INVESTIGATING THE DYNAMICS AFFECTING CORPORATION GOVERNANCE ON FINANCIAL PERFOMANCE OF CREDIT CO-OPERATIVE SOCIETIES AND SAVING IN EMBU COUNTY

(A CASE STUDY OF YOKEN SACCO, MBEERE SOUTH SUB-COUNTY)

BY

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DECLARATION

DECLARATION BY THE STUDENT

These project is my original work and has not been presented to any other institution for an examination requirement.

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SIGN…….
DATE…….

DECLARATION BY THE SUPERVISOR

These Research Project has been submitted with my approval as the Management University of Africa Supervisor.
Dr. John Cheluget

DEDICATION

Special dedication to my immediate family who were generous in supporting and encouraging me in the course of research study, in particular to my beloved wife Alice Wakuthii my brother David Githinji as well as Evans Kariuki.

I also thank my workmates for their sincere support and encouragement during my course. May almighty God bless you all.

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ABSTRACT

These research project is meant to identify the dynamics affecting financial performance in savings and credit cooperative societies in Embu County. Another specific objective is to point out the impact of the board of director on the performance of Sacco's. The study also noted the effects of regulations on Sacco's. The study also ascertained the impact of integrity of CEO on performance of Sacco's. It also determined the impact of shareholders on performance of Sacco's. The researcher used the descriptive research design. The target population was Sacco staff, Sacco members and board of directors selected within Yoken Sacco. The target population was 100 respondents who consisted of 9 Board of Directors, 15 staff members, 76 delegates. The sample size was 33 members. The researcher used stratified random sampling to get the respondent. Data was collected using questionnaire which the respondents freely gave their opinions. Quantitative and qualitative data analysis methods were used in Data analysis which was carried out using descriptive statistics. The researcher made conclusions on the findings and giving the necessary recommendations to the end users so that they can improve their organizations through improved corporate governance. Corporate governance is a strategy which is very crucial in the current world so as to sustain the increasing level of competition while maintaining market share and growth at the same time. During election of the board of directors, shareholders should ensure that they elect credible leaders who are vision able and can drive the organization to greater heights.

The study concludes that the financial performance of SACCOs is greatly affected by the Board of Directors. It is also evident that the education level and monitoring of various activities done by the management staff via the Board of Directors plays a very big part in ensuring the success of Sacco's. The study concludes that the regulatory framework bears a great impact on the performance of the Sacco financial in the sense that the cost of compliance is very high and also there is lost business opportunity as the regulations limits the Sacco diversification so as to increase its business capacity. From the research, the researcher found out that the CEOs integrity had a great effect to Sacco and it was important for the board of directors to ensure that the staff members being led by the CEO should observe ethical issues. Shareholders are the pillars of any given entity globally. In the research, the researcher found out that accountability of the shareholders is the key to the success of the Sacco. The board should perform thorough Financial monitoring which should lead to the adoption of a constitution that clearly points out the steps to follow when choosing or replacing the directors and the CEO.

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DEFINATION OF TERMS

BY LAWS:	Laws set by the members of the Sacco in order to govern them properly.
CO-OPERATE GOVERNANCE:	is a set of customs, processes, institutions and laws hence affecting the way the corporation is controlled administered or directed.
GOVERNANCE:	Refers to the decisions that define expectations, grants power, or verify performance for the administering the running of the Sacco.
REGULATION:	the act of being controlled through directives, parameters or guidelines set aside.
SACCO:	A group of people that comes together with a common interest to provides savings and credit facilities to its members.
TECHNOLOGY:	utilization of proper machinery, know how or expertise in transformation of input into output.

ABBREVIATIONS/ACRONYMS

A.G.M: Annual General Meeting

B.O.D: Board of directors

CAK: Cooperative Alliance of Kenya

KERUSSU: Kenya Rural Savings and Credit Cooperative Society Union

KUSCCO: Kenya Union of Savings and Credit Cooperative

SACCO: Savings and Credit Cooperative.

SASRA: Sacco societies Regulatory Authority

WOCCU: World Council of Credit Unions

CHAPTER ONE

1.0 Introduction

The chapter addresses the Statement of problem, the background of the study, Specific objectives addressed in the study, objectives of the Study, corporate governance, and Sacco societies in Kenya. Sacco governance, Research Questions, Significance of the Study, Limitations of the Study and the Scope of the Study are also addressed.

1.1 Background of the Study

Governance is all about the process and structure of accountability, decision making, behavior in the leadership of the origination, and control. The concept involving practices which entail the control of companies and the organization of the management is known as corporate governance. Corporate governance can also be termed as a means by which organizations are controlled and directed. These means a process by which the organization is held accountable for what it does alongside being controlled and directed. It includes, stewardship, control, authority, direction and accountability as exercised in the corporation. It shows the interrelation and interaction of the groups and people responsible for providing resources to the company and give towards better performance an example being the employees, long term subcontractors and suppliers, shareholders and creditors (Brownbridge, 2010). Corporate governance in SACCOs is a fairly touchy and much more complex issue as Co-operatives are based on the principle of democracy in regards to decision making with much more spread ownership than classical firms (Labie and Përilleux, 2009). According to the AMFIU Report (2009) governance challenges still existed particularly among SACCOs where risk were highest, given that they collected and intermediated members' savings. Company governance helps define the relationship between the corporation and its general environment, and the political and social systems in which it operates. It is connected to economic performance which is observable from the way control and management are organized and how they affect the company's competitiveness and its long run performance. The conditions necessary for the degree of investors' confidence and the access to capital markets is determined by the corporate governance (Brownbridge, 2010). Corporate governance is comprises of processes, policies, institutions, customs and Laws affecting how a corporation is directed, or controlled (Knell 2009). Corporate governance majors on the relationships between the stakeholders, and the goals that guide the corporation. The main participants are the shareholders, board of directors and the management the stakeholders

being employees, suppliers, customers, bankers and other regulators Lenders, and regulators (Knell2009). Good corporate governance helps the company to avoid any vulnerability that might lead to any form of financial distress in the future (Bhagat and Jefferis, 2008). The structure of governance affects the ability of a company to respond to any external factors weighing on the financial issues and this has been stated from time to time in any corporate organization (Donaldson, 2010). Regarding the governance structure, it has been observed that firms that are well governed do better and that commendable corporate governance essential to the firms' financial performance. Demsetz and Villalonga (2009) claim that a corporate governance system that is functioning well goes a long way in helping a firm attract investment, strengthen the foundation and raise funds for strong financial performance.

Currently, Kenyan SACCOs are considered to be the number one source of co-operative credit for socio-economic development (Alila & Obado, 1990). Kenyan co-operatives were launched in the year 1908 where membership was limited to very few individuals who mostly consisted of white colonial settlers. The first co-operative was set up at Lumbwa which is presently known as the Kipkelion area. The colonial officers later allowed Africans to join and form their own cooperatives in the year 1944 (Gamba & Komo, 2012).

Co-operatives are a primary part of the Governments economic strategy which has goals set towards creating income generating opportunities especially in the rural areas. The co-operative movement is now accepted and recognized by the Government as a crucial institution for mobilizing both material and human resources for various developmental progress. The progress is mostly focused in the rural areas where there is a greater population of residents, earning their livelihood through agriculture.

The co-operative movement contributes over 45% cent of Kenya's GDP. According to estimates that have been done, out of two people, one of them is indirectly or directly gets his or her livelihood from the co-operative movement. The movement has over the years managed to remain predominantly oriented agriculturally. However, the co-operative movement has experienced huge amounts of diversification in-terms of the interests and activities notably, credit and savings. Other co-operatives that are not based on agriculture have emerged and ventured into areas like building and construction; housing, "Jua-Kali", handicrafts, small scale industries, transport and others (Alila & Obado, 1990). SACCOs are part of the leading sources of rural finance while in more than one rural area, the local

SACCOs are the sole providers of financial services. (Financial Sector Deepening (FSD), 2010).

1.2 Statement of the Problem

Co-operatives have a great responsibility when it comes to resources mobilization through issuing of credit and ensuring the Sacco's long-term sustainability with cautious financial practice. It also plays a huge role in the creation of wealth, generation of jobs or employment, food security and therefore alleviating poverty.

This is proof that the co-operative movement is of significant importance in promoting national savings and development of the country. HesbonO.Ouma, 2012 (school of business, Nairobi University) claims that changes occurring in the co-operative sector affect the growth of the country and the welfare of the public as a whole.

Yoken Sacco is one the largest employee based union in the whole of Embu county since its membership mainly comprises of employees of Fides Kenya Ltd an international flower company. There is poor management and leadership mainly brought about by the fact that all management committee members do not have any other formal education apart from form iv certificate, the committee members and most of the staffs also lack financial background which has contributed to poor audited report over the years.in the Audit report of year 2015/2016 the Sacco had to write off ksh.11.5 million which is believed to be an accumulation of financial errors of more than 10 years. The write off therefore means that future incomes of the Sacco will be greatly affected and therefore dividend to members will also decrease greatly.

Poor members' participation has contributed to the failures experienced at Yoken Sacco since some of the issues could be raised and addressed during AGM and SGM. There is also failure on the part of government which is the regulatory body and also auditing body through the department of co-operatives, such issues could have been raised and solved before experiencing a suspense account of 11.5 million.

As a result the Sacco has lost some of its most senior staffs including two (2) managers in the recent past; interest income has reduced from ksh.7.5milion in 2014 to ksh.5.1 million by the

end of 2016. Loan portfolio has also reduced from ksh.47million in 2014 to 35million by the end of 2016, this was also contributed by lack of confidence from the members of the Sacco.

SACCOs can be termed as financial institutions whose products are similar to banks and though most of them were formed long time ago, their performance is not worth being proud of when compared to other financial institutions like commercial banks (Gathurithu, 2011).

Sacco's are already serving their critical purpose of mobilizing savings for investments as it was envisioned in Kenya's development blueprint, Vision 2030. Many urban and rural Kenyans now own business enterprises and homes courtesy of funds attained through through their Sacco's. Kenya go on enjoying the fastest growing economy in East Africa, and the service industry is performing better than any other sector in the economy (GOK, 2007).

Ademba (2010), claim that Kenyan Sacco's in are faced with this issues due to lack of confidence and poor governance from the members among others reasons. These challenges hinder achievement of the set objectives and even lead to a decline in the growth of Sacco's wealth.

1.3 Objectives of the Study

The general objective of the study is to look into the relationship between financial performance and corporate governance of the Savings and Credit Cooperatives in Embu County. A case study at Yoken Sacco Ltd.

1.3.1 Specific objectives of the Study

i. To identify the impact of board of directors in financial performance of the Savings and Credit Cooperatives of Yoken Sacco in Embu County.
ii. To establish the effects Regulatory framework on the financial performance of the Savings and Credit Cooperatives of Yoken Sacco in Embu County.
iii. To ascertain impact the integrity of the Chief Executive Officer (CEO) on the financial performance of the Savings and Credit Cooperatives of Yoken Sacco in Embu County.
iv. To determine the impact of shareholders on the performance of savings and credit cooperatives of Yoken Sacco in Embu County.

1.4. Research Questions:

The study strived to provide answer for the following research questions:

i. What are the effects of board of directors on the financial performance of the Savings and Credit Cooperatives of Yoken Sacco in Embu County?

ii. What are the effects of regulatory framework on the financial performance of Savings and Credit Cooperatives of Yoken Sacco in Embu?

iii. What are the impacts of integrity of the CEO on the financial performance of the Savings and Credit Cooperatives of Yoken Sacco in Embu County?

iv. What is the impact of the shareholders on the financial performance of savings and credit cooperatives of Yoken Sacco in Embu County?

1.5. Significance of the Study

The main aim of this research is to investigate the relationship between corporate governance and the financial performance of the deposit taking Savings and Credit Cooperatives in Embu County. The study would be valuable to the various stakeholders in cooperative movement in Kenya and beyond. The management would have the ability to identify how various aspects of corporate governance practices impact the operations of SACCO societies. The policy makers would gain knowledge of the cooperative movement's dynamics and the appropriate responses therefore obtaining guidance from this study on how to designing appropriate practices to regulate the shareholders participation in affecting the financial performance of the SACCOs in Kenya. The study would provide information to current and potential scholars with regard to the association of corporate governance and financial performance of the deposit taking SACCO societies.

1.6 Limitations of the Study

The researcher is likely to face limitations that hinder access to information sought and necessary for the study, due to the fact that the research will be carried out on one single selected Sacco. The Sacco's findings will be used to generalize the findings to other Sacco's.

The approached respondents are likely to be reluctant in offering or hold back information with the fear that it might be used to incriminate or intimidate them and paint a negative image about them or the organization.

Strong organization culture which made some people not to reply to some questions who thought their Sacco will be changed, however this was clearly explained to members and was told not to fear.

Finally there was delay in the response of the questionnaires. This was caused by some members who experienced problem in interpreting the questions. The problem was solved by explaining the questions to the respondents using other words without changing the meaning of the original question.

1.7 Scope of the Study

The research is to be carried out at Yoken Sacco headquarter office located within the premises of Fides Kenya Ltd, a flower firm that deals with farming and export of flower cuttings across Europe, America and Asia. The study concerned the members of the Yoken Sacco who are all employees of Fides Kenya Ltd and the management committee.

The target population was 100 respondents who consisted of 9 Board of Directors, 15 staff members, 76 delegates. The sample size was 33 members.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter gives a summary of any information that other researchers have collected during their research in identical fields of study. The areas covered in this research are theoretical studies, board of director's effects, impact of regulations, integrity of the chief executive officer, corporate governance, accountability and responsibility of shareholders and the relationship between corporate governance and financial performance, independence of directors, independence of committees, empirical review, conclusion and conceptual framework.

