Effect of Corporate Governance on Performance of Savings and Credit Co-operative Societies in Kakamega County

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Abstract

The study on the effect of corporate governance on performance of SACCOs was based on the revelations that some cooperatives are ailing, while others are very vibrant and sustainable. Good corporate governance is now accepted as vital to achieving the Millennium Development Goals and as a pre-condition for sustainable economic growth. The purpose of this study was to examine the effect of corporate governance on performance of SACCOs. Corporate governance was operationalized by transparency and accountability, shareholder involvement, policies and guidelines, and rewards and incentives while performance of SACCOs was characterized by growth in share capital/deposits, growth in membership, growth in turnover, and customer satisfaction. The significance of the study was to demonstrate the need for good corporate governance in the co-operative movement. Extensive literature was reviewed to establish the importance of the study, highlighted knowledge gaps and provided benchmark for comparison of the findings. The target population was 33 Savings and Credit Co-operative Societies in Kakamega County. Stratified sampling was applied to get the number of respondents in the study. The respondents were the executive board members, ordinary members, and Chief Executive Officers from the sampled SACCOs. Descriptive and correlational survey designs were both used. Data collection was conducted by use of a questionnaire and document review. Cronbach's alpha coefficient (KR 20), a test of reliability was computed to define the correlation of items contained in the instruments. Piloting of the instruments was through pre-testing of the instruments by carrying out a pilot study in two co-operatives that is Weko and Wesacco. Data was analyzed using descriptive and inferential statistics. The study found that corporate governance had a significant positive effect on performance of SACCOs. Recommendations from this study included the need for all SACCOs to embrace corporate governance since it enhances performance. Measures should also be put in place for SACCOs to embrace right culture, learning, and right organizational structures as they implement their plans. However, the study has recommended further researches on the effect of corporate governance in other types of co-operatives like housing, marketing, and co-operative unions and research that will cover a wider area.

Key words: Corporate Governance, Performance, Savings and Credit Co-operatives, Kenya

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1. Background

The study on the effect of corporate governance on performance of SACCOs was based on the revelations that some cooperatives are ailing, while others are very vibrant and sustainable. According to the Cadbury report (1992), corporate governance is the system by which companies are directed and controlled. A number of high profile scandals highlighted the need for guidance to confront the problems that arose in the system of governance. The Cadbury committee was set up in 1991 and at the heart of its recommendations was the code of best practice which all listed companies were to comply with. The Committee on the financial aspects of corporate governance, forever after known as the Cadbury committee, was established in May 1991 by the Financial Reporting Council, the London Stock Exchange, and the accountancy profession. The spur for the Committee's creation was an increasing lack of investor confidence in the honesty and accountability of listed companies, occasioned in particular by the sudden financial collapses of two companies, Wallpaper group Coloroll and Asil Nadir's Polly Peck consortium: neither of these sudden failures was at all foreshadowed in their apparently healthy published accounts. The Greenbury committee was set up in 1995 on the same initiative with terms of reference to ascertain what good practice in determining directors pay was and to prepare a code of best practice based on its findings. This committee was not only responding to public and shareholders' concern about pay increases and accountability, but also the issue of how to reward performance.

Pearce and Robinson (2011) observes that to restore public confidence in the reliability of financial reporting, the US Senate and House of Representatives passed the Sarbanes-Oxley Act of 2002, sending it to President George W. Bush, who signed the reform measure into law on July 30, 2002. They explain that when the Sarbanes Oxley Act of 2002 was signed into Law; there was increased disclosure by companies. Each annual and quarterly financial report filed with Securities and Exchange Commission (SEC) was to disclose all material off-balance sheet transactions, arrangements, and obligations that may affect the current or future financial condition of the company. According to McIntyre (2006), corporate governance tends to be more complex in co-operative structures, compared with classical firms, not only due to their democratic principle for decision making but also because their ownership is usually much more diverse. This makes corporate governance a fairly touchy issue more so for growth and performance dynamics for credit unions which unions in some countries like Kenya are called savings and credit co-operatives. Good governance is now accepted as virtual to a achieving the Millennium Development Goal (MDG) that deals with eradication of extreme poverty and hunger and as a pre-condition for sustainability of organizations. Section 27 of the Kenyan Co-operative Societies Act provides that the supreme authority of a co-operative shall be vested in the general meeting at which members shall have the right to attend, participate, and vote on all matters. Section 28(3) of the Co-operative Societies Act provides that the Committee/Board of Directors (BOD) shall be the governing body of the co-operative and shall, subject to any direction from the general meeting or the by-laws of the co-operative society direct the affairs of the co-operative Society with powers to enter into contracts, institute and defend suits and other legal proceedings brought in the name of or against the co-operative society and do all the things necessary to achieve the objectives of the co-operative in accordance with its by-laws (Co-operative Societies Act, CAP.490).This means the Board of Directors/Management Committee are responsible for making sure that the objectives of the Organization are realized.

