

**THE RELATIONSHIP BETWEEN CORPORATE
GOVERNANCE PRACTICES AND FINANCIAL PERFORMANCE OF
SACCOS IN MURANG'A COUNTY**

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**A Research Project Submitted in Partial Fulfillment of the Requirements
for the Degree of Master of Science in Finance.**

School of Business

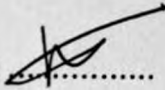
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October 2012

DECLARATION

I declare that this is my original work and has never been presented in the previous studies.

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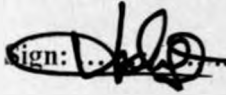
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DEDICATION

I dedicate this work to my family for they were supportive of me in the course of my studies.

I will forever be indebted to you and I live to remember.

ACKNOWLEDGEMENT

I acknowledge the support accorded to me by my supervisor Mr. Herick Ondigo. You went beyond the call of duty and patiently guided and corrected me till the very end.

I acknowledge support from the University of Nairobi, school of Business for according me an opportunity to learn and further my studies.

My peers and colleagues who contributed by way of giving me invaluable pieces of advice are highly acknowledged.

I finally acknowledge the Saccos in Murang'a County which participated fully in the data collection exercise. Your support made the project a reality.

ABSTRACT

The study sought to find out the relationship between corporate governance practices and financial performance of sacco's in Murang'a County. The objectives that guided the study were CEO duality, number of board committees, independence of supervisory committee and disclosure. The study had its target population as the Saccos in Murang'a County. They were all forty three in number. The census sampling method was used for sampling purposes. The sample size was all the Saccos in Murang'a County. The study employed the descriptive survey design. The data was collected by use of questionnaires, and secondary data analysis. The data was analyzed by use of S.P.S.S (Statistical Package for Social Sciences) and thereafter presented by use of statistical means which were tables and percentages.

The study had the following findings. The study found out that all the Saccos in Murang'a County had a clear separation of authority with regard to executive function and only 11% of the CEO's in the Saccos chaired the board of management. It equally found out that all the Saccos had systems of board committees in place and the committees exercised the functions allocated to them by the boards of management. The study was thus a confirmation of the Saccos satisfying the stipulated regulatory provisions requiring the putting in place of committees to enhance the functions of management and governance. The study confirmed the presence of supervisory committees in all the Saccos. The response shows that 53% of the respondents viewed the supervisory committees as highly independent while 47% of the respondents held the opinion that the supervisory committees were fairly independent. The study found out that all the Saccos practiced disclosures to levels allowable by the membership and constituents across board.

The study recommended the clear separation and definition of functions between the chair of the board and the C.E.O. This will always create a conducive environment allowing for the exercise of executive authority and formulation of policy in Saccos. Saccos should thus be

encouraged to always have a clear separation of powers, competitive recruitment of chief-executive officers and have able and competent boards of management for the exercise of policy formulation and executive function. The study further recommended that Saccos should always embrace and adopt the system of board committee in totality. This will ensure the exercise of the function of delegation and the allowance of tapping of talent and exploitation of previous experiences when the board members sit in the committee that they are versed with in terms of expertise and exposure.

The study recommended that the independence of the supervisory committees should always be upheld. The supervisory committees should be put in place and given the mandate to fully discharge their cause and obligation for the firm's good. The study finally recommended that Saccos should always uphold the standards and allowable levels and practices of disclosure within their ranks. Ministry of Cooperatives and the SASRA should always enforce the requirements for publishing of accounts, appointment of external auditors and the availing of information to the membership to safeguard shareholder interests and assure the saccos of growth.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The cooperative movement in Kenya is liberalized. The government has opened up the sector to provide the requisite environment that allows for the creation of professionally managed self-controlled and self-reliant ventures. Market forces have triggered a structural transformation that has seen the fading away of inefficient cooperatives, (Owango, 2008). It has also forced the innovation and diversification into activities and ventures that are responsive to member's needs. This has ensured growth in the sector especially in the financial services provision, which has given players in the formal banking industry a run for their money.