2.2 Theoretical Review

Corporate governance is a system used to control and direct corporations. The governance structure gives specific instructions on the distribution of rights and responsibilities for the different individuals in the corporation. The participants may include creditors, managers, and the board of directors, regulators, auditors, shareholders, and other stakeholders. It also specifies the rules and procedures to be followed when making decisions in corporate affairs. According to (Mutesasira et al., 1999), the structure followed by corporations when setting up and pursuing their objectives is provided by good governance, while reflecting the context of the regulatory, social and market environment. Governance is more of a mechanism set for monitoring the decisions, actions, and policies of corporations. According to Matengo, K, (2008) it comprises the alignment of interests between the stakeholders with renewed interest set aside for the modern corporation's corporate governance practices, mostly related to accountability. These is because of the high-profile collapses that occurred to a several large corporations between 1997—2002. Most of the collapse that happened were connected to fraud in the accounting sector. Different types of corporate scandals have maintained public and political interest in the regulation of corporate governance.

2.2.1 Board of Directors

The principal-agent problem can be ameliorated by using the composition of the board. The ability of the firm to defend itself against the threats issued by the environment can be influenced greatly by encouraging the participation and involvement of external directors. These move will align the firm's resources in a better way which is a greater advantage. The research on the effect of external directors has significantly blown up though with mixed and at times opposing results. A study by Wen et al (2002) revealed a negative relationship between the performance of the board and the number of external directors that the board was comprised. On the other hand, Bhagat and Black (2002) claimed that there was no relationship between the two while Tobins Q claimed in some other related work that part of the external directors was significantly important for a positive performance in the firm. Firms having more outside directors are supposed to perform activities that would bring a high market value for equity and low financial leverage. The boards is supposed to be prepared to raise the frequency of the number of times they meeting in case the situation is in need of higher control and supervision. Suggestions from some other studies claim that boards are supposed to equate the benefits and costs of frequency. These means that if the board raises the number of times it meets, then recovery from poor performance is apparent. It is in the interest of to Separate the chairman's and CEO's roles. Big firms that separate the two are seen to have higher returns on property due to trading at higher price-to-book multiples, they also contain better cost efficiency ratios than the organizations where one person hold all responsibilities handled by both titles.

Corporation governance research in finance has revealed the domination of the studies being done on the effect of the boards' effectiveness on the shareholder value and corporate profitability. They are focused on separating the roles and responsibilities of the chairman and the chief executive, the influence of the non-executive directors, or introducing board sub-committees. They also focus on having improved board effectiveness which leads to added shareholder value. On this same topic, Dahya et al (2002) looked at the connection between the financial performances (a gauge of management effectiveness) and the top management turnover (a gauge of board effectiveness). Other people have looked at the role of the non-executive in monitoring company management and their appointment on the stead of the shareholders (Bhagat and Black, 2002). There has been considerations of a positive

relationship between the corporation finance management and the number of non-executive directors in the research showing possibilities of its presence (Ferguson, Lennox and Taylor, 2005). Researchers have at the association between financial performance and executive remuneration (Jensen and Murphy, 1990). Several corporate governance researchers have put their focus on mergers and takeovers and their performance relationship. These comes from a seminal study that pointed out takeover as a mechanism of instilling discipline on the company management, as it is in the finance paradigm of agency theory (Jensen and Ruback, 1993).

2.2.2 Regulatory framework

The Co-operative Ordinance Act was passed in 1945 when the co-operatives were legally controlled by the Kenyan Government (GoK). In 1997, the act was amended and through the commissioner of cooperatives, the larger part of control held by the government was removed under the Co-operative Societies Act 1997. The Act was enforced with an aim of providing a framework of policies for the development of co-operative in Kenya. These, therefore, excluded the cooperatives from the Governments control by enabling the withdrawal of state control over the co-operative movement. The act was put up to enable co-operatives to become self-reliant, autonomous, self-controlled and commercially viable institutions. The role of the government was changed to one that seeks to facilitate the autonomy of the co-operatives from one that worked towards controlling the co-operatives development. The co-operatives are now able to go head to head with other private organizations in marketing agricultural produce (Republic of Kenya, 1 997a). In 2004, the 1997 Act was amended through the Co-operative Societies (Amendment) Act of 2004 and it was enacted to re-enforce the states regulation of the co-operative movement. These was done through the Commissioner for Co-operatives Development's office. The SACCO Societies Act of 2008 was later enacted for the supervision, licensing, promotion and regulation of savings and credit co-operatives by the SACCO Societies Regulatory Authority. The Act therefore provides for the establishment of the SACCO Societies Regulatory Authority (SASRA) whose functions include regulating and supervising SACCOs and licensing SACCOs to go on with the deposit-taking business (Republic of Kenya, 2008b). (Wanyama, 2009).

The sole responsibility of SASRA is regulating and controlling Sacco's which had opened front Offices (FOSA). The tremendous growth in Kenya's Savings and Credit Cooperative (Sacco) movement is largely attributed to the presence of a strong regulatory regime. The industry's regulator, Sacco Society Regulatory Authority (SASRA), has been in existence for the past four years. According to SASRA CEO Carilus Ademba (Sacco Star 2012) Kenya's Sacco sector has been buoyed by the presence of legislation that protects the savings of the depositors. The law now requires that all Sacco's maintain strong governance structures. "The regulator also vets all officers working for Sacco's to ensure that they have high integrity.

Kenya's original Sacco framework for SACCO was provided by the cooperative Act of 1966. The Act gave extended powers for involvement in the daily management of cooperatives after economic liberalization. The act was envisaged in 1997 and later went to office on 1st June 1998. The revised Act comprised the government letting go of its control over cooperatives, thereby enabling more autonomy to members. The cooperative Act states that the operations of SACCO banks are signified by their by-laws, which are listed with the ministry of cooperatives.

2.2.3 Integrity of the CEO

In the practitioner field, studies by Gaines –Ross(2000) together with Burson-Marstellar's (2003) which is a leading consulting firm claim it is evident that 50% of corporate reputation is as a result of the reputation created by CEO's. This has a major influence on recommendations by financial analyst's and purchase decisions on stock by investors. It is in economics, where decisions between stakeholders and firms on contracts are widely held and affected by reputation: (Banerjee and Duflo, 2000; Crocker and Reynolds, 1993) and this contributes to the survival and success of the firm (Fuller and Jensen, 2002). These shows that firms value their CEO's reputation, and the monitoring of the CEOs and other persons in managerial positions can be influenced. Arguably greater reputation of the CEO is related to the greater perceived ability of the CEO; the firm requires less monitoring. However the perception that the CEO's ability to engage in actions harmful to the firm, through inherent incentives influence this relation. There is a possibility that opportunistic actions that could lead to the tarnishing of the CEO'S reputation, could be less evident in a CEO whose reputation is termed to be of a high standard. This, because of the greater estimated abilities and incentives of the CEO to engage in positive actions only, results in the firm experiencing

higher costs in monitoring the CEO and persons in managerial positions than in opportunistic actions resulting to a weak corporate governance. On another case, a CEO whose reputation is high may lean more in taking actions detrimental to the firm than maintaining the high reputation, as manipulating earnings (Graham, Harvey, and Rajgopal, 2006; Malmendier and Tate, 2009).In such a case, the costs of the opportunistic actions tend to be more than the monitoring costs. Overconfidence in the CEO could be another result of high CEO reputation and may result in the CEO deciding on suboptimal decisions (Malmendier and Tate, 2005, 2008), as a result of overestimating returns on investment or engaging in fraudulent actions (Schrand and Zechman, 2008).It is therefore evident that when the reputation of the CEO is high, strong governance mechanisms are to be in place in the firm.

2.2.4Shareholders

Being accountable provides an avenue by which someone in authority is taken answerable for his deeds and actions as an office holder's capacity or individually depending on the nature of act committed. In cooperatives, employees acts as the agents on behalf of the principals who are the board of directors representing the shareholders. Accountability shows the best relationship between the principals and agents as well as how to tap the relationship with the intention of governing a corporation with the aim of realizing its goals (Solomon and Solomon, 2004). The main participants are the board of directors, shareholders and the management but there are others whose interests maybe affected by the corporation's decisions. They include the general community, workers, partners, and the customers. The corporation governance as mentioned in the wider social contexts, makes sure that the board of directors is held accountable to the non-shareholders as well as the shareholders for its choices it makes. These includes those with an interest of making sure that the organization is governed in the best way possible. Some scholars argue that the heart of a good corporation governance does not comprise of a board structure but a board process (Carter and Lorsh, 2004; Leblanc and Gillies, 2005). This receives lots of attention especially the consideration of how board members associate with each other during work especially on their behaviors and competencies at both individual and board level as per the current regulations.

The primary- agent model relies on the assumption that the social purpose of a corporation is to maximize on the wealth of the shareholders (Coelho et al, 2003; Friedman, 1970). Separation of control and ownership raises the power of professional managers and allows

them to follow their own goals. It also allows them to fulfil their interests at the shareholders expense. Responsibility and accountability based on the relationship between principals and agents, which is known as the agency theory. The theory expands on how to tap on the relationship for governing purposes in the corporation while still aiming at realizing goals. Good governance protects the business from vulnerability financial distress in the future. According to (McCord, 2002) accountability is how power is exercised in a corporation in the stewardship of the organizations total resources and portfolio. All this is with the aim of raising the stakeholders' value as you satisfy them within the context of particular corporate visions and missions as stated in the organizations strategic plan. Each officer and director is required to act honestly and in good faith by the law as they exercise their powers going around their duties in view of the best interest of the company. These are known as the director's fiduciary duties where they exercise the diligence, skill and care common in prudent people in similar circumstances. In the last several years, specific responsibilities and duties have been expected of and imposed on by shareholders guidelines, regulations and others in a wide variety of areas though these duties have a broad scope on purpose.

2.3 Critical /analytical review

The nexus between finance performance in firms and corporate governance has been provided by previous empirical studies with inconclusive results (Black et al, 2003; Sanda et al and Gompers et al, 2003). Others like cohen and Bebchuk (2003) have proven that the firms that have the most likely chances of a higher performance are those that are well governed. Board composition and size as well as if the CEO is the chairman of the board are the most primary characteristics used to identify corporate governance in this study. Rosenstein and Wyatt (1990) proved that firms that are rewarded by markets are those that appoint external directors. Brickley et al (1994) discovered a positive relation between the stock market reactions to the poison pill adoptions and the outside directors. Forsberg (1989) on the other hand, did not find any relation between the various financial performance measures and the size of outside directors. Black and Bhagat (2002) did not find any relationship that was of importance between financial performance and the board composition. Yermack (1996) found that the firm's financial performance was not significantly affected by the percentage of outside directors.

Agrawal and Knoeber (1996) claims that boards that are expanded due to political reasons mostly end up allowing too many outsiders into the board which has no benefit to the financial performance of the company. Recent empirical documents seem to concentrate on the relationship between firms financial performance and corporation governance ratings according to Gompers et al (2003). Brown and Caylor (2004) take the relationship between DJSI's leading companies' sustainable development and corporation governance as samples.

The Firm value of performance operations leads to a higher common return of stock due to good corporation governance. All this is according to a sample that was taken from the FTSE Euro top 300 for 269 firms between 2000 and 2001. The writers used the ratings to measure the quality of the firm's corporate governance. The ratings can be divided into four; board structure and governance, takeover defense, the shareholders rights and disclosure on corporate governance. The argument is that investors trust will increase due to good corporate governance. This will subsequently reduce the rate of return as it lowers the firm's risks. The rate of returns is also expected to lower which will subsequently lead to higher firm valuation. However, a significant relationship was found to exist between firm valuation and corporate governance and it was deemed as insignificant. The relationship between firm performance and corporate governance has been finally proven to be statistically negative. The empirical evidence available on the connection between firm financial performance and external independent directors is mixed up. Some studies have not found any link between improved financial performance and independent NEDs (Hermalin and Weisbach, 1991) while others claim that financial performance is improved by having more external independent directors (Daily and Dalton, 1994). The main information that can be retained from these studies is, there is no total benefit offered by independent NEDs to firm's financial performance. Petra, (2005) argues that the mixed results are possibly a reflection from the corporate culture here boards are guided by the management and there is no clear impact on the managements decisions by the presence of independent NEDs. Abdul Rahman and Haniffa (2003) recorded that companies in Malaysia have taken up role duality and they do not seem to perform well when compared to their counterparts who have separate board leadership. All this is based on accounting performance measurements between financial performance and role duality. Several studies carried out on the impact of corporation governance on financial performance have been carried out locally. In (2004), Muriithi carried out a study on the relationship between corporate governance mechanism and performance of firms and realized that the composition and size of the board of directors as

well as the separation of the management and control have the largest effect on performance. It was found that internal directors are more conversed with the company's activities and so they can take up monitoring roles to top management especially if they are hinted on a chance of being promoted into the position. The study also brought to the light the fact that the optimal mix of internal and external directors is essential for effectiveness of a board. Gatauwa (2008) studied the relationship between stock market liquidity and corporation governance practices for firms that were listed in the NSE. The results were that greater disclosure improves stork market liquidity hence reducing the cost of capital. The dedication to increase the levels of disclosure by manager ends up lowering the information asymmetry between shareholders and manager finally lowering the cost of capital. Matengo (2008) conducted research addressing the association between corporate governance practices and performance the case of banking industries in Kenya. He found that good corporation governance leads to lowered risks in firms and finally lower costs of capital. The study also revealed that separation of control and ownership maximizes the shareholders wealth.