In this study, performance of SACCOs was used to mean the level of customer satisfaction in light of the services offered by this type of co-operatives which services include affordable source of credit to members. The indicators of performance in these organizations included growth in members' deposits, growth in membership, and turnover. Performance of SACCOs therefore is measured in the light the objectives contained in every organization's by-laws. This is in line with Wanyama (2009) who observes that SACCOs provide savings and credit services to its members as their primary objective. A co-operative society in this study means a general name for any type of co-operative, which includes savings and credit, housing, marketing, or even farmers' co-operatives. The SACCOs as a type of co-operative societies do mobilize savings and then lend to the members under terms agreed upon in their specific general meetings. The loaning is administered through loan policies developed by individual SACCOs. Pollet and Develtere (2004), observe that successful cooperatives reviewed reveal that governance issues play a crucial role in harnessing the different associative and business forces at play in cooperatives.

Contemporary co-operative organizations embrace corporate governance but there is no clear indication however that this corporate governance really has a bearing on performance of SACCOs. It is often inferred that agency problems are more prevalent, disturbing and acute in cooperatives than in other (non-investor owned) businesses. In other words, cooperatives would have inherent problems in defining who best takes the entrepreneurial lead in the organization: the members, the directors or management? There is, however, no concluding theoretical basis or empirical evidence for this pessimistic view. Previous studies also showed that member/management conflict increases with the growth of the co-operatives (Cuevas & Fischer, 2006), and hence poor performance. Lari (2009), argues that principal/agency conflicts affect performance of co-operatives. It was not known whether such agency issues affect performance of SACCOs across board. Could these be the only governance issues affecting performance? Was the effect the same in all SACCOs?

2. Literature Review

Corporate governance refers to the process by which corporate entities are directed, controlled and held accountable. Corporate governance encompasses the authority, accountability, stewardship, direction and control exercised in corporations. It is important to point out that an effective system of corporate governance helps to facilitate decision making, accountability and responsibility within and outside a corporate entity. Good corporate governance ensures that the varying interests of stakeholders are balanced, decisions are made in a rational, informed and transparent fashion and decisions contribute to the overall efficiency and effectiveness of the organization (Centre for Corporate Governance, 2005). We define good co-operative governance as governance that achieves the maximum level of economic performance compatible with the preservation or development of the co-operative identity, particularly maintaining democratic decision-making principles (Chaves et al. 2008). According to Johnson *et al.* (2008), corporate governance is concerned with the structures and systems of control by which managers are held accountable to those who have a legitimate stake in an organization. Lynch (2009), states that corporate governance refers to the influence and power of the stakeholders to control the strategic direction of the organization in general, especially the authority of the Chief Executive Officer and other senior officers of the organization. Lynch (2009), argues that the importance of corporate governance lies in the power that is given to the senior officers to run the affairs of the organization.

According to MOCDM (2008),there exist opportunities for mismanagement namely: Insufficient commitment by stakeholders, insufficient clarity of roles and responsibilities by stakeholders, inadequate professionalism and discipline, inadequate internal management and operational system, elections are not free and fair and inadequate management committee education. Successful co-operatives are results-oriented and creative with marketable products. They invest in quality management, and their pricing as well as interest rate policies are inspired by the prevailing market conditions (Develtere *et al*, 2008: 20). Pollet and Develtere (2004), conclude that in successful cooperatives, governance issues play a crucial role in harnessing the different associative and business forces at play in a cooperative. It is often inferred that agency problems are more prevalent, disturbing and acute in co-operatives than in other (non-investor owned) businesses. In other words, cooperatives would have inherent problems in defining who best takes the entrepreneurial lead in the organization: the members, the directors or management? There is, however, no concluding theoretical basis or empirical evidence for this pessimistic view. Transparency, democratic governance, internal accountability and control are necessary ingredients to build this homogeneity of interests and to limit free riding, sub-goal or opportunistic pursuit and other deviant behaviour. The case studies confirm that the institutional set-up of the cooperative model with its general assemblies, elected and co-opted boards of directors, management committees and different controlling agencies is well suited to make these interaction patterns conflict-low and to a certain extent predictable.(Pollet&Devetere,2004). Political affiliation of board members is reported to be a significant problem in several SACCOS and it is observed board membership in a SACCO can lead to a political appointment (World Bank, 2007).