Data from the ministry of cooperatives, development and marketing shows that saccoos have been going at a rate of 25% per year for the past six years, (GoK, 2011). This has mainly been driven by the interest rates regime, which has seen the saccoos charge lower interest than the commercial banks. For instance when banks were charging 18% in the year 2011, saccoos charged interest at between 10-12% locking out a substantial borrowing pool from the banks. This has driven many salaried people to the saccoos and has seen the growth of the sector in leaps and bounds.

The sacco sector has grown and currently we have around 220 deposit taking saccoos with an estimated membership of five million and assets worth 150 billion. The sector is regulated by statute (the sacco societies act), which is enforced by the sacco societies regulatory authority, (SASRA), (GoK, Min of Cooperatives, 2011). New rules with provisions for the regulation of the new rules with provisions for the regulations of the sector have been put in place. They require the saccoos to file monthly reports with the authority to ensure prudent following of the regulations and the adherence to the same. The regulations have strict corporate benchmarks that include the authority's sanctions such as prohibition of dividends, expansion, lending investment or

acquisition of property among others when inspections reveal financial mismanagement. The Saccos are equally required to develop a code of conduct whose violation results in a fine of 100,000 or one year jail term or both. This is with an intention of safeguarding the member's interests.

1.1.1 Corporate Governance

Corporate governance can be defined as the system of having a structured association between the management and shareholders with regard to corporate decision making and control in an organization, (Hermes, 2008). The spectrum of governance is dictated by the legal system governing the particular jurisdiction a firm is located and an agreed standard of governance and systems of behavior allowable within the membership of the cooperative. It's thus a system which ensures the accountability of the management to the shareholders and cushions the shareholders from loss and gives a leeway to management to exploit enterprise for the benefit of the shareholders.

The societies are dependent on enterprises for provision of goods and services, the exchequer gets taxes from enterprises, society gets employment and enterprises engage in community activities thus having the corporate sector as development partners with society, (Namisi, 2007). The mutual association demands that the enterprise become more accountable thus societies and government regulatory agencies have to scrutinize corporate activities with an aim of ensuring accountability to all the stakeholders and continued growth for the benefit of the economy. Corporate governance is thus a requisite for ensured growth and development for economies in all jurisdiction attributed to the symbolic relationship between enterprise and society.

The Kenyan corporate scene is regulated by statute. The institutions concerned with enforcing compliance are the capital market authority, the Nairobi Securities Exchange, the center for corporate governance and the Central Bank of Kenya, (Jebet, 2009). The capital markets authority

has guidelines for listed companies on corporate governance practice which are enforceable by law. The aim of the guidelines is to enforce standards of self-regulation and aid growth of best practices in terms of governance to international standards. Consequences of failure to play by the rules are invitation of sanctions thus aiding unholding of good practices and the fulfillment of regulations guiding corporate governance. The institution of certified public accountants equally has strived to instill ethos and practices of corporate governance in its membership by way of insisting of membership to report on corporate governance practices of the firms that they audit as a way of ensuring compliance.

1.1.2 Financial Performance

Financial performance is a key attribute of good corporate governance. Financial performance can be defined as how well an organization employs it's assets from their primary goals to generate revenue. Return on assets and return on equity are some of the measures used to estimate financial performance .Economic value added is also an attribute of financial performance whereby shareholders value is evaluated after the total cost of capital is taken into account, (Higgs, 2004).

The financial performance of the Saccos will be measured by way of having computation of the return on assets over a period of five years and calculating to find the relative rate of growth in comparison with the organization capacities to put in place the requisite corporate governance practices.

1.1.3 Effect of Corporate Governance on Financial Performance

Corporate governance is generally concerned with conformance and performance in a broad view. In conformance the issues of concern are compliance with legal requirements, industry standards and accountability to relevant stakeholders. The performance is geared towards monitoring of the organization performance as well as the performance of CEO which is directly linked to setting up of organizational goals and strategies for achieving them.

The linkage between corporate governance and firm performance lies in the multi-dimensional nature of corporate governance whereby we have internal and external corporate governance. Internal corporate governance gives priority to shareholders' interests with emphasis on how board of directors operates in monitoring the top management. On the other hand external corporate governance monitors and controls management behavior by means of external regulations in which various stakeholders are involved.