2.4 Summary and Gaps to be filled.

It is essential to have good corporate governance in all organizations despite their size or level of growth or their industry. It was observed that every organization is in need of a good corporate governance which in turn influences whatever goes on at the lower levels. A good practice that should be adopted by organizations is the trend of conducting regular Corporate Governance Audits. It has an advantageous economic impact on the company as it helps the organization evade various losses like those brought about by corruption, fraud and other related irregularities. It also allows the company seize the economic opportunities better. The themes of corporate governance receiving attention are separating the board's management hence ensuring that the board is supervising and directing management. These includes distinguishing the chief executive roles from the chairperson making sure that the board has an effective combination of non-independent and independent directors. These establishes the auditor's independence and consequently the integrity of financial reporting which includes establishing an audit committee for the board. Good corporation governance should work towards raising the efficiency and profitability of firms and the enhanced ability to make wealth for the shareholders as well as more chances of employment with better working terms and benefits. Signs of a good corporation governance are mentioned in the study and hey include independent committees, independent directors, separated CEO/chairman roles,

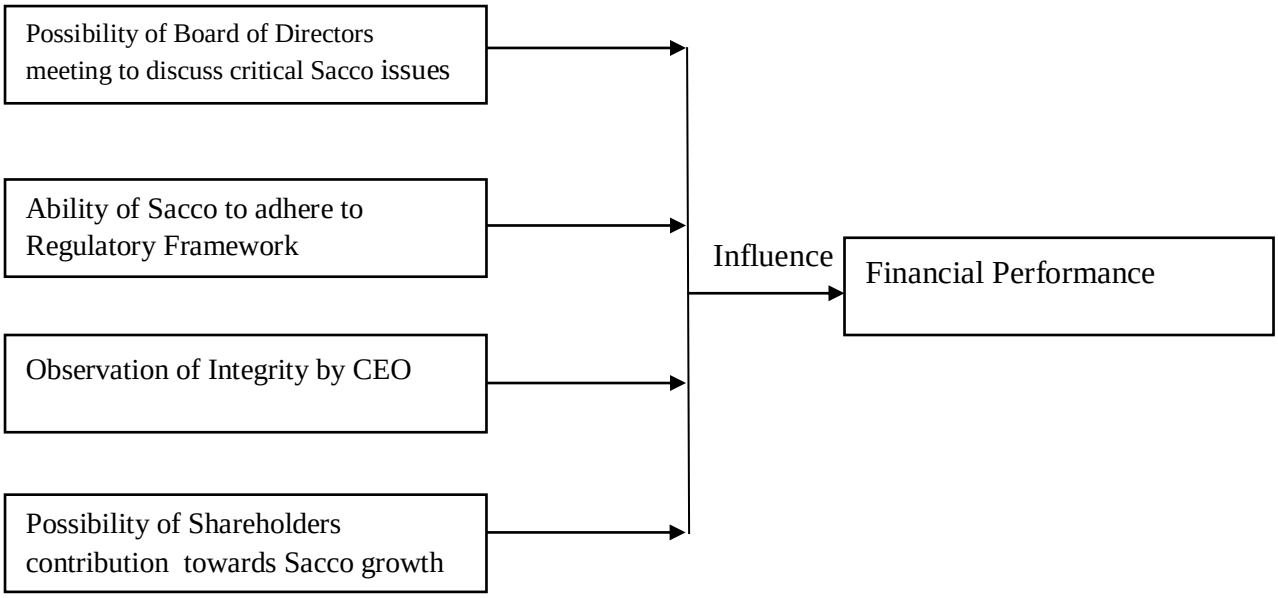
the board meetings and the board size. The primary responsibilities of corporate governance therefore refer to mitigation of emerging conflicts to provide transparency, lowering the risks common in investments, legitimacy of the corporations' activities, giving high returns to investors and assuring corporate efficiency. The research was conducted on a firm level and the data shows that better corporation governance is related to better market valuation and operating performance. The mechanisms assure the investors that they will get enough returns from their investments. Collected evidence suggests a positive influence on the organizations performance. It has also been established that good corporate governance leads to a lower cost of capital. Proving that good governance will lead to less firm risk and eventually lower costs of capital. Good governance portrays lower agency cost and a sign that it is harmful if it is not well incorporated. There are many ways that can be utilized to get over the issue of separation of control and ownership. They include aligning the managerial interests with the shareholders' interest through (compensation plans, bonus schemes and stock options). Other methods include the monitoring of the board by the lenders and the majority shareholders, legal protection of the minority shareholders, from the managerial exploitation which may occur through the shareholders rights and the corporate control market as an external device. The number board directors is taken to have a huge impact on performance. The board caries a lot of responsibilities when it comes to managing a organization and its activities. The studies that are cited here concentrate greatly on the development of countries that have a CG system and strategic approach that is similar to that of Kenya. To the best of the researcher's knowledge, there has not been any previous study that investigates the relationship between financial performance and corporate governance of the deposit taking savings and credit Co-operatives in Kenya and this study aims to fill that gap.

2.5 Conceptual Framework.

The integrity of the CEO affects the performance of an organization since he is the mirror or avenue through which the other stakeholders get access to a given entity. Also the existence of various regulators in the Sacco movement like the government, ministry of cooperative development and marketing and the recently introduced Sacco society regulatory authority (SASRA) has a great influence on the financial performance of the various SACCOs. Corporate governance in collaboration with accountability and responsibility of the various players within the organization and its stakeholders also has great effect on the financial performance of various Sacco competing in the financial sector. This affects the financial

performance directly or indirectly of an organization. Independence and composition of board of director's visa vee corporate governance affects financial performance of organizations since directors are obliged to consider corporate decisions carefully and challenge management, if warranted, in the exercise of the directors' fiduciary duties.

Fig 2.1Conceptual framework



Source; Author, (March 2017)

Independent Variables **Dependent Variables**

2.5.1 Board of Directors

The Board of directors is of outmost importance since they bear the responsibility of running the affairs of the SACCO being the agents of the shareholders. The way the board is constituted in a given firm may give the face of the firm to its shareholders and its competitors. Board of Directors should be able to contribute wisely during board meetings for the success of the firm.

2.5.2 Effect of regulatory framework

An effect of regulatory framework is another factor which affects the financial performance of the Sacco's. Regulatory framework can work in favor of the Sacco or act centrally. Most of the regulations arise from the government which is a key player in the business environment. Among the regulations are statutory requirements, Sacco society regulatory authority, and ministry of industrialization and so on. Regulations have financial impact and hence and hence effects on financial performance of Sacco's.

2.5.3 Integrity of the CEO

Integrity of the CEO is very important for through this the shareholders and other stakeholders can win royalty and good reputation which will make them gain confidence when dealing with the Sacco. The CEO being the link between the management staff, board of directors, shareholders and stakeholders needs to maintain high level of moral values, honesty and integrity. Sacco's which have managers who have high levels of integrity out perform their competitor and he is the key to the success and a good drive towards improved financial performance.

2.5.4 Shareholders

Shareholders should be accountable and responsible in the way the Sacco is being run, because due to royalty the shareholders do not withdraw their membership in big numbers hence stable membership leading to improved financial performance through capital growth which arises from personal savings and share build up. Stability of shareholders also attracts other potential shareholders which is a sign of future growth and going concern concept.

CHAPTER THREE

3.0 RESEARCH DESIGN ANDMETHODOLOGY

3.1 Introduction.

The chapter talks about methods that will be employed in carrying out the research study. The methodology used will include target population, research design, sample size and sampling procedures, instrument validity, research instruments, and instrument reliability. This is aimed at answering the question what, where, when, and how much and by what means the research will be conducted. It can also be termed as the conceptual structure within which the research is was conducted.

3.2 Research study Design.

Research designing is a valuable and logical way of looking at the world (Borg and Gall, 2006) In order to answer research questions; the researcher used descriptive research design. The researcher used this design because it helped in identifying the dimensions of the problem, knowing the in-depth answers and drawing assumptions. This design is found appropriate for collecting data that relates to the study. The findings were generalized to the larger population the dynamics effecting corporate governance on financial performance. According to Kothari(2003) descriptive research includes facts, findings and inquiries of different kinds and its major purpose is describing the state of affairs as its exist at the present .This design also provides focus on current conditions of the problems being investigated (Mugenda and Mugenda 2003).

3.3 Target population

According to Best and Kahn (2006), the target population is any group of individuals who have one or more characteristics in common. The characteristics however must be of interest to the researcher. The target population must be comparable on many characteristics with those of inaccessible population. Herein the sample was defined as the Sacco staff members, delegates and board of directors of Yoken Sacco.

Table 3.1 Target Population

Category	Accessible population	Percentage %
Board of Directors	9	9
Staff members	15	15
Delegates	76	76
TOTAL	**100**	**100**

3.4 Sampling Techniques, Design, Size and Procedures.

A sample is a sub set of target population that the researcher intends to generalize the results (Wiersmer, 2006). The ideal sample is supposed to be big enough to be an adequate representation of the population based on the researcher wishes to generalize, and small enough to be chosen economically in terms of subject expenses in time, availability and money and complexity in data analysis (Best and Kahn, 2008). Stratified random sampling was used. This involves selecting randomly from a list of population and the required number of subjects from the sample. Every item has an similar chance of being selected as a subject. This is appropriate for generalization of findings (Mugenda, 2009). The study used the Krejcie and Morgan table to determine population size.

Table 3.2 Sample Size for respondents

Category	Sample size	Percentage %
Board of Directors	3	9
Staff members	8	24
Delegates	22	67
TOTAL	**33**	**100**

3.5 Data collection instruments /Procedures.

This research used questionnaires to collect information from the Board of directors, staff members and delegates. Questionnaires had both structured and unstructured questions. This researcher prefers this because it is simple to administer and convenient for collecting data within a short time (Mulusa, 2005). The questionnaires are structured into five sections. Section A relates to general questions, section B questionnaires relates to B board of directors, C effect of regulatory framework, D integrity of the CEO, Shareholders.

3.5.1 Validity and reliability

Validity can be termed as the level to which result obtained from the analysis of the data actually represents the phenomenon under study (mugenda and mugenda 2003). Validity is the level to which empirical measure or several of the concepts actually measure the concept. In fact content validity is a non-statistical method used to validate the content employed in questioner. The reliability of measurement concern the degree which a particular measuring process gives identical results and consistence and help to assess the goodness of measure (sekaran 2003) a pilot study was carried out first on respondent from the sample population to test reliability of the questionnaires, questions used for piloting the instrument and measuring changes and questionnaires were sent to the respondent.

3.6 Data Analysis and Procedures.

The data collected was checked for reliability and accuracy and it will be edited to eliminate possible errors, sorted, classified and then coded. The data will then be analyzed with the view of finding solutions to the problems discovered and recommendations made. Descriptive statistics will be used to analyze data graphs, and charts.

CHAPTER FOUR

4.0 DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

The chapter offers analysis and findings on the study as set out in the research methodology. The study findings presented are on the effects of corporate governance on the financial performance of Savings and Credit Cooperatives in Kenya. The data was gathered solely from the questionnaire as the research tool. The questionnaire was designed according to the objectives of the study. The Chapter shall also discuss data analysis presentation and interpretation and summary of data analysis.

4.2 Presentation of data according to research questions.

4.2.1 Response Rate of the Respondents.

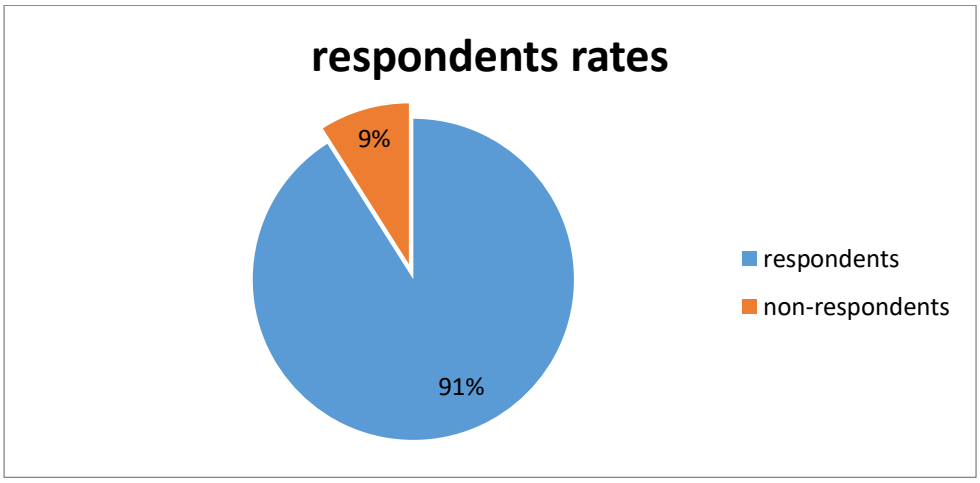
The research sought to look at the response rate of the respondents as outlined in table below:

Table 4.1: Response Rate

Category	Respondents	Non-Respondents	Total
Frequency	30	3	33
Percentage	91%	9%	100%

Source Author, (2017)

Figure 4.1 response rate



Source Author, (2017)

Table 4.1 and figure 4.1 indicated that the researcher distributed a total of 33 questionnaires to the selected sample size in Yoken Sacco where 91% of the questionnaires were filled and returned back by the respondents and 9% of the questions were not returned. This response rate was good for data analysis.

4.2.2 Gender Representation.

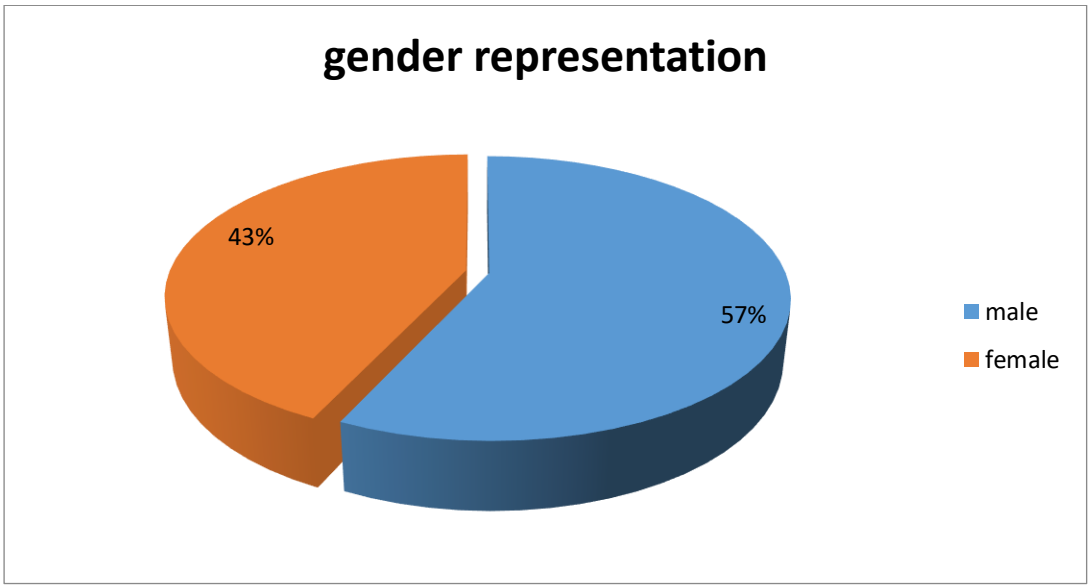
The researcher looked to analyze the gender representation of the respondents.