2.1 Transparency and accountability

According to Odera (2012), Governance problems specific to the SACCO pose challenges not faced by many other forms of organizations. However, when a number of controls are brought to bear on the problems including; well-defined institutional rules of governance, internal controls, service adequacy, prudential management disciplines and external supervision, the problems can be overcome to produce a stable and balanced financial intermediary. Boards of Directors in SACCOs are empowered to make decisions they believe will benefit the organization (section 28 of the Co-operative Societies Act CAP 490).They must be held accountable and responsible for performance results. In Kenya, the Centre for Corporate Governance in Liaison with the Ministry of Co-operative Development and Marketing (2008) has developed guidelines that must be adhered to in the management of co-operatives with regard to specific key areas to enhance performance for example: Have regular and timely elections and allow members to participate without interference; Maintain up-to date and accurate records of the organizations and ensure audited accounts are presented and read to members on time and members allowed to deliberate and resolve on them; Develop code of conduct and best practice for their leaders; Delegation of duties to enhance transparency and accountability such that each co-operative recruit experienced and professional persons with clear job descriptions to avoid the board members acting as executives ;Training-this can do a lot to enhance transparency and accountability. These governance issues have not been clearly investigated as to how they affect performance of SACCOs.

Shaw (2003) reveals that a majority of the co-operative frameworks and by-laws are provided by the government without adapting them for the specific needs of their society. Cuevas and Fischer (2006), identify the principal source of failure for co-operative financial institutions (CFIs) as deriving from member/owner conflict with management. The growth of a co-operative inevitably expands (or dilutes) ownership and managers become subject to weaker controls. This results in rent-seeking behaviour and wasteful expenses. Labie and Perilleux (2006), conclude that; there is a conflict between owners and managers and that there is conflict between the members and their elected board of directors. "Board directors are democratically elected by membership (one person, one vote) but they may remain beholden to individual members who have mobilized votes on their behalf". Research gaps that need attention are other factors that affect performance of SACCOs apart from principal-agent relationships. Additionally, there was inadequate knowledge on whether the level of transparency and accountability was uniform or not and whether it influences performance of Co-operatives generally and whether it is applicable to SACCOs. In the previous studies, performance of the SACCOs is not explained on the basis clear criteria for instance in terms of growth in membership, turnover, deposits, and even customer satisfaction in Kenyan co-operatives.

2.2 Shareholder involvement

According to Chaves (2008), the decision-making bodies of the credit co-operatives have bypassed the effect that the bond with the members and their participation in the organization's decisions can have in the sense of being a basic asset for trust in the organization and for its viability. It is revealed that a low level of member participation, also known as membership apathy is a characteristic of big and mature co-operatives. This assertion needs further research. MOCDM (2008), points out those shareholders in co-operative societies must play their role in ensuring that their organizations are well governed. The shareholders in SACCOS are the members who have the supreme authority in their organizations. The shareholders have to be involved so that they own all the decisions taken in the SACCOS. Their involvement is through attendance of general meetings which meetings could be annual or special as prescribed in section 27 of the Co-operative Societies Act CAP 490.Section 21 of the co-operative societies Act stipulates that every member has a right to attend and participate in decisions taken at all general meetings of the society and vote; be elected to organs of the society, subject to its by-laws ;enjoy the use of all the facilities and services of the society subject to the society's by-laws; right to all legitimate information relating to the society including internal regulations, registers, minutes of general meetings, supervisory and investigation reports at the society head office. When shareholders do all these, the boards are kept on their toes and governance is enhanced. This adds to improved service delivery in the co-operatives. These legal governance aspects in co-operatives need to be investigated to establish how they impact on performance. Birchall and Simmons (2001), hierarchically distinguish the following about members as shareholders: giving information, getting information, consultation, taking part in actual decision making, and exercising control. It is not known how this can affect performance hence need for a research study.

2.3 Policies and guidelines

According to Thompson and Strickland (2001), prescribing policies and operating procedures aid the task of implementing strategy by aligning actions and behaviour with strategy throughout the organization, placing limits on independent action and channelling individual and group efforts along the intended path. They add that policies and procedures counteract tendencies for some people to resist or reject common approaches. Olando et al (2012), conclude that growth of SACCOs' wealth depended on financial stewardship, Capital structure and Funds allocation strategy. They further found that SACCOs inadequately complied with their bylaws. It is not known how noncompliance with the bylaws and other policies affects performance. The SACCO board should therefore be inventive in devising policies and practices that can provide vital support to effective strategy implementation and execution as they carry out the governance mandate as stipulated in section 28 of the Co-operatives Societies Act. Birchall (2003), observes that Governments which wish to promote co-operatives of all types around the world already have guidance in the form of the Recommendation 193 on Promotion of co-operatives. Passed in 2002, this recognizes that governments should provide a supportive framework for co-operative development, but insists that co-operatives are autonomous associations of persons that have their own values and principles. This means that promotion should not involve direct support to the business but capacity building that enables members to make the co-operative succeed for them.

