. These other roles extend even to bookkeeping a role that would make the audit process almost futile. The best way to make auditors really audit is by making them fully independent. However, SACCOs are able to operate on very low overheads due to having a low proportionate number of employees in relation to their turnover. We thus have some SACCOs having no employees and the auditor in most cases will contribute to the bookkeeping work.

The fact that most of the internal audit teams reports to management reduce their value to the accountability process. It becomes difficult for the function to appraise members on the omissions by management who are their direct supervisors.

A good number of SACCOs reported to have open recruitment process for their staffs. However, the proportion of SACCOs using methods that are not open is considerably high as per Table 22.

Investment in long-term assets is not in line with the members' goals and has in most cases resulted to cash flow problems. Gachara(1990) found out that SACCOs are unable to provide loans to members because of the large amounts invested in low return projects which had no clear benefits to members. The study found out that there are some SACCOs make investment decisions at the management committee meetings to the exclusion of members who suffer the impact of wrong investment decisions.

Politics surrounding the election of management committee compromise the quality of leadership in SACCOs. The Co-operative Act rule does not state the qualification of people to be elected to the management committee. The SACCOs operate on the one-man one vote principle, which does not always assure equity. In the private sector, shareholding is a major factor to consider in appointment of board members unlike the SACCOs.

5.3 CONCLUSION & RECOMMEDATIONS

Most the problems reported by SACCOs hinge on governance. The SACCOs studied complain that the Co-operative Act though providing certain safeguards has been difficult to implement. The Act should be strictly enforced and situations like employers holding on to staff contributions should not be allowed.

The organization structure in SACCOs needs to be re-examined with a view to creating an independent body responsible for governance separate from management. The Co-operative Act can be amended to make minimum provisions for the separation of the management and the monitoring role. Structures should be put in place to empower management in the daily running of the SACCOs with the management committee having no executive powers. This will mean that the management committee will be the separate body responsible for governance separate from management.

To enhance openness, selflessness, accountability, honesty and integrity, elections to management committee should be regulated through provisions on minimum requirements to ensure fair representation. The audit function should be made totally independent such that auditors do not provide other services besides audit. Each SACCO should be required to have a competent bookkeeper regardless of the size. The value of proper books of accounts cannot be underestimated. Internal audit should be strengthened to curb the high level of frauds. The function should report to the supervisory committee to enhance their powers in checking malfunctions in management. The supervisory committee should be strengthened and made to operate as an audit committee.

SACCOs experiencing cash flow problems and having capital investments should liquidate them so that they can focus on their mission to encourage thrift and providing credit to members. When this mission is jeopardized, the SACCOs have deviated from the mission and objectives of their founders.

Though many SACCOs gave low income and retrenchment/resignations as problems affecting their performance, there is little that the SACCOs by themselves can do to alleviate this problem. The SACCOs should concentrate on the other problems identified and especially financial management, communication with members and politicking in elections leading to appointment of poor leaders or leaders with vested interests. Dealing with the deficiencies in corporate governance will strengthen accountability and bring in responsible representation thereby enhancing the democratic principle in SACCO societies.

5.4 LIMITATIONS OF THE STUDY

Due to time and resources constraints, study was restricted to SACCOs based in Nairobi province. The study did not also stratify SACCOs into the different sectors of the industry where they draw their membership.

Getting response from the SACCOs was very difficult and many trips and follow up telephone conversations had to be made. One firm after staying with the questionnaire for more than two weeks returned it blank with the remark that they were too busy to fill in the questionnaire. The study got responses from 31 SACCOs from the 50 selected for the study.

5.5 SUGGESTIONS FOR FURTHER RESEARCH

A study can be carried out to determine whether there is better governance in SACCOs that have employees as compared to those that do not have employees. The presence of employees makes it possible to have a governance body separate from management, which is a major tenet of corporate governance.

A study can also be carried out comparing governance practices in SACCOs and other Co-operative societies. Essentially, all Co-operatives are regulated by the Co-operative Act, which was revised last in1997. A study can also be carried out to investigate the effect of governance on performance of SACCOs.

APPENDIX 1

CORPORATE GOVERNANCE IN SACCOS QUESTIONAIRE

Please answer the following questions according to instructions given

INTRODUCTION

1. Name of Co-operative____

2. Year of establishment_________________________

3. Membership(2001)__________________(2002)______________

4. Share Capital_________________________

5. Current number of employees____________

6. Designation of Respondent______________________________

SECTION A: CORPORATE GOVERNANCE BODY

GENERAL

7. Besides the co-operative act, do you have a policy or strategy that govern the appointment and structure of management committees Yes( ) No( )

8. If yes, what is the main difference between your policy and that specified by the Act.

   ____

MANAGEMENT COMMITTEE

9. Number of members (a) Executive_____________(b) Non Executive____________

10. Designation of Senior management who attend management committee meetings____

11. Designation of Cheque signatories____

12. How frequently does the management committee meets? _________________

13. Approximately how many full management committee meetings were held last year?________________

14. What is the quorum for management committee meetings? _____________

15. What matters are deliberated by the management committee?. Tick all that are relevant.

    Strategic ( )

    Financial ( )

    Operations ( )

    Loans ( )

    Human Resources ( )

16. What exceptional issues are handled by management committee? ____ ________ Have any such issues arisen in the past one year? Yes( ), No( ). If yes, what were the issues?____

17. Level of Education of management committee & Senior Management

	Committee Number	Senior Management Number
Primary School	________	________
High School	________	________
Diploma	________	________
University(undergraduate)	________	________
University(Masters)	________	________
Total	__________	__________

18. Do you have a training program for the management committee members? Yes( ), No( ). If yes, what courses are included in the program?