Table 4.2 Gender Representation

Gender	Male	Female	Total
Respondents	17	13	30
Percentage	57%	43%	100%

Source: Author, (2017)

Figure 4.2: The Gender Representation



Source: Author, (2017)

Table 4.2 and figure 4.2 indicate that 57% of the respondents were males and 43%were female. Both men and women were given the questionnaires and expressed their own opinion.

4.2.3 Demographic Information

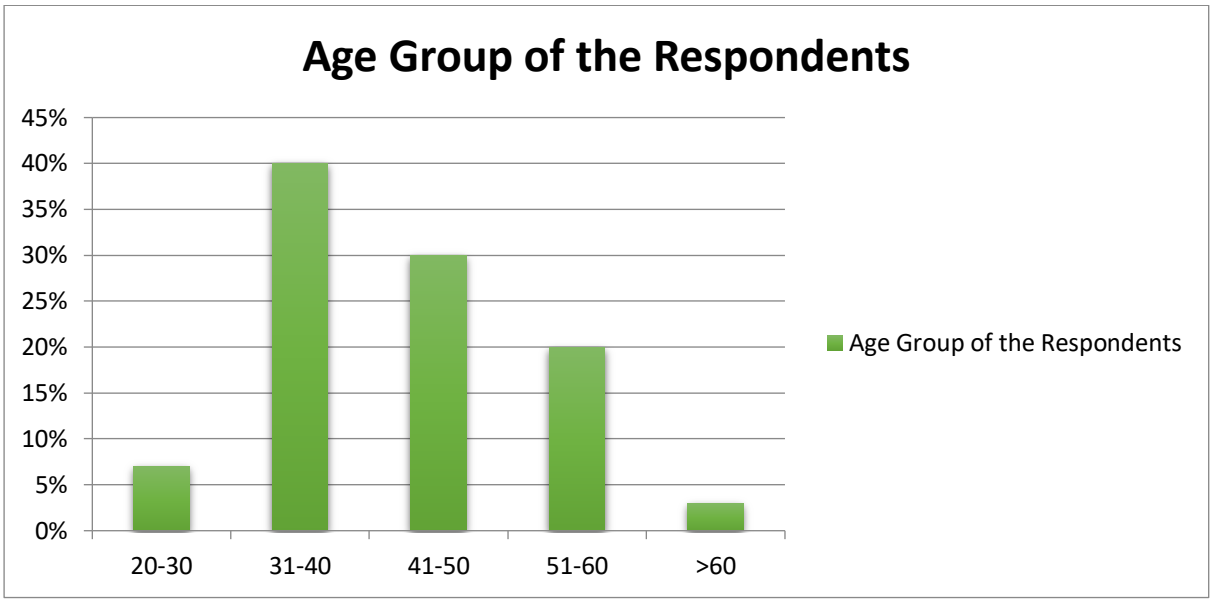
The researcher sought to analyze the age bracket representation of the respondents.

Table 4.3 Age Group of the Respondent

Age Group	20-30	31- 40	41-50	51- 60	>60	Total
Respondents	2	12	9	6	1	30
Percentage	7%	40%	30%	20%	3%	100%

Source: Author, (2017)

Figure 4.3 Age Group of the Respondent



Source Author, (2017)

Table 4.3 and figure 4.3 indicate that 40% of those who responded were aged between 31-40 years, 30% aged between 41-50 years,7% between 20-30 years, 20% between 51-60 years and 4% above 60 years. This indicates that the Sacco is governed and managed by young and energetic men and women who are in their thirties which is the most active age group.

4.2.4 Years Served in Sacco.

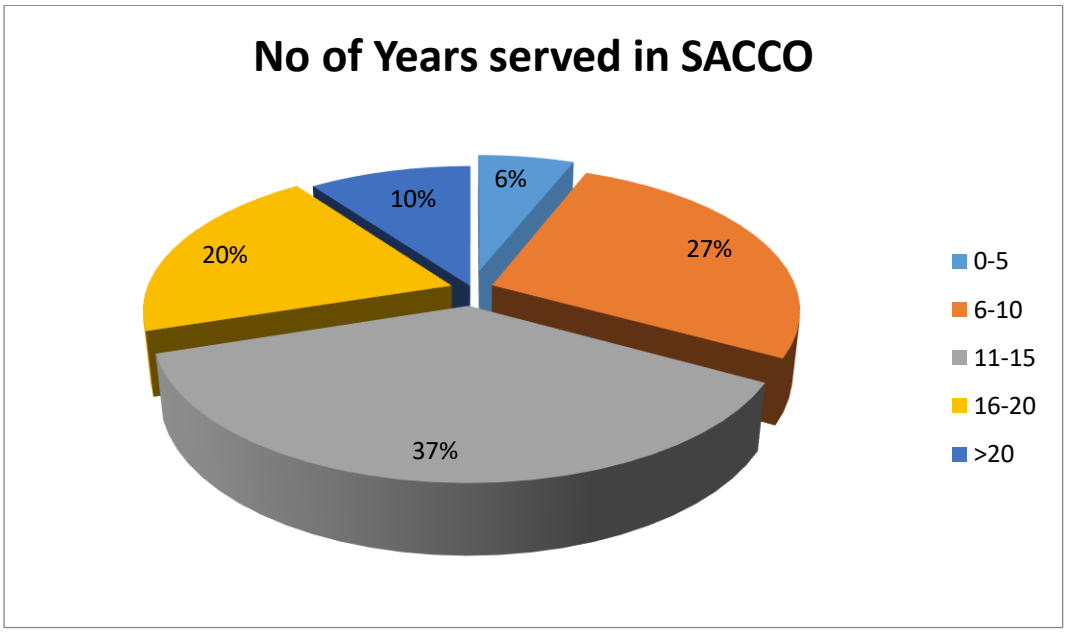
The researcher sought to find out the number of years the respondents had served in the Sacco.

Table 4.4 Number of year's respondents had served in the Sacco

Number of Years	Frequency	Percentage
0-5	2	6%
6-10	8	27%
11-15	11	37%
16-20	6	20%
>20	3	10%

Source: Author, (2017)

Figure 4.4 Number of year's respondents had served in the Sacco



Source: Author, (2017)

Table 4.4 and figure 4. 4 Indicates that 37% of the respondents had served in the Sacco for a period between 11-15 years while 27% had served a period between 6-10 years, 20% period between 16-20 years, and 6% period between 0-5 years and 10% were above 20 years respectively. This shows that most of the respondents had served the Sacco for a period ranging from 6 years to 15 years and hence had gained a wide knowledge and information to the advantage of the Sacco growth.

4.2.5 Highest Level of Education the Respondent had Achieved

The researcher sought to find out respondents education status.

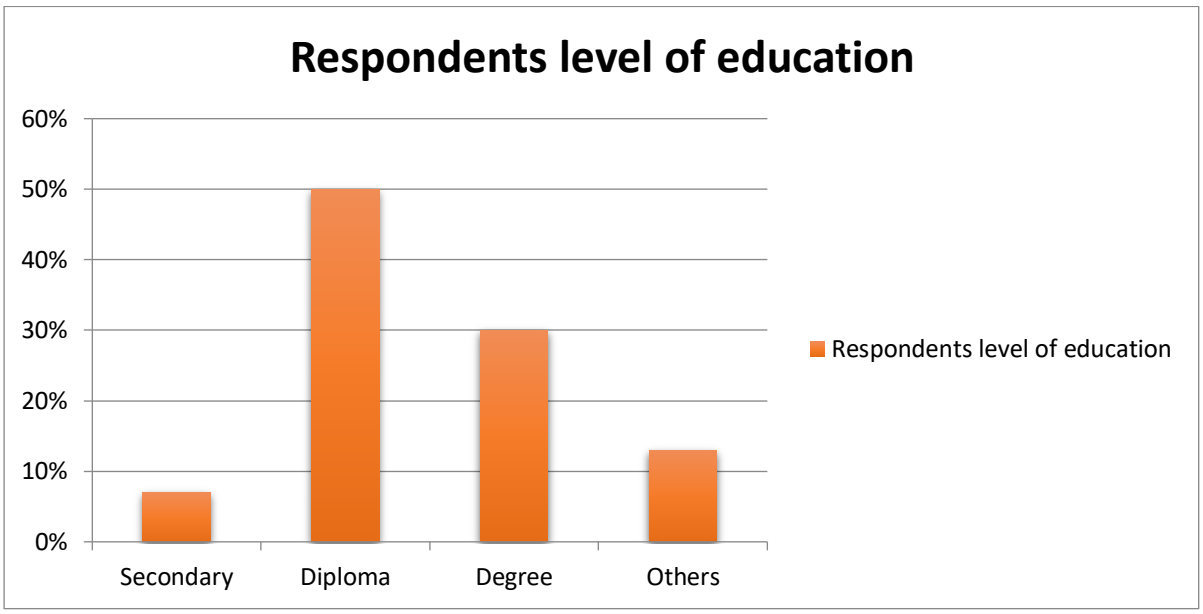
Table 4.5 Respondents Level of Education

Education level	Secondary	Diploma	Degree	others	total
respondent	2	15	9	4	30

percentage	7%	50%	30%	13%	100%

Source: Author, (2017)

Figure 4.5 Respondents Level of Education



Source: Author, (2017)

Table 4.5 and figure 4.5 Indicates that 30% of the respondents were degree holders while 50% of the respondents were diploma holders, 13% had other unspecified qualifications and 7% of the respondents were secondary school leavers. This shows that most of the respondents had attained a post-secondary education level hence more informed and well management team.

4.2.6 BOARD OF DIRECTORS

This is composed of experienced persons appointed by the owners to represent them in the management of the firm. The researcher sought to find out the effects of Board of Directors on Financial Performance of SACCOs

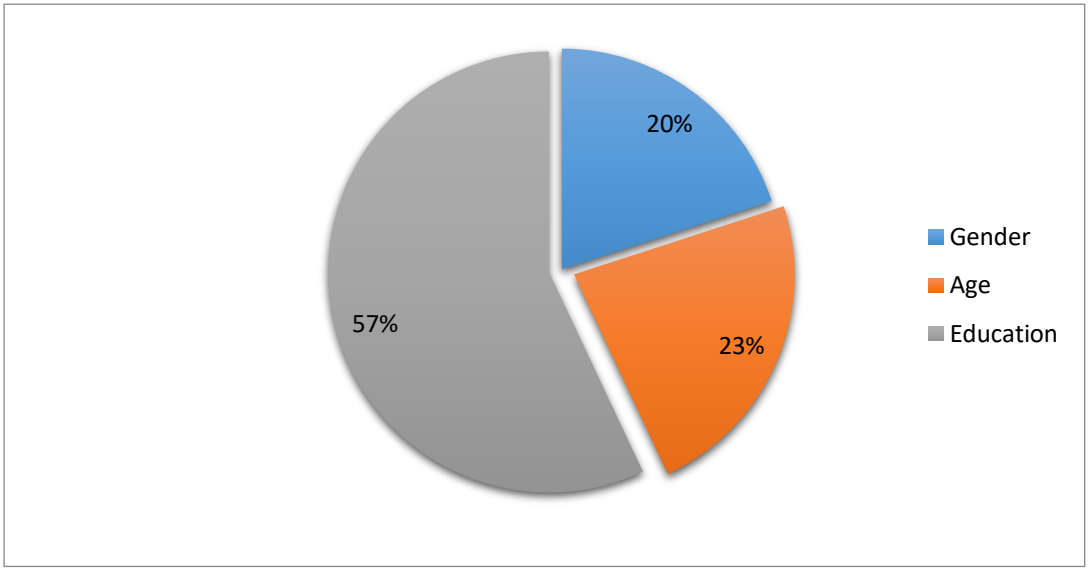
Table 4.6 Effects of Board of Directors on Financial Performance of SACCOs

	Gender	**Age**	**Education level**	**Total**

Respondents	**6**	**7**	**17**	**30**
Percentage	**20%**	**23%**	**57%**	**100%**

Source: Author, (2017)

Figure 4.6 Effects of Board of Directors on Financial Performance of SACCOs



Source Author, (2017)

Table 4.6 and figure 4.6 indicates that 57% of the respondents were of the opinion that education level affects the B.O.D at greater extent, 23% were of the opinion that age is another factor that affect the B.O.D while gender was a factor that had little number of the respondents at 20%.