Kobia, (2011) observes that governance guidelines to be observed in co-operatives include guidelines on the following areas; authority and duties of co-operative members as shareholders, role/function and responsibilities of the board/management committee, values and strategies, co-operative communication, monitoring performance of board/management committee. According to Kipanga (2004), Legislation can play a pivotal role in paving the way for the development of an independent co-operative movement and thereby assist in poverty alleviation and people's empowerment and therefore a sound legal framework is key to sustainable growth and expanded outreach of financial co-operatives, along with appropriate regulation and supervision. As financial co-operatives grow into broader financial institutions they should progressively come under financial sector regulations based on best practice prudential norms and ratios. Internal governance and strong leadership are also key (World Bank, 2007:2). It is not known from these findings are whether these prudential standards being applied are adequate and are of any impact as far as performance of co-operatives is concerned. According to Dow (2003), Co-operatives need a supportive policy framework to be sustainable as happens with Leg co-operatives in Italy where an enabling legislative and financial framework has helped create a large and vibrant co-operative sector. The researcher from the literature reviewed observes that there is limited knowledge as to which other policies apart the ones investigated like policies on pricing and interest rates really affect performance. A host of other policies and guidelines which can be studied include those on procurement, financial management, investment, human resource and risk management.

2.4 Rewards and incentives

Lari (2009) observes that institutions performance revolve around the relation employer-employee and job incentives to the employees. He argues that the agency problem and incentives are identified as macro-economic problems besides being microeconomic ones that affect performance in organizations. Thompson *et al* (2004), observes that company managers typically use an assortment of motivational techniques and rewards to enlist organization-wide commitment to executing the strategic plan. A manager has to do more than just talk to everyone about how important new strategic practices and performance targets are to the organization's well-being. Develtere et al (2008), observe that an important aspect of human resource management which needs special attention in co-operative organizations is the development of a reward system which will attract, retain, and motivate co-operative personnel, as well as provide training and promotional opportunities. Their findings reveal that Co-operative organizations in Asian and African countries have a poor reward system where employees are not only poorly paid but are paid late. It is revealed that there are no provisions for rewarding superior performance or for a wage system based on merit and promotion criteria are based on seniority and length of service.

Wambua (2011) concludes that employee involvement affected the financial performance of the SACCOs. Thompson *et al* (2004), have found out that Financial incentives generally head the list of motivating tools for trying to gain whole-hearted employee commitment to good strategy execution and operating excellence but they note that successful companies and managers normally make extensive use of such nonmonetary carrot-and-stick incentives as frequent words of praise, special recognition at company gatherings or in the company newsletter, more job security, simulative assignments, and opportunities to transfer to attractive locations, increased autonomy, and rapid promotion. Other motivational approaches to spur stronger employee commitment they note include: Providing attractive perks and fringe benefits, relying on promotion from within whenever possible, making sure that the ideas and suggestions of employees are valued and respected, creating a work atmosphere where there is genuine sincerity, caring and mutual respect among workers and between management and employees, sharing information with employees about financial performance strategy, operational measures, market conditions and competitors' actions.

SACCO regulations number 63-65 provide for the appointment of the Chief Executive Officer (CEO) who is answerable to the Board of directors. The same SACCO regulations stipulate that the CEO shall be responsible to the Board of directors for the operation and administration of the SACCO society on a day to day basis while paying attention to the implementation and adherence to the policies, procedures and standards; systems that have been established to facilitate efficient operations and communication, the planning process that has been developed to facilitate achievement of the targets and objectives; all staff matters, particularly human resource development and training; Adherence to the established code of conduct; the Act, the rules, by-laws and any other applicable laws. Burnes (2009) found out that employers and employees will increasingly come to look for new and more appropriate ways of rewarding and being rewarded. According to Chase *et al* (2006),when a comparison of common reward/incentive plans was made, it was found that merit pay and pay for knowledge are individual based and have the advantages of allowing management to target specific behaviour and to easily evoke criteria over time, and allows management to target specific types of skills and personal growth respectively. They argue that profit sharing, gain sharing, lump sum bonuses and piece rates are applicable to groups and when applied have the advantages of tying business performance to employee rewards and allows management to target specific output goals. What is not clear is the effect of this motivational effort on performance of co-operatives.