____

CHAIRMAN AND CEO(For Saccos with employees only)

19. Who is the chief executive of the organisation? General Manager( ), Chairman of Management Committee( ), Management Committee( )
20. Who recruits and fires the General Manager? Chairman ( ), Management Committee( ), Other; Specify____________

SECTION B: PRINCIPLES OF CORPORATE GOVERNANCE

GENERAL

21. In your opinion, which of the following statements are true about good corporate governance? Rank 1-5

    a) Creates legitimate organizations that are managed with integrity, honesty and transparency. ( )

    b) Creates effective, efficient and sustainable organizations( )

    c) Recognition and protection of stakeholder rights( )

    d) Inclusive approach based on democratic ideas, legitimate representation and participation( )

    e) Though important difficult to implement due to its complexity and cost involved( )

22. In the last three years, have you distributed a surplus by way of dividends on shares and or interest on deposits? Yes ( ), No ( ).

SUPPLY OF INFORMATION

23. What information is supplied to management committee for consideration?

    Financial ( )

    Administrative ( )

    Human Resources ( )

    Program Activities ( )

    Budgets and Plans ( )

    Corporate Strategy( )

Tick as many as appropriate

24. At what frequency are AGM/ Special general meetings held?

    Once per 1.5 years( )

    Once per year( )

    Twice per year( )

    Thrice per year( )

    Other - Specify_______________________________

When was the last AGM held? State Month & Year_______________________________

ACCOUNTABILITY & AUDIT

25. How long have you been with your current external auditors? ____________________

26. Do you have an audit committee? Yes ( ), No ( ). If so, list the titles of its members.

____

27. Does the current auditor play any other role other than audit? Yes ( ), No ( ). If yes, specify________________________

28. Internal audit

    a) Do you have an internal audit function? Yes ( ) No ( )

    b) If the function exists, what is the job title of team leader and who does he or she report to?

    ____

    c) What matters are handled by the internal audit function? Rank in order of priority beginning with most important.

    - Vouching ( )
    - Budgetary control ( )
    - Procedure compliance ( )
    - Economic value added ( )
    - Liason with external auditor ( )

    d) If you have an audit committee, which officers or board members sit in such a committee?.

    ____

    e) Up to when has the SACCO been audited? State year____________________________

EMPLOYEES(If the Sacco does not have employees, skip this section)

29. Which of the following methods represent the method that your society uses in recruitment?

    Advertisement in Newspapers and formal interviews

    Staff/members references

Use of Recruitment agents

Other, Specify____

30. Do you have a written down code of conduct for your employees? Yes ( ) No ( )

31. Do you have service level agreements with your members?; eg, loans take a maximum of three months to be paid Yes ( ) No ( )

FRAUDS

32. Has any fraud occurred this year? Yes ( ) No ( )

33. Has any fraud occurred in the last three years? Yes ( ) No ( )

34. If the answer is yes to any of the above, who discovered the fraud? State title________________________

SECTION C: FOUNDERS' MANDATE

GENERAL

35. Which of the statement below best describe the role of the management committee? Tick as appropriate.

    a. Monitor through its committees, staying abreast of development both inside and outside the organization ( ).

    b. Examine management proposals, decisions and actions, agree or disagree with them, give advice, offer suggestions and outline alternatives ( ).

    c. Delineate the SACCO's mission and specify strategic options to the management( )

36. Please put down the society's mission in the space provided below.

LOANS

37. List the types of loans given by your SACCO.

Type	Repayment Period	Current Waiting period before receiving

INVESTMENTS

38. What investments does your organisation hold

a) Land( )

b) Buildings( )

c) Government Bonds eg treasury bills ( )

d) Bank Fixed Deposits ( )

e) Shares in Public or Private companies( )

f) Commercial Paper ( )

39. Of the investments above, which constitute the highest percentage?____________________________

40. At what meetings are investment decisions agreed?

a) Management Committee( )

b) AGM ( )

c) Senior Management ( )

d) Other, Specify______________________

OVERALL

Answer the following questions in the space provided below. You can use additional sheets if the space is inadequate.

41. Comment on the effectiveness of

a) The management committee

b) The supervisory committee

c) The audit function

d) The senior managers

e) The employees

42. What problems do you see that affect the management of your SACCO?

43. How can these problems be solved?

1 ABLH

2 AMREF

3 ASILI

4 BILLET

5 BOULEVARD

6 CHAI

7 CHUNA

8 CIMBIRIA

9 CLEANSHINE

10 CONNECTIONS

11 CPC

12 ENDELEA

13 FUGO

14 HARAMBEE

15 HUDUMA

16 KASNEB

17 KENCHIC

18 KENCOM

19 KENYATTA MATIBABU

20 KONGONI

21 LOMOCO

22 MAGEREZA

23 MAWASILIANO

24 METHODIST

25 MHASIBU

26 MORGIS

27 MUTANGAZAJI

28 NACICO

29 NATION

30 NGUMO MATATUS

31 NYATI

32 PARKLANDS

33 PENGO

34 POLICE SACCO

35 POSTBANK

36 RELI

37 SAFARI PARK

38 SAINTS SACCO

39 SAUTI

40 SHERIA

41 SHIRIKA

42 SHUTTLE

43 UFUNDI

44 UKULIMA

45 UNITED WORKERS

46 VILLAGE

47 WAKALANO

48 WANAANGA

49 WANAKUKOPESHA

50 WASADO

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