4.2.7 Challenges faced by B.O.D in monitoring financial performance based on their level of education

The researcher sought to find the challenges faced by B.O.D in monitoring financial performance based on their level of education

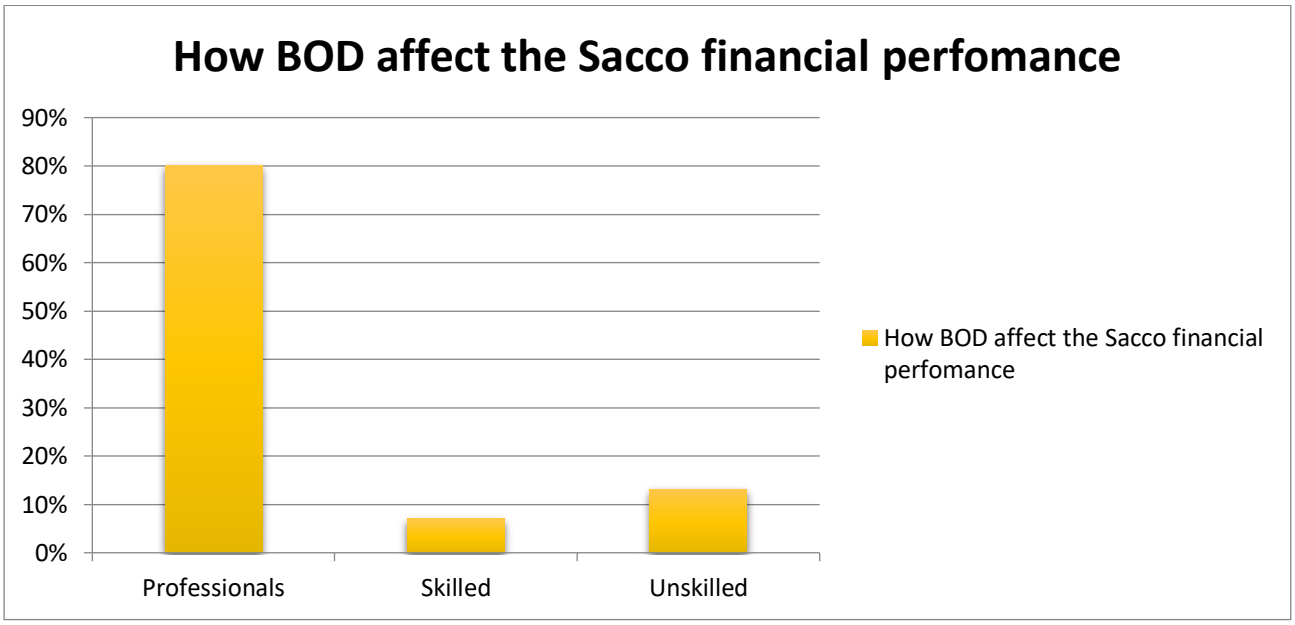
Table 4.7Challenges faced by B.O.D in monitoring financial performance based on their level of education

Category	Frequency	Percentage
Professionals	**24**	**80%**

Skilled	**2**	**7%**
Unskilled	**4**	**13%**
Total	**30**	**100%**

Source Author, (2017)

Figure 4.7 Challenges faced by B.O.D in monitoring financial performance based on their level of education



Source Author, (2017)

Table 4.7 and figure 4.7 show that 80% of the B.O.D was professionals, 7% were skilled and 13% were unskilled. The research indicates that the respondents observed that there was a higher number of professionals as compared to a low number of skilled and unskilled members of the B.O.D. This meant that there were little challenges in managing the SACCO since there was a higher number of a professional.

4.2.8 The rate at which B.O.D meet to discuss strategic decisions

The researcher sought to find out the rate at which B.O.D meet to discuss strategic decisions

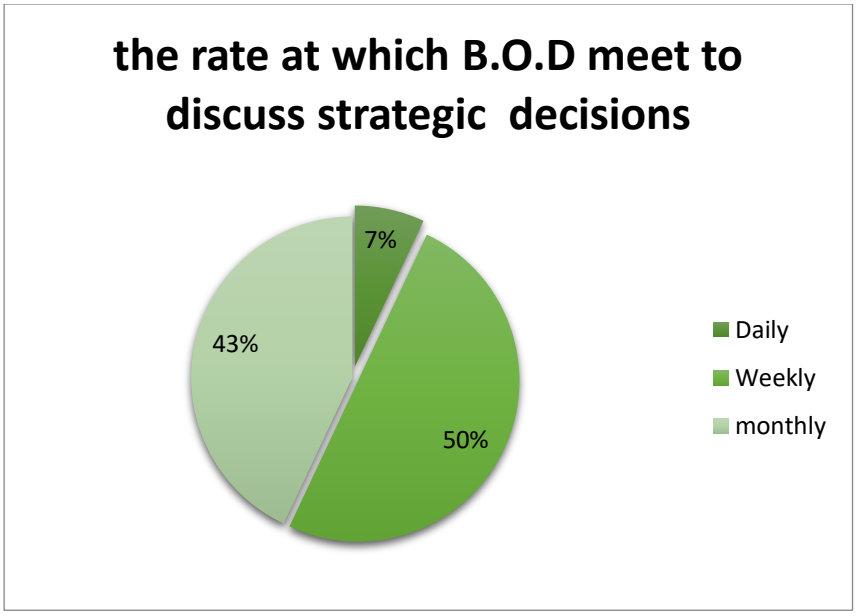
Table 4.8 the rate at which B.O.D meet to discuss strategic decisions

Frequency	Daily	Weekly	Monthly	Total

Respondents	**2**	**15**	**13**	**30**
Percentage	**7%**	**50%**	**43%**	**100%**

Source Author, (2017)

Figure 4.8 the rate at which B.O.D meet to discuss strategic decisions



Source: Author, (2017)

Table 4.8 and figure 4.8 indicates that 50% of the respondents were of the opinion that the B.O.D would be meeting weekly to discuss strategic decisions, 43% of the respondents were of the view that B.O.D should be meeting monthly and 7% of the respondents would suggest that B.O.D should meet t daily. This is an indicator that a majority of the respondents would suggest that B.O.D should meet weekly to discuss strategic decisions.

4.2.9 The term at which the B.O.D has a strategic plan.

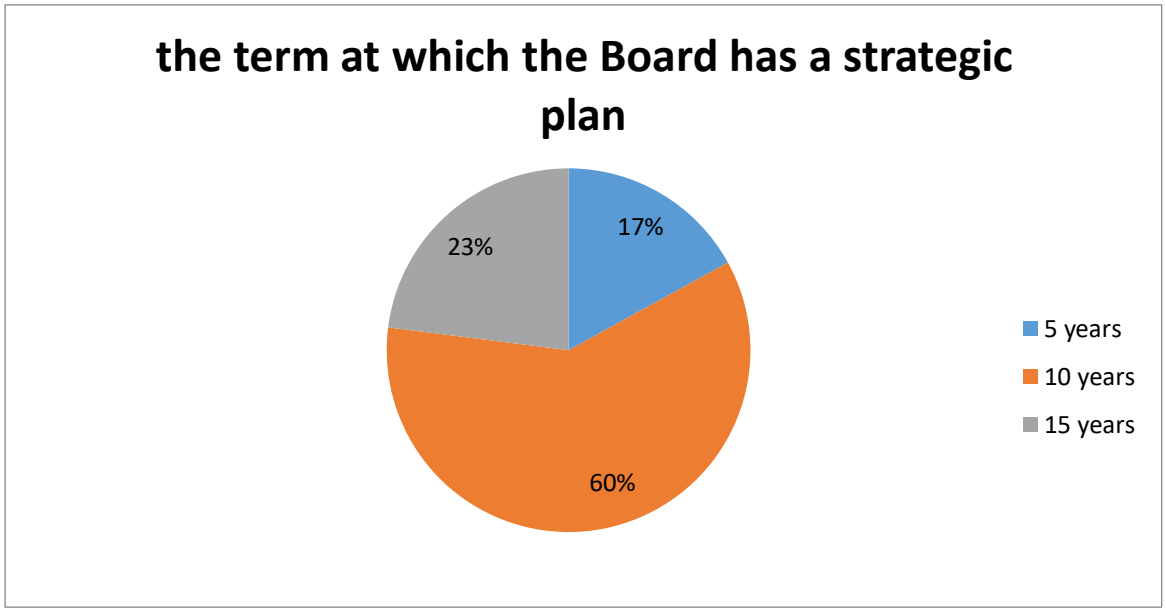
The researcher sought to find out that the term at which the B.O.D has a strategic plan.

Table 4.9 The term at which the B.O.D has a strategic plan.

Years	5	10	15	Total
Respondents	5	18	7	30
Percentage	17%	60%	23%	100%

Source: Author, (2017)

Figure 4.9 The term at which the B.O.D has a strategic plan.



Source: Author, (2017)

Table 4.9 and figure 4.9 indicates that 60% of the respondents were of the opinion that the B.O.D should have a 10years strategic plan, 23% of the respondents were of the opinion that B.O.D should have a 15 years strategic plan while 17% of the respondents were of the opinion that the B.O.D should have a 5 years strategic plan. These shows that the majority of the respondents were of the opinion that the BOD should have a 10 years strategic plan.

4.2.10 CEO INTEGRITY

Integrity is the quality of honesty and having strong moral principles. Integrity is required for good governance.

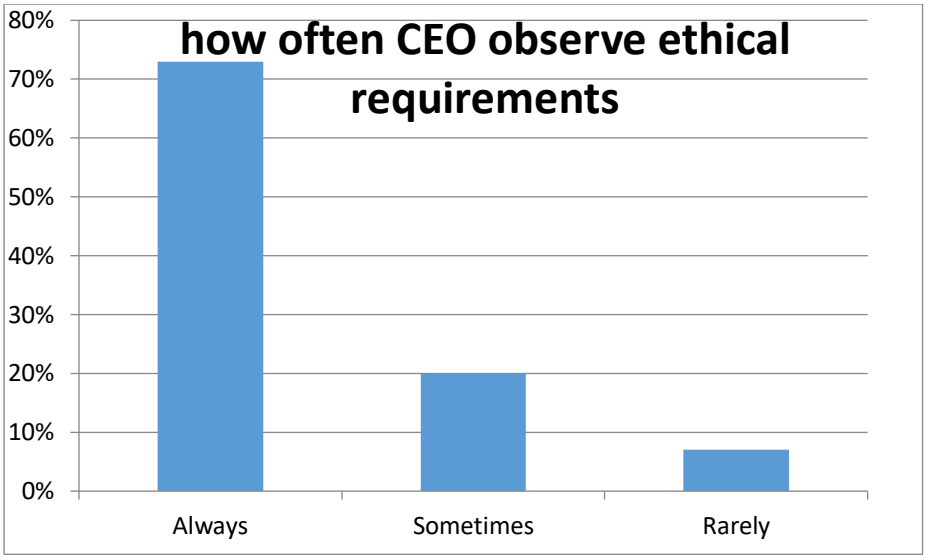
The researcher sought to establish How Often Does the CEO Observe Ethical requirements as outlined in chapter six of the constitution.

Table 4:10 how often the CEO Observe Ethical requirements as outlined in chapter six of the constitution.

frequency	**Always**	**sometimes**	**rarely**	**total**
respondents	22	6	2	30
Percentage	73%	20%	7%	100%

Source: Author, (2017)

Figure 4:10 How often does the CEO Observe Ethical Issues.



Source: Author, (2017)

Table 4.10 and figure 4.10 indicates that 73% of the responds believes that the CEO always observes ethical issues while 20% were of the opinion that the CEO sometimes observes ethical issues while 7% of the respondents were of the opinion that the CEO rarely observes ethical issues. This shows that the CEO always observed ethical issues at 73%.

4.2.11 Presence of Policy Documents

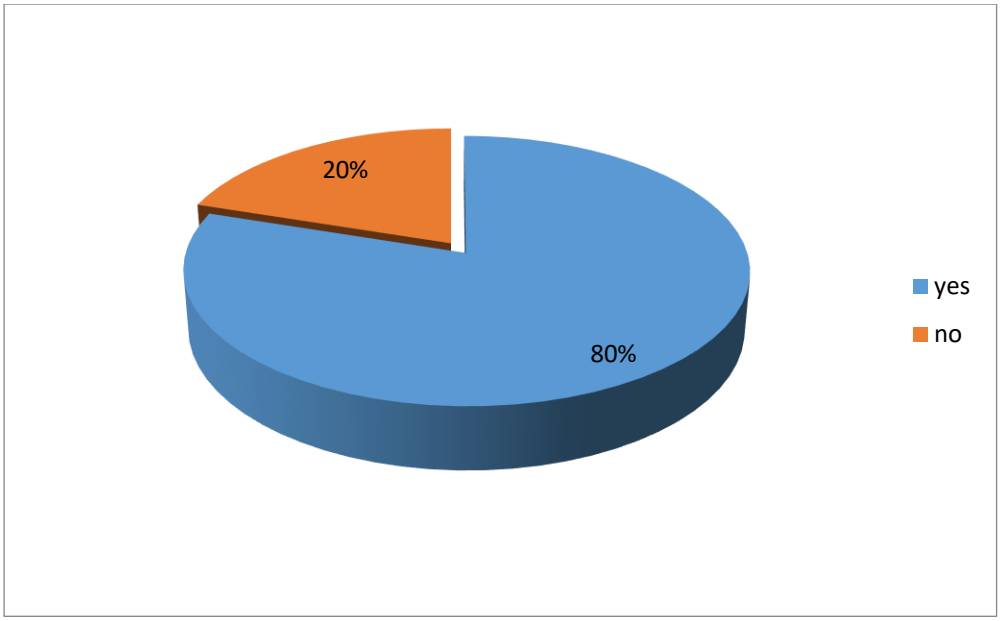
The researcher sought to find out whether the Sacco had policy documents in place.

Table 4:11 Presence of Policy Documents

Policy documents	Yes	No	Total
Respondents	24	6	30
Percentage	80%	20%	100%

Source: Author, (2017)

Figure 4:11 Presence of Policy Document



Source: Author, (2017)

Table 4.11 and figure 4.11 indicates that80% of the respondents were of the opinion that the Sacco has policy documents which guide the CEO in discharging his duties while 20% of the respondents were of the opinion that the Sacco lacks policy documents to guide the CEO in discharging his duties. This shows that the CEO observed ethical issues.