3. Methodology and Design

Descriptive survey design and correlational survey design were adopted in this study. Descriptive survey design was used for the purpose of describing the state of affairs as it exists in particular SACCOs. The researcher systematically collected and analyzed data in order to test hypotheses relating to corporate governance, performance of SACCOs and strategy implementation factors in particular SACCOs. Correlational survey design enabled the researcher to map out the relationship between corporate governance and performance of SACCOs and the effect of strategy implementation factors as well. The study area was Kakamega County with a Population of about 1, 660, 651 people having an area of 3,224.9 Km^2.This County was selected because of its diversity in terms of the number of sectors represented in the SACCOs that is; there are employee based SACCOs, Jua Kali based, and Farmer based which gives adequate representation for research purposes. Kakamega County borders Bungoma to the North, Trans Nzoia to the North East, Uasin Gishu, and Nandi Counties to the East, Vihiga to the South, Siaya to the South West and Busia to the West. The area is mainly tropical with a wide diurnal range and high rainfall amounts. The economic activities in the County include; agriculture mainly sugarcane farming and small scale mixed farming producing maize, beans, millet, tea, Dairy products, sunflower and soya beans; Transport especially Boda boda motor cycle transport; Commercial businesses; and Small Scale Gold mining. Kakamega County is a commercial centre and this is evidenced by the various banks in the area which include Co-operative bank, Kenya Commercial Bank, Barclays Bank, Family bank and Equity Bank. The County is also an educational centre being home to the prestigious Masinde Muliro University of Science and Technology.

The 33 SACCOs in Kakamega County formed the population of the study. The unit of analysis was the SACCO. This being a survey study, a portion of the population was used for the study so as to extrapolate the findings and make conclusions about the population. The study targeted 449 respondents from the sampled SACCOs within Kakamega County which included staff (CEOs), board members (executive officials), and a few selected ordinary members who are active in the SACCOs. A large sample size is required to produce statistically valid results through the utilization of multivariate analytical techniques (Hair *et al*., 1995).For the purposes of this study, a sample size of 42% of the population was taken that is 14 SACCOS out of the 33 operating in Kakamega County represented by 55 executive officials, 14CEOs, and 379 ordinary members since this fitted into the researcher's limited budget. For ordinary members, since the total number of members in the SACCOs was more than 10,000, a statistical formula was used to determine the number of respondents (Kothari, 2009). This is consistent with Gay (1981) who suggests that for correlational research, 30 cases or more are required; and for descriptive studies, ten percent of the accessible population is enough. Stratified random sampling technique was used in the 8 districts of Kakamega County because there were variations among the strata in different districts. The researcher therefore used disproportionate stratified sampling to determine the sample from each district since the number of SACCOs in each District was not the same (Saunders et al, 2009). Having selected the 14 SACCOs all the 4 executive officials and all the 14 CEOs participated in the study. As for the ordinary members, 27 respondents from each of the 14 SACCOs were identified using simple random sampling.

3.1 Data collection and analysis

Data was collected by the researcher from relevant respondents in the SACCOs using questionnaires. Since the study variables were evaluated by the respondents well, primary data was used in this study. However; secondary data was obtained from both the MOCDM Offices and from the SACCOs to validate and check for inconsistencies of the primary sources. Blaikie (2003), observes that it has become common practice to assume that Likert-type categories constitute interval-level measurement where Likert scales are used but data is described using means and standard deviations and parametric analyses such as ANOVA performed. Saunders et al (2009) note that where data are likely to have similar size gaps between data values, they can be analyzed as if they were numerical interval data. The researcher therefore considered use of means, standard deviations, and parametric analyses in this study. Data was analyzed through descriptive statistics that is: measure of central tendency and measure of dispersion and also through inferential statistics namely correlation and regression analysis to test hypotheses. Data was cleaned and then coded through extensive checks for consistency. Secondary data from the County Co-operative office and the District Co-operative offices was useful in validating some of the respondents' responses. Data analysis was done using a set of descriptive and inferential statistics in SPSS Version 11.5 software.

4. Results and Discussion

To assess the influence of transparency and accountability in the co-operatives, respondents were required to give their responses as to which relevant reports are presented and discussed during general meetings, and status of management tools in the SACCOs that is the budget, the trial balance, and economic reports. They were also required to give their opinions on whether other stakeholders including the Ministry get reports of the board. The responses are shown in tables below:

Table 4.1: Relevant reports presented and discussed during general meetings

	Frequency	Percent	Cumulative Percent
Yes	45	95.7	95.7
No	2	4.3	100.0
Total	47	100.0	

Source; Research data

The research data in table 4.1 above shows that 95.7 percent of the respondents agreed that corporate governance is embraced and enhances performance in the SACCOs through presentation and discussion of relevant reports during general meetings as 4.3 percent of them disagreed with that position.

Table 4.2: Status trial balance, budgets, and economic in the SACCOs

	Frequency	Valid Percent	Cumulative Percent
up to date	35	74.5	74.5
In arrear	12	25.5	100.0
Total	47	100.0	

Source; Research data

The research data in table 4.2 showed that 74.5percent of the SACCOs studied had their trial balances, budgets, and economic reports updated while 25.5 percent had theirs in arrears. These management tools are indicators of good corporate governance and are a basis for decision making in SACCOs.

Table 4.3: Committee reports filed with MOCDM

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	20	7.2	42.6	42.6
No	27	9.7	57.4	100.0
Total	47	16.8	100.0	

Source; Research data

From the research data in table 4.3 above, 57.4 percent of the SACCOs do not file committee reports to the Ministry of Co-operatives while 42.6 percent of the SACCOs studied do so. The filing of these reports is an indicator of accountability and adequate disclosure in co-operatives.

This is consistent with conclusions that the directors were involved in making the internal corporate governance mechanisms, reducing ownership concentration which affected the financial performance of the SACCOs and that leadership affected the financial performance of the SACCOs (Wambua, 2011).

4.1 Shareholder involvement

To find out the effect of involving shareholders in major decisions of the co-operatives, respondents were asked to give their responses on issues that need their indulgent like decision making and feedback mechanisms in their institutions. Their responses are summarized in the tables below:

Table 4.4: Members attend meetings in large numbers (over 60% attendance)

	Frequency	Valid Percent	Cumulative Percent
Strongly disagree	10	3.7	3.7
Slightly disagree	8	3.0	6.7
Neutral	4	1.5	8.2
Slightly agree	81	30.2	38.4
Strongly agree	165	61.6	100.0
Total	268	100.0	

Source; Research data

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The research data in table 4.4 above shows that 91.8 percent of the respondents agreed and strongly agreed that there is over 60 percent attendance of general meetings by members during which major SACCOs decisions are taken, 6.7 percent disagreed while 1.5 percent were neutral.

Table 4.5: Members always involved in making decisions at the society.

	Frequency	Valid Percent	Cumulative Percent
Strongly disagree	10	3.7	3.7
Slightly disagree	5	1.9	5.6
Neutral	6	2.2	7.8
Slightly agree	61	22.8	30.6
Strongly agree	186	69.4	100.0
Total	268	100.0	

Source; Research data

The research data above in table 4.5 indicates that 92.2 percent of the respondents agreed that members are involved in making important decisions in SACCOs, 5.6 percent disagreed with this statement, and 2.2 percent were neutral.

Table 4.6: There are adequate structures for feedback in the SACCOs

	Frequency	Valid Percent	Cumulative Percent
Strongly disagree	20	7.5	7.5
Slightly disagree	43	16.0	23.5
Neutral	7	2.6	26.1
Slightly agree	59	22.0	48.1
Strongly agree	139	51.9	100.0
Total	268	100.0	

Source; Research data

Table 4.6 above shows that 73.9 percent of the respondents agreed that there is adequate feedback in their co-operatives, 23.5 percent of the respondents did not allude to that with 2.6 percent of them taking a neutral position. Feedback mechanisms allow corrective measures to be taken hence enhancing corporate governance. These findings confirms Gijselinckx (2009) findings that giving sufficient, clear and transparent information is a crucial factor in member involvement and that democratic participation by members is a non-material advantage to them.

4.2 Policies and guidelines

To determine the importance and role of policies and guidelines in SACCOs, respondents were asked to give their responses on how corporate governance is operationalized through policies and guidelines in SACCOs by identifying key policies and guidelines that are in place. These guidelines help organizations achieve set prudential standards. Their reactions are summarized in the tables below;

Table 4.7: Policies on investments, human resource loans, education and training, values, and risk management

	Frequency	Percent	Cumulative Percent
Strongly disagree	7	14.9	14.9
Slightly disagree	4	8.5	23.4
Neutral	3	6.4	29.8
Slightly agree	10	21.3	51.1
Strongly agree	23	48.9	100.0
Total	47	100.0	

Source; Research data

Table 4.7 shows that of the 47 respondents, 70.2 percent agreed that there are policies in use that guide the boards on investments, human resource, loans, education and training, values, and risk management while 23.4 percent of the respondents disagreed with this as 6.4 percent of the respondents neither agreed nor disagreed.