4.2.12 Instruments used for the governance of the Sacco.

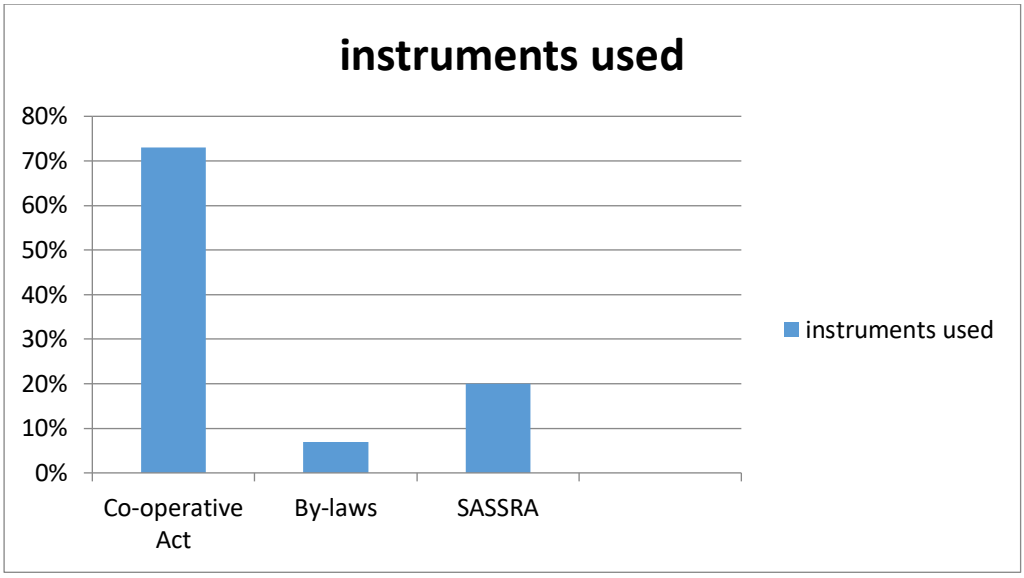
The researcher sought to analyze the instruments used to manage and govern the Sacco.

Table 4.12 instruments used for the governance of the Sacco.

Instruments	**Co-operative Act**	**By-laws**	**SASSRA**	**Total**
Respondents	**22**	**2**	**6**	**30**
percentage	**73%**	**7%**	**20%**	**100%**

Source: Author, (2017)

Figure 4.12 instruments used by the CEO for the governance of the Sacco.



Source: Author, (2017)

Table 4.12and figure 4.12 indicates that 73% of the respondents were of the opinion that the CEOS should use the Co-operative Act laws, 7% of the respondents preferred the By- laws while 20% of the respondents were of the opinion that SASSRA laws should be applied. This clearly indicated that majority of the respondents would like the Sacco to be governed by the Co-operative Acts Laws.

4.2.13 availability of a service charter by the CEO and the activities guided by the charter

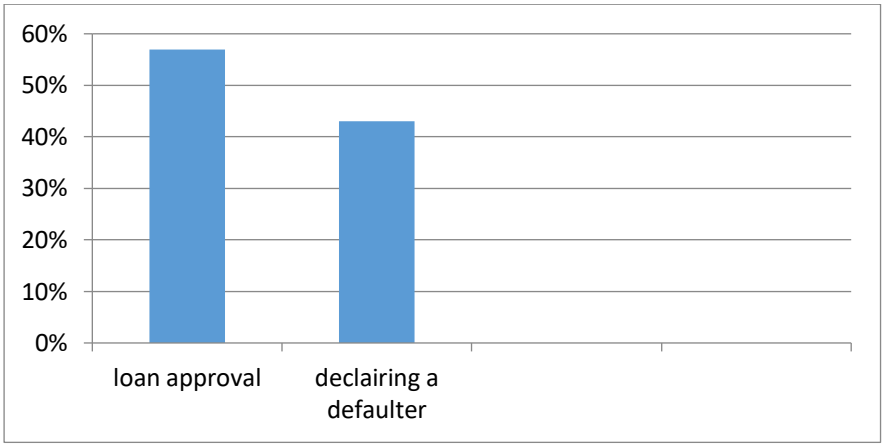
The researcher sought to establish the availability of a service charter by the CEO and the activities guided by the charter.

Table 4.13 availability of a service charter by the CEO and the activities guided by the charter

Activities	**Loan approval in ten days**	**Declaring a defaulter in three months**	**Total**
Respondents	**17**	**13**	**30**
Percentage	**57%**	**43%**	**100%**

Source: Author, (2017)

Figure 4.13 availability of a service charter by the CEO and the activities guided by the charter



Source: Author, (2017)

Table 4.13 and figure 4.13 indicates that 57% of the respondents were of the opinion that the loans for the members should be approved in 10 days while 43% of the respondents were of the opinion that defaulters should be declared in three months' time. These indicates that majority of the respondents would wish the loans to be approved after ten days.

4.2.14 CEO's observation of time management and strict deadlines in execution of his duties.

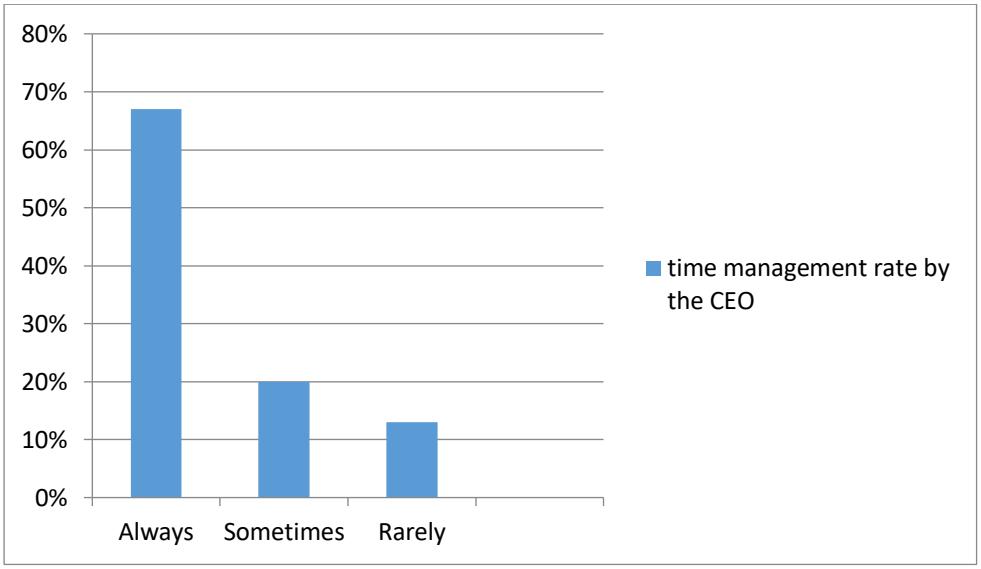
The researcher sought to establish whether the CEO is a good time manager and whether he strictly observes deadlines in execution of his duties.

Table 4.14 time management rate by the CEO

Time management rate	**Always**	**Sometimes**	**Rarely**	**Total**
Respondents	20	6	4	30
percentage	67%	20%	13%	100%

Source: Author, (2017)

Figure 4.14 time management rate by the CEO



Source: Author, (2017)

Table 4.14 and figure 4.14 indicates that 67% of the respondents were of the opinion that the CEO always observes time in execution of his duties, 20% were of the opinion that sometimes he does observe while 13% of the respondents were certain that he rarely observes time and does not put strict deadlines in execution of his duties.

4.2.15 REGULATORY FRAMEWORK

Regulations are official rules that control how a firm is conducted. A firm cannot operate without legal requirements; however they have impacts to Sacco performance.

The researcher sought to establish the extent to which Sacco adheres to minimum prudential requirements.

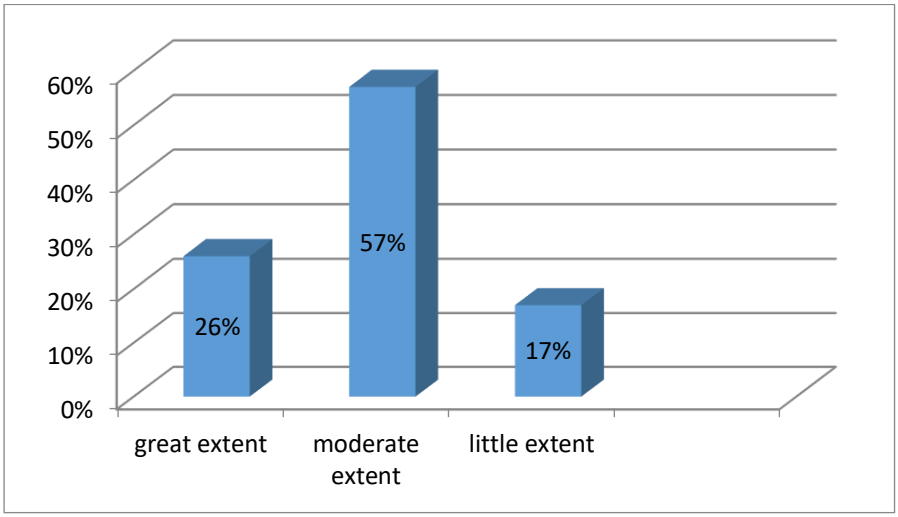
Table 4.15 Extent to which Sacco adhere to minimum prudential requirements.

Prudential requirements	**Great extent**	**Moderate extent**	**Little extent**	**Total**
respondents	8	17	5	30

percentage	26%	57%	17%	100%

Source: Author, (2017)

Figure 4.15 Extent to Which the Sacco Adhere to Minimum Prudential Requirements.



Source: Author, (2017)

Table 4.15 and figure 4.15 indicates that 57% of the respondents believes that the SACCO is able to meet its minimum prudential financial requirements to a moderate extent while 26% of the respondents believes that the SACCO is able to meet prudential financial requirement to a great extent while 17% believes they are able to a little extent. The Sacco is fairly able to meet minimum prudential financial requirements.

4.2.16 Ability of Sacco to meet regulatory requirements

The researcher sought to establish the ability of Sacco meeting regulatory requirements.

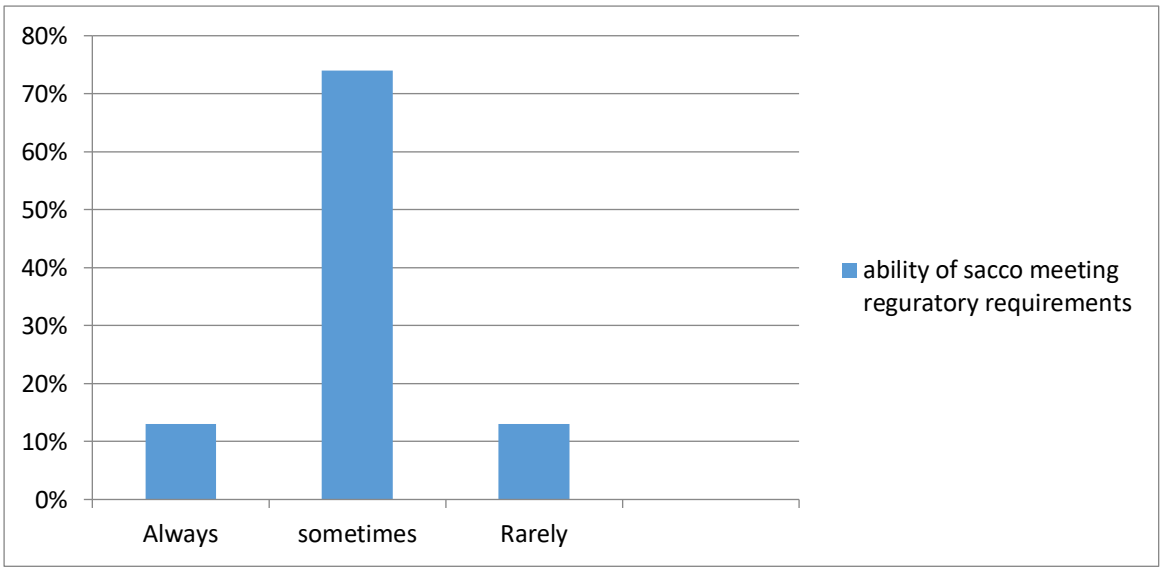
Table 4.16 Ability of Sacco to meet regulatory requirements

Regulatory requirement	Always	sometimes	Rarely	Total
Respondents	4	22	4	30

percentage	13%	74%	13%	100%

Source: Author, (2017)

Figure 4.16 Ability of Sacco to meet regulatory requirements



Source: Author, (2017)

Table 4.16 and figure 4.16 indicates that 74% of the respondents believes that the SACCOis sometimes able to meet its regulatory requirements while 13% of the respondents believes that the SACCO is always able to meet regulatory requirement and 13% believes that the Sacco rarely meets its regulatory requirements.

4.2.17 Effects of regulations on financial performance.

The researcher sought to analyze the extent to which regulations affect financial performance of SACCOs.

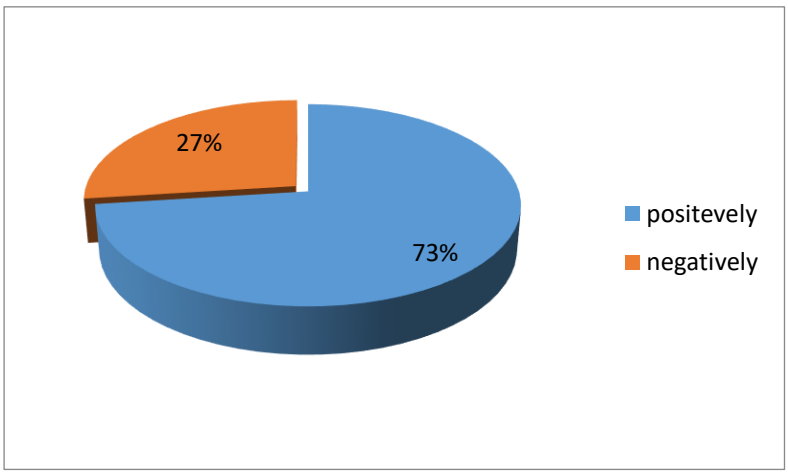
Table 4.17 Effects of Regulations on Financial Performance.

Effects of regulations	**Positively**	**Negatively**	**Total**
Respondent	22	8	30

Percentage	73%	27%	100%

Source: Author, (2017)

Figure 4. 17 Effects of Regulations on Sacco Financial Performance



Source: Author, (2017)

Table 4.17 and figure 4.17 indicate that 73 % of the respondents believe that the SACCO is positively affected by regulations while 27% beliefs that the effects are negatively related. This is an indicator that regulations had positive effects on the Sacco's financial performance.