Table 4.8: Ministry of Co-operative's guidelines and circulars adhered to in SACCOs

	Frequency	Valid Percent	Cumulative Percent
Strongly disagree	13	27.7	27.7
Slightly disagree	3	6.4	34.0
Neutral	2	4.3	38.3
Slightly agree	11	23.4	61.7
Strongly agree	18	38.3	100.0
Total	47	100.0	

Source; Research data

The research data in the above table shows that 61.7 percent of the 47 respondents agreed the Ministry of Co-operative's guidelines and circulars are adhered to in SACCOs while, 34 percent of them disagreed with this position as 4.3 percent neither agreed nor disagreed.

Table 4.9: There are documented procurement and disposal guidelines in the SACCOs

	Frequency	Valid Percent	Cumulative Percent
Strongly disagree	13	27.7	27.7
Slightly disagree	1	2.1	29.8
Neutral	2	4.3	34.0
Slightly agree	14	29.8	63.8
Strongly agree	17	36.2	100.0
Total	47	100.0	

Source; Research data

The above research data in table 4.9 shows that 63.8 percent of the respondents agreed that there are documented procurement and disposal guidelines which if in place ensure adherence to the laid down tendering procedures making boards to be more transparent and accountable in the SACCOs, 29.8 percent of them disagreed with this position while 4.3 percent neither agreed nor disagreed. These findings are consistent with those of Sebhatu (2011) that governance, policy and regulatory environment, weak institutional capacity was among the factors affecting the outreach and sustainability of SACCOs. This is consistent with Odera (2012) observations that well-defined institutional rules of governance, internal controls, service adequacy, prudential management disciplines and external supervision produce a stable and balanced financial intermediary.

4.3 Rewards and incentives

To establish whether rewards and incentives have an influence on performance of SACCOs, the respondents were required to state their level of agreement on the following staff issues; the SACCO gives annual pay increases based on merit, the SACCO allows staff performance bonuses, and whether there are provisions for rapid promotion for exemplary performance.

Table 4.10: The SACCO gives annual pay increases based on merit

	Frequency	Valid Percent	Cumulative Percent
Strongly disagree	18	38.3	38.3
Slightly disagree	3	6.4	44.7
Neutral	2	4.3	48.9
Slightly agree	13	27.7	76.6
Strongly agree	11	23.4	100.0
Total	47	100.0	

Source; Research data

The research data in table 4.10 indicates that of the 47 respondents, 51.1 percent agreed that there are annual pay increases based on merit. Those who disagreed with this position were 44.7 percent of the respondents and 4.3 percent of them neither agreed nor disagreed.

Table 4.11: The SACCO allows staff performance bonuses and ownership of deposits

	Frequency	Percent	Cumulative Percent
Strongly disagree	3	6.4	6.4
Slightly disagree	1	2.1	8.5
Neutral	1	2.1	10.6
Slightly agree	5	10.6	21.3
Strongly agree	37	78.7	100.0
Total	47	100.0	

Source; Research data

In table 4.11, 88.3 percent of the respondents agreed that the SACCOs allow bonuses to staff and ownership of deposits which are incentives that motivate employees to perform better while 8.5 percent disagreed and 2.1 percent neither agreed nor disagreed.

Table 4.12: Recognition and rapid promotions for exemplary performance

	Frequency	Percent	Cumulative Percent
Strongly disagree	12	25.5	25.5
Slightly disagree	5	10.6	36.2
Neutral	2	4.3	40.4
slightly agree	12	25.5	66.0
strongly agree	16	34.0	100.0
Total	47	100.0	

Source; Research data

In the above table, 59.5 percent of the respondents agreed that there is recognition and rapid promotions for exemplary performance in the SACCOs. Of the remaining respondents, 36.2 percent disagreed while 4.3 percent neither agreed nor disagreed.

These findings concurs with Wambua (2011) conclusion that employee involvement affected the financial performance of the SACCO.

4.4 Effect of corporate governance on performance of SACCOs

In order to assess the influence of corporate governance on performance of SACCOs, the study had set the following null hypothesis;

$H_{01:}$ There is no relationship between corporate governance and performance of SACCOs.