4.2.18 Cost Implications due to Regulations of Sacco's

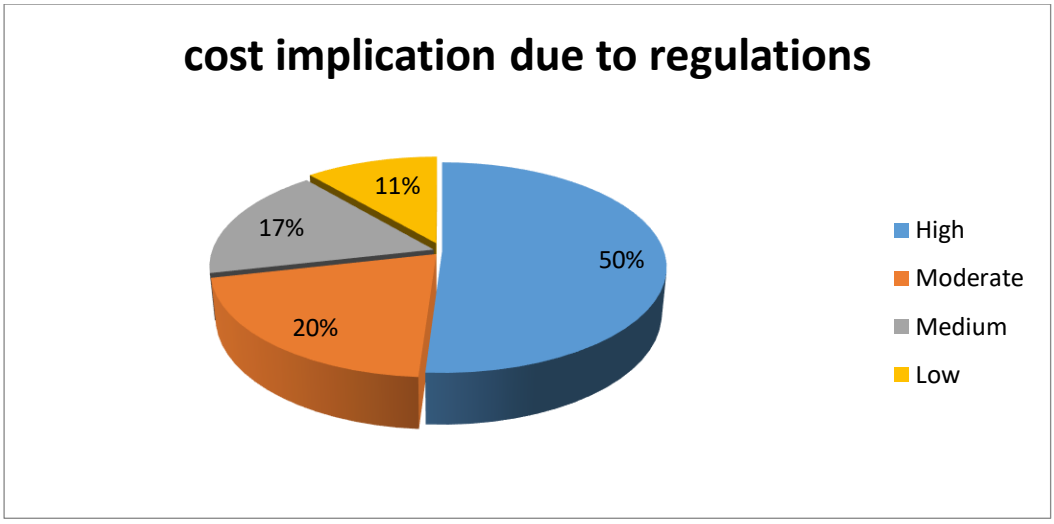
The researcher sought to establish the extent of cost implication arising from regulations.

Table 4.18 Cost Implications due to Regulations of Sacco's

Cost implication due to regulation	High	moderate	Medium	Low	Total
Respondents	16	6	5	3	30
Percentage	53%	20%	17%	10%	100%

Source: Author, (2017)

Figure 4.18 Cost Implications due to Regulations of Sacco's



Source: Author, (2017)

Table 4.18 and figure 4.18 indicates that 50% of the respondents believes the cost of regulations is too high while 20% believes that the cost implication is moderate, 17% believes that the cost is medium while 11% believes that the cost implication is low. This is an indicator that the cost implication due to regulations is too high.

4.2.19 SHAREHOLDERS

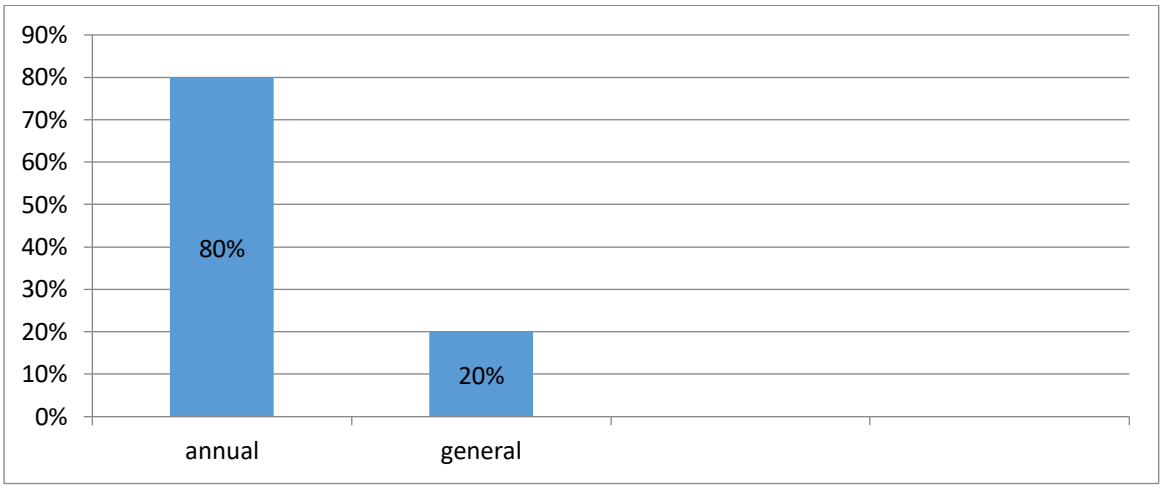
Shareholders are owners of the firm. They employ managers to help them manage the firm on their behalf. They expect the managers to maximize profit, and make use of the resources properly. The researcher sought to establish the types and periods of attending meeting.

Table 4.19 Shareholders mode of attending meeting

Meetings	**Annual general meeting**	**Special general meeting**	**Total**
Respondents	**24**	**6**	**30**
Percentage	**80%**	**20%**	**100%**

Source: Author, (2017)

Figure 4.19 Shareholders mode of attending meeting



Source: Author, (2017)

Table 4.19 and figure 4.19 indicates that 80% of the respondents were of the opinion that shareholders should be attending annual general meeting, only 20% of the respondents suggested that the shareholders should be attending special general meetings. This clearly indicates that most of the respondents were interested with the annual general meeting but didn't like the special general meeting by the shareholders.

4.2.20 Voluntary Contributions to Capital Build up

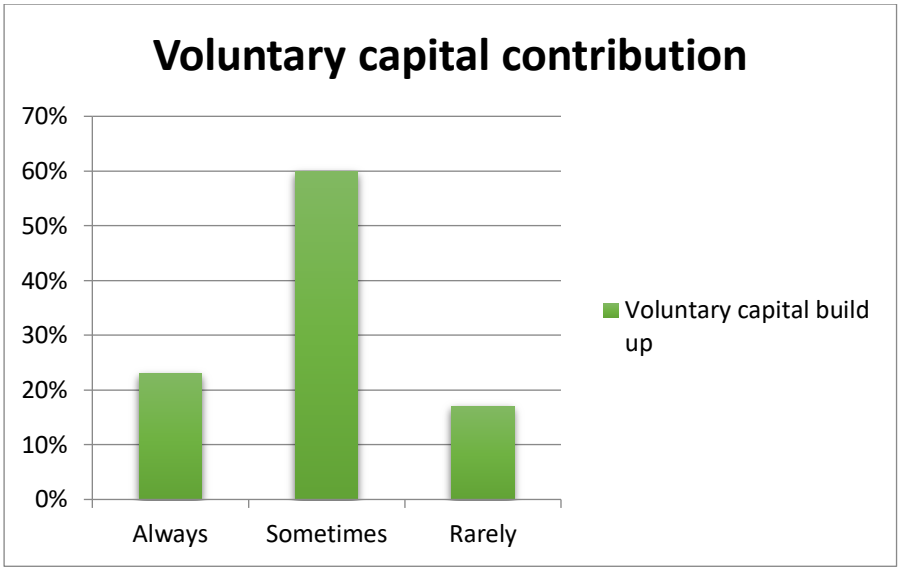
The researcher sought to establish how often the shareholders participated to voluntary contribution to capital build up.

Table 4.20 Voluntary Contributions to Capital Build up

Voluntary capital build up	**Always**	**Sometimes**	**Rarely**	**Total**
respondent	7	18	5	**30**
percentage	23%	60%	17%	**100%**

Source: Author, (2017)

Figure 4.20 Voluntary Contributions to Capital Build up



Source: Author, (2017)

Table 4.20 and figure 4.20 indicates that 60% of the respondents believes that the shareholders sometimes do voluntary contribution towards capital build up while 23% believes that the shareholders always contributed capital towards share build up and 17% believes that the shareholders rarely contributed share capital build up voluntary. This shows that the shareholders only participated in share build up voluntarily.

4.2.21 methods of election Shareholders use while electing their representatives

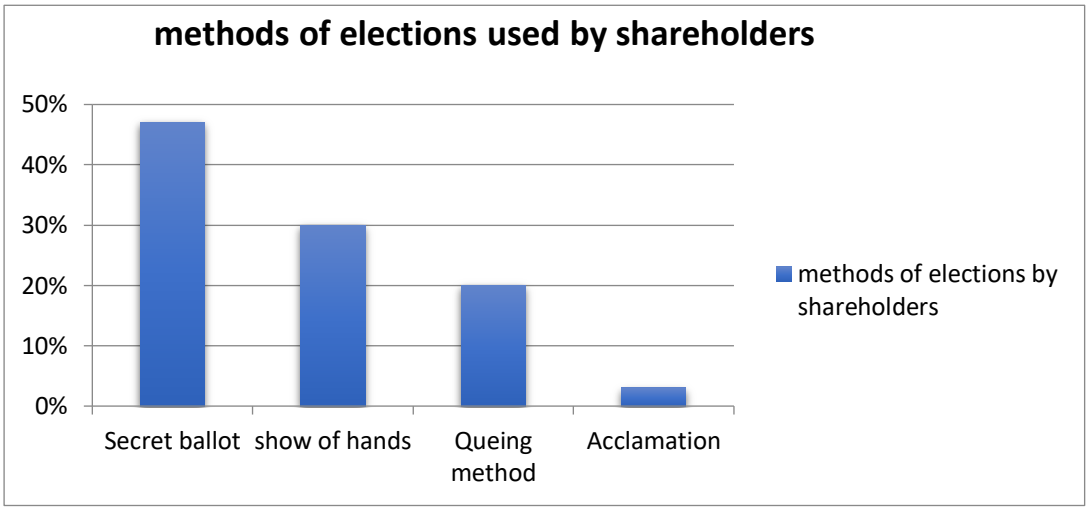
The researcher sought to establish the methods of election Shareholders use while electing their representatives

Table 4.21Methods of election Shareholders use while electing their representatives

methods	Secret ballot	Show of hands	Queuing method	acclamation	Total
Respondents	**14**	**9**	**6**	**1**	**30**
percentage	**47%**	**30%**	**20%**	**3%**	**100%**

Source: Author, (2017)

Figure 4.21 Methods of election Shareholders use while electing their representatives



Source: Author, (2017)

Table 4.21 and figure 4.21 indicates that 47%of the respondents believes that the shareholders always should use secret ballot while electing their representatives, 30% of the respondents believes that a show of hands could be the best option.20% of the respondents were of the opinion that queuing should be the method. A small number said acclamation should be used as the method of election. This brought different opinions but secret ballot was considered by many of the respondents.

4.2.22 Voluntary participation of Sacco activities

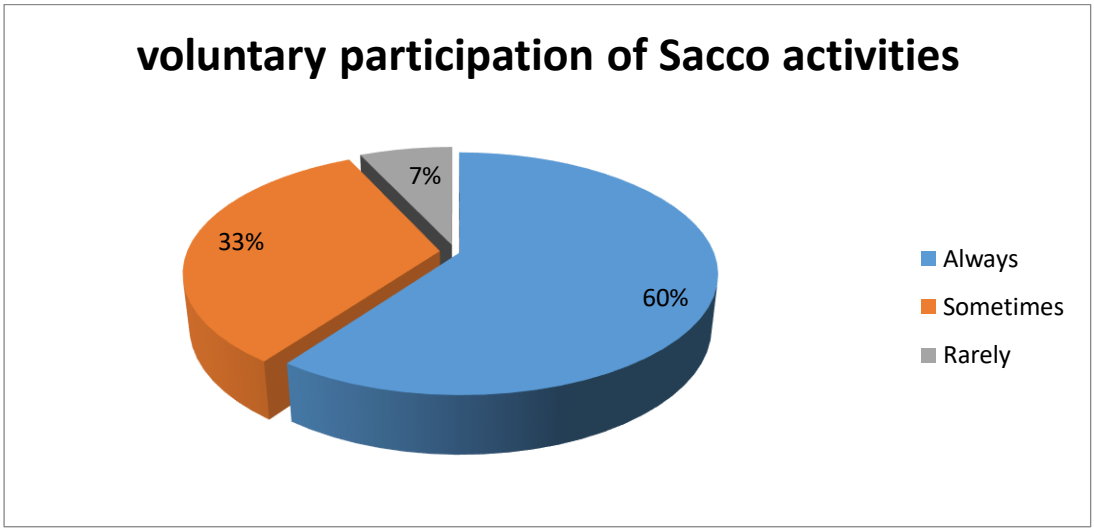
The researcher sought to find out how often the shareholders participated voluntary in Sacco activities.

Table 4.22 Voluntary Participation of Sacco Activities

Voluntary participation of Sacco activities	**Always**	**Sometimes**	**Rarely**	**Total**
Respondent	18	10	2	30
percentage	**60%**	**33%**	**7%**	**100%**

Source: Author, (2017)

Figure 4.22 Voluntary Participation of Sacco Activities.



Source: Author, (2017)

Table 4.22 and figure 4.22 indicates that 60% of the respondents believes that the shareholders always participated voluntarily in Sacco activities while 33%believes the shareholders always participated voluntarily in Sacco activities while 7%believes that the shareholders rarely participates in Sacco activities. There is a strong indicator that the shareholders sometimes participated voluntary in Sacco activities.