The researcher used the regression coefficient r (beta β) to test the hypothesis with the test criteria set that the study rejects the null hypothesis (H_{01}) if $\beta_1 \neq 0$, otherwise fail to reject H_{01} ($\beta_1 = 0$). To test the hypothesis, the mean score of the firm performance of SACCOs (P) was regressed with the mean score of the Corporate Governance (CG).The mean scores were arrived at by adding all the individual scores divided by the total number of respondents and the relevant results are presented in Table 4.13 below:

Table 4.13 Regression results of performance of SACCOs against corporate governance

Overall significance ;ANOVA(b)

	Sum of Squares	Degree of freedom	Mean Square	F	Sig.
Regression	.059	1	.059	1.376	.003(a)
Residual	.172	4	.043		
Total	.231	5			

a Predictors: (Constant), corporate governance
b Dependent Variable: performance of SACCOs

Correlation Coefficients(a)

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta (β)		
(Constant)	3.415	.204		16.747	.000
Corporate governance	.277	.051	.924	5.404	.003

Dependent Variable: performance of SACCOs

From Table 4.13 above, the regression results shows that at 95 percent confidence interval, the regression between the mean of performance of SACCOs against the mean of Corporate governance (CG) had a beta term, β_1= 0.924 (F = 1.376,t = 5.404) and the overall significance p- value=0.03.The results were statistically significant since the p-value of 0.03 is less than 0.05 The hypothesis criteria was that the null hypothesis (H_{01}) should be rejected if $\beta1\neq 0$ (otherwise fail to reject H_{01}). From the above correlation results (β_1=0.924≠0) the researcher therefore rejected the null hypothesis and concluded that corporate governance affects performance of SACCOs. This compares favourably with findings by Wasike (2012) that corporate governance at Elimu SACCO encompassed authority, accountability, stewardship, leadership, direction and control exercised within an organization with conclusions that the corporate governance helped in defining the relation between the SACCO and its general environment, the social and political systems in which it operates and also linked the way management and control were organized thus affecting the performance of the SACCO and its long run competitiveness.

A goodness of fit analysis was done in order to determine the strength of the relationship and the results presented in the table below:

Table 4.14 Goodness of fit analysis performance of SACCOs against corporate governance

Goodness of fit analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.924(a)	.854	.825	.11243

a Predictors: (Constant), corporate governance

Source: Research data

The goodness of fit results from Table 4.14 shows that the relationship followed a simple regression model of the nature P= 3.415+0.92.4CG+ε where P is the Performance of SACCOs, constant intercept term (α=3.415), 0.924 is the beta (β=0.924) or the slope coefficient, CG is corporate governance and ε is the error term. The coefficient of determination (r^2) of 0.854 in percentage terms means that 85.4 percent of the performance of SACCOs can be explained by variation in corporate governance and the remaining 14.6 percent is explained by either random variation or random variation plus the combined effect that other omitted explanatory variables have on performance of SACCOs. Therefore these results show that there is a very strong positive relationship between corporate governance and performance of SACCOs. This concurs with the findings that corporate governance is certainly the cornerstone of cooperatives' originality. By moving away from the principles that guide their practice, cooperatives risk losing what makes such governance genuinely different (Boned,2006). This as well concurs with findings by Okwee (2012) that less compliance with corporate governance as well as high risk levels explain the relatively poor financial performance of SACCOs.

5. Summary of key findings

This study was informed by revelations that some co-operatives are ailing while others are vibrant and sustainable. According to MOCDM (2008), Emphasis has been laid on corporate governance in co-operatives. Corporate governance is premised on the Cadbury report of 1992 where recommendations were made on good corporate governance in companies that can minimize fraud and enhance productivity. The broad objective of this study was to determine whether corporate governance influences performance of SACCOs. Corporate governance was taken as independent variable; performance was the dependent variable while strategy implementation factors were taken as moderating factors. This study had three objectives and three null hypotheses. The null hypotheses were tested using the Karl Pearson's zero order and first order partial correlation analysis. The section below presents key findings of the study based on the hypotheses.

The objective was to assess the effect of corporate governance on performance of SACCOs with corporate governance dimensions being transparency and accountability, shareholder involvement, policies and guidelines, and rewards and incentives while performance of SACCOs dimensions were growth in share capital/deposits, growth in membership, customer satisfaction, and growth in turnover. Some of the indicators of corporate governance had a negative correlation amongst themselves while others had a positive correlation. The study found out that corporate governance significantly affect performance of SACCOs with 85.4 percent of performance (r^2= 0.854) being explained by corporate governance and the remaining 14.6 percent is explained by either random variation or random variation plus the combined effect that other omitted explanatory variables.

5.2 Conclusions

Based on the results of this study, it can be concluded that corporate governance influences performance of SACCOs. Corporate governance was found to positively affect Performance (r = 0.924) with 85.4 percent (r^2= 0.854) of performance being explained by corporate governance. However, when SACCOs embrace corporate governance it is observed that some dimensions of governance should be emphasized. The results show that transparency and accountability is enhanced through generation and discussion of relevant reports, involvement of the ordinary membership in all major decisions in co-operatives, development. Operationalization of relevant policies and guidelines which impact positively in the co-operatives, and motivation of employees through staff bonuses and promotions perform wonders in propelling co-operatives to higher strides as observed in this study.

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