4.2.23 level of Accountability of shareholders

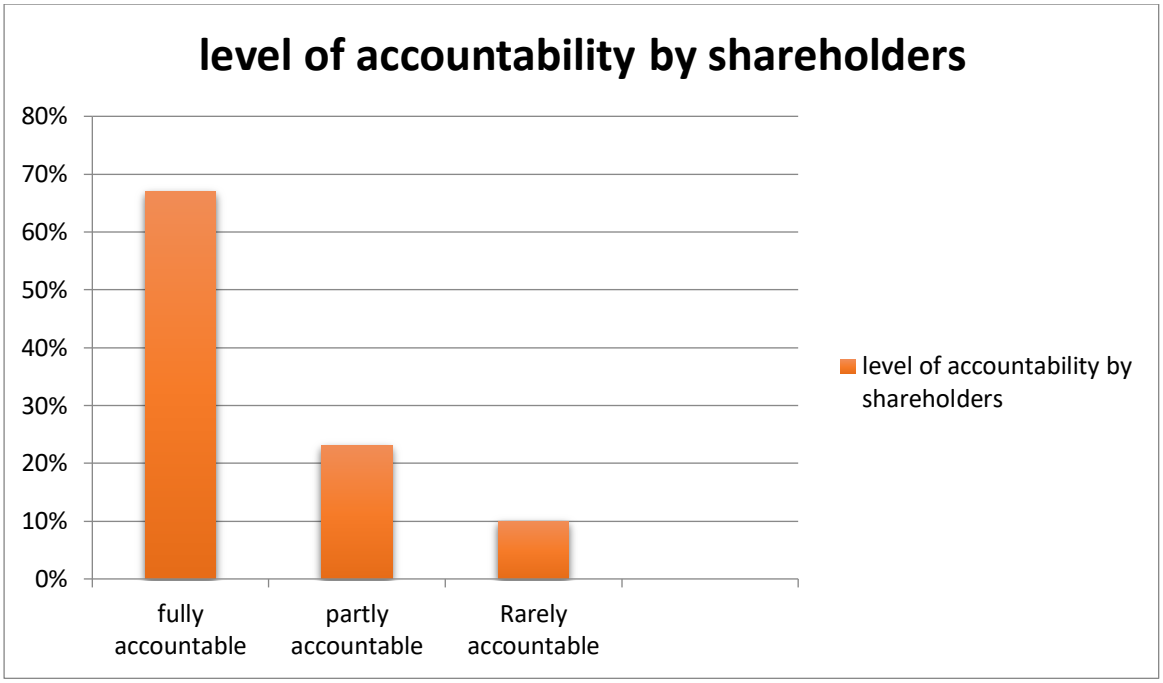
The researcher sought to find out the level of accountability of shareholders to the Sacco.

Table 4.23 Level of Accountability of Share holders

Level of accountability	Fully accountable	Partly accountable	Rarely	Total
Respondent	20	7	3	30
percentage	67%	23%	10%	100%

Source: Author, (2017)

Figure4.23 Level of Accountability of Shareholders



Source: Author, (2017)

Table 4.23 and figure 4.23 indicates that 64%of the respondents believes that the shareholders are partly accountable to the Sacco while 25% believes that the shareholders are fully accountable and 11% of the respondents believes that the shareholders are not accountable to the Sacco. This is an indicator that the shareholders are partly accountable to the Sacco.

4.3 Summary of data analysis

The researcher presented his findings using tables and pie charts as seen above. Outlined below is a summary of major findings from the analysis above. The response rate from of the respondents was 91% from all the questionnaires dispatched. This rate was good for the reliability and validity of the Data collected since most of the questionnaires dispatched were returned back. The respondents were dominated by male respondents in terms of gender representation with a percentage of 57% against 43%. In relation to age distribution the Sacco was dominated by young and energetic men and women who are very active in running the affairs of the Sacco with majority in the range of between 31-40 years and a percentage of 40% respectively. It is also evident that majority of the Sacco directors and management staff had served the Sacco for a minimum of 6-15 years hence they had the organization affairs in

their fingertips making it easy in their governance duties with a percentage of 67% Education wise majority of the respondents were post secondary school leavers giving an upper hand in service delivery, quick and fast in decision making at 80% respectively.

The board of directors had great impact on the performance because of education level at 57%. It is also evident that the Sacco faced a lot of challenges in monitoring financial performance based on the level of professionalism 80% of the respondents were professionals, 7% were skilled and 13% were unskilled. The challenge arises because the Sacco also requires more skilled members as the professionals would not do the unskilled and skilled work altogether.

On the term at which the BOD has a strategic plan, 60% of the respondents were of the opinion that the B.O.D should have a 10years strategic plan, 23% of the respondents were of the opinion that B.O.D should have a 15 years strategic plan while 17% of the respondents were of the opinion that the B.O.D should have a 5 years strategic plan. This indicates that majority of the respondents were of the opinion that the BOD should have a 10 years strategic plan. On the opinion that the board of directors meet to discuss strategic decisions, 78% of the respondents were of the opinion that the board of directors meet to discuss strategic decisions made by top management while 18% were of the opinion that board sometimes meet to discuss strategic decisions while 4% of the respondents were of the opinion that the board rarely meet to discuss strategic decisions. This shows that the top management and directors always meet to discuss strategic decisions. The CEO always observed ethical issues at 73%. And also was guided by policy documents in discharging his duties with a 80% response rate. There is also a strong indicator that the CEO is very creative, innovative and excellent leadership skills. The CEO uses Co-operative Act laws in governing of the Sacco at 73%.The activities to be guided by the service charter were loans approval in ten days at 57% while 43% were of the opinion that a defaulter should be declared in three months' time. On adherence to minimum prudential requirements, the Sacco is at 26% and 57% moderate extent hence the Sacco needs to tighten its belt on prudential requirements. On regulatory framework requirements only 14% of the respondents were of the opinion that it meets the requirements. Also the effects of regulations on financial performance were very high with a percentage of 73%. Regulations also led to loss of business opportunity in Sacco's with 61% in agreement and 20% slightly agreeing. Cost implication was also at average with a 53% response in favor of the argument. In shareholders voluntary contribution to capital build up,

the feelings were that they sometimes voluntarily contributed towards capital build up with a response rate of 60%. In election, the Board of directors uses secret ballots during elections with a 47% response rate. Shareholders also always participated voluntary in Sacco activities with 57% response rates. On accountability 67% of the respondents were of the view that the shareholders were fully accountable while 23% were partly accountable.

CHAPTER FIVE

5.0 SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter gives a summary of the researcher's findings as stated in the fourth chapter. It also gives recommendations and conclusions of the study based on the objectives in the study. The objectives of this study were to investigate the effects of corporate governance on the financial performance of the deposit taking Savings and Credit Cooperatives (SACCOs) in Kenya.

5.2 Summary of major Findings

The researcher presented his findings using tables and pie charts as seen above. Outlined below is a summary of major findings from the analysis above. The response rate from of the respondents was 91% from all the questionnaires dispatched. This rate was good for the reliability and validity of the Data collected since most of the questionnaires dispatched were

returned back. The respondents were dominated by male respondents in terms of gender representation with a percentage of 57% against 43%. In relation to age distribution the Sacco was dominated by young and energetic men and women who are very active in running the affairs of the Sacco with majority in the range of between 31-40 years and a percentage of 40% respectively. It is also evident that majority of the Sacco directors and management staff had served the Sacco for a minimum of 6-15 years hence they had the organization affairs in their fingertips making it easy in their governance duties with a percentage of 67% Education wise majority of the respondents were post secondary school leavers giving an upper hand in service delivery, quick and fast in decision making at 80% respectively.

The board of directors had great impact on the performance because of education level at 57%. It is also evident that the Sacco faced a lot of challenges in monitoring financial performance based on the level of professionalism 80% of the respondents were professionals, 7% were skilled and 13% were unskilled. The challenge arises because the Sacco also requires more skilled members as the professionals would not do the unskilled and skilled work altogether.

On the term at which the BOD has a strategic plan, 60% of the respondents were of the opinion that the B.O.D should have a 10years strategic plan, 23% of the respondents were of the opinion that B.O.D should have a 15 years strategic plan while 17% of the respondents were of the opinion that the B.O.D should have a 5 years strategic plan. These indicates that majority of the respondents were of the opinion that the BOD should have a 10 years strategic plan. On the opinion that the board of directors meet to discuss strategic decisions, 78% of the respondents were of the opinion that the board of directors meet to discuss strategic decisions made by top management while 18% were of the opinion that board sometimes meet to discuss strategic decisions while 4% of the respondents were of the opinion that the board rarely meet to discuss strategic decisions. This shows that the top management and directors always meet to discuss strategic decisions. The CEO always observed ethical issues at 73%. And also was guided by policy documents in discharging his duties with a 80% response rate. There is also a strong indicator that the CEO is very creative, innovative and excellent leadership skills. The CEO uses Co-operative Act laws in governing of the Sacco at 73%.The activities to be guided by the service charter were loans approval in ten days at 57% while 43% were of the opinion that a defaulter should be declared in three months time. On adherence to minimum prudential requirements, the Sacco is at 26% and 57% moderate

extent hence the Sacco needs to tighten its belt on prudential requirements. On regulatory framework requirements only 14% of the respondents were of the opinion that it meets the requirements. Also the effects of regulations on financial performance were very high with a percentage of 73%. Regulations also led to loss of business opportunity in Sacco's with 61% in agreement and 20% slightly agreeing. Cost implication was also at average with a 53% response in favor of the argument. In shareholders voluntary contribution to capital build up, the feelings were that they sometimes voluntarily contributed towards capital build up with a response rate of 60%. In election, the Board of directors uses secret ballots during elections with a 47% response rate. Shareholders also always participated voluntary in Sacco activities with 57% response rates. On accountability 67% of the respondents were of the view that the shareholders were fully accountable while 23% were partly accountable.

5.3 Answers to research questions

The research was guided by the following research questions

5.3.1 What are the effects of board of directors on the financial performance of the Savings and Credit Cooperatives in Embu County?

The research concludes that the boards of directors have great effect on the financial performance in SACCOs. It is also evident that educational level and having frequent meetings to discuss strategic decisions is essential, also having a term for strategic plan. The directors should be elected in a democratic manner using secret ballot which is free and fair so that each shareholder can feel that his needs are being met in the Sacco.

5.3.2 What are the effects of regulatory frame work on the financial performance of of the Savings and Credit Cooperatives in Embu County?

The study concludes that the regulations have a great impact on the financial performance of the Sacco's in the sense that the cost of compliance is very high and also there is lost business

opportunity as the regulations limits the Sacco diversification so as to increase its business capacity. Also much amount of capital for Sacco's has been utilized in ensuring Sacco compliance so as to be able to meet the deadline set by regulators as the window for compliance comes closer and closer. Also through regulations some amount of cash goes out of the firm through statutory deductions, taxes, operating certificates etc. also the cost of non compliance is very high through hefty fines to non adherence

5.3.3What are the impacts of integrity of the CEO on the financial performance of the Savings and Credit Cooperatives in Embu County?

On ethical issues and the integrity of the chief executive officer, ethics are very important since the CEO acts as the mirror of the Sacco's because various stakeholders get access to the Sacco through the CEO. From the research the researcher found out that the CEOs integrity had a great effect to the Sacco and it was important for the board of directors to ensure that all staff members including the CEO should observe ethical issues as outlined in the chapter six of the constitution.

5.3.4What is the impact of the shareholders on the financial performance of savings and credit cooperatives in Embu County?

Shareholders are the pillars of any given entity globally. In the research the researcher found out that shareholders are the key to the success of the Sacco's as it is emphasized by various regulatory requirements. The research findings shows the level of participation of shareholders in their meetings, voluntary contribution to the capital build up and they should ensure they wisely elect their representatives through secret ballot.

5.4 Conclusion

5.4.1 Board of directors

The study concludes that board of directors has great impact on financial performance of Sacco's. It is also evident that education level and the rate at which the board meet to discuss the problems of the Sacco also matters. The directors should be elected in a democratic manner by shareholders free from interfearance by outside force.

5.4.2 Effects of regulations

The study concludes that regulations have great impact on the financial performance of Sacco's in the sense that the cost compliance is very high and also there is loss of business opportunity as the regulations limits Sacco diversification so as to increase its business capacity. Also much amount of capital has been utilized in ensuring Sacco compliance so as to be able meet the deadline set by regulators.

5.4.3 CEO integrity

On ethical issues and integrity of the Chief Executive Officer, ethics are very important since the CEO acts as the mirror of the Sacco because various stakeholder s get access of the Sacco through the CEO. From the research, the researcher found out that the CEOs integrity had great impact to the Sacco and it was important for the B.O.D to ensure that the Sacco staffs are being led by the CEO. He should have a service charter and observe time management in managing the Sacco.

5.4.4 Shareholders

The study concludes that Shareholders have a great impact on the Sacco performance since they are the pillars of any given entity globally. In the research the researcher found out that shareholders are the key to the success of the Sacco's as it is emphasized by various regulatory requirements. The research findings shows that the level of participation of shareholders in their meetings, voluntary contribution to the capital build up and they should ensure they wisely elect their representatives through secret ballot.

5.5 Recommendations

5.5.1 Board of Directors

The study recommends that the board of directors should maintain level of professionalism to avoid incompetence in performance of Sacco, board should also meet regularly to discuss strategic decisions, it should also have a strategic plan of at least ten years be considered since it affects the financial performance of the SACCO. The number and of directors needs to be selected well using secret ballot method, for free and fair election since they affect financial performance of the SACCO and represent different classes of shareholders.

The board of directors should incorporate different classes of shareholders and incorporating the youth and gender so that every potential customer is brought on board through good stewardship of the board.

The board needs to have well-educated people in it since they are actively involved in shaping the SACCO strategy. The study recommends that the directors be trained on internal corporate governance mechanisms. Ownership concentration needs to be reduced to avoid few people controlling the financial performance of the organization. Employees should be encouraged to be more active in financial management aspects of the SACCO business.

5.5.2 Effect of regulation

The study also recommends that since regulations play a very big role in the financial performance of Sacco's, those people responsible to ensure adherence is maintained should do it promptly to avoid fines and penalties which are very punitive to the victims caught on the wrong hand of the law. Though the regulations observance is costly it creates a good environment for carrying out business as well as protecting various entities rights and obligations and hence the organizations cannot avoid nor ignore this key aspect.

5.4.3 CEO Integrity

The study also recommends that the CEO should be a person of high integrity and good morals so that the business entity can win respect and recognition through the presentation of the CEO. CEOs with good moral values accompanied with honesty and trust will see their Sacco prosper and grow it portfolio and hence growth in financial performance.

5.4.4 Shareholders

Shareholders are the pillar of any business entity and more so savings and credit cooperative societies which rely a lot from the savings and share drive from its members. The firm should endeavor to maximize the shareholders wealth so that they can be able to closely monitor, work effectively in order to improve the performance of the Sacco and in the process they will be accountable and responsible to the Sacco's which they belong to.

5.6 Suggestions for further studies

Having evaluated the effects of corporate governance on the financial performance of Sacco's in Embu County, further research is needed to evaluate in depth analysis of each variable, especially the effect of regulation in growth of Sacco's. Also further study is also needed to evaluate the effects of financial services on the profitability of Sacco's.

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