Absence of governance mechanism in place particularly an effective board to safeguard the interest of the owners from managerial opportunism may lead to loss of profits and to even collapse of organization. A good corporate governance mechanism can be understood to minimize the possibility of poor firm performance.

Majority of recent corporate governance definitions are emphasizing on the contribution of good corporate governance in the improved firm performance by highlighting the strategic role of the board, legal compliance, ongoing financial scrutiny and control in addition to fulfilling accountability requirements are coming up prominently as fundamental features of good corporate governance.

A high performing board plays a strategic role in ensuring that the company keep pace in the changes in the industry, external environment and more so nurture and build key external relationships with a view to enhancing the overall performance. The board role is not only to maintain and protect but also to enable and enhance performance through adoption of good corporate governance mechanism.

The stakeholder theory which is founded on the premise that co operatives serve the interests of different stakeholders in society identifies well with the study owing to the fact that cooperatives serve different competing interest which all have a stake in the cooperatives thus stakeholders.

1.1.4 Saccos in Murang'a County

Murang'a County has many Saccos in operation. Some are in the financial services provision sector, agricultural sector and transport industry. We have only three Saccos which have been licensed by the regulator (SASRA) as deposit taking entities. They are Mentor Sacco, Unaitas Sacco and Murata Sacco. The other bulk of Saccos are regulated by the Ministry of Cooperatives. The study seeks to find out the relationship between corporate governance and financial performance of Saccos in Murang'a County.

Murang'a County has forty three saccos. The saccos which have satisfied the requirements for licensing as stipulated by the sacco societies regulatory agency (SASRA) are only three. This shows the stark reality as regards fulfillment of the corporate governance standards in the region. It gave credence to the study which sought to find out the relationship between corporate governance and financial performance in saccos in Murang'a County.

1.2 Research Problem

Corporate governance is the association between the members as owners of a business and the management which has the care and control of the business. In the saccos societies we have a precarious situation in that some of the members of the management committees have no passion for the leadership positions endowed to them and some members of the board of management have vested interests in the running and management of the organizations leading to situations of poor performance and occasioning the organizations and by extension the membership losses (Agumba, 2009).

A study carried on the effectiveness of the governance model shows that most sacco in Kenya are governed by use of the democratic or association model which gives the membership a right to question excesses by members of the management committees and board of management. On the other hand, despite the opportunity, most Saccos go through losses occasioned by mismanagement raising doubts as regards the viability of the governance model and the capacity of the membership to question the excesses of the leadership.

The Nairobi Securities Exchange is awash with cases of listed companies failing to have the true picture of external on-goings brought out to the fore. Cases of misrepresentation of facts as regards the capacities of organizations and their financial positions has seen the shareholders lose trust and faith in the corporate governance structures and systems in the country, (Ndii, 2010). The criminal proceedings brought forth against director of Uchumi Supermarkets and the starking revelations against the board of management sent shock waves to the business scene as regards the fiduciary standards and the expectations of the shareholders.

The Sacco industry has grown exponentially in the recent past. We have experienced phenomenal growth in the industry. On the other hand, the management of Saccos has always been shrouded in secrecy. Many of the shareholders are in the dark as regards the performance of Saccos in which they are members and they have nothing to show for the membership. Audit reports have always shown anomalies in the management of shareholders funds and in some instances shareholders have gone for years without earning any dividends from their investments. In some Saccos, we have had very prudent management which has enabled the entities to fulfill statutory requirements and aid growth in leaps and bounds. This has always translated to good financial performance which always can be traced to the corporate governance employed by the affected Saccos.

A study on the capacity of saccoes to deliver and meet the expectations of the membership shows that leadership and governance have far reaching ramifications on the performance of Saccos in Kenya. A case in point is the resurgent harambee Sacco society which has the public service fraternity as its core membership. The once very vibrant Sacco was almost ran down by inept leadership which caused immense loss to the membership and a loss of interest and faith in the cooperative movement in the country, (Khaemba, 2008). The situation portends grave danger to members' savings and gives a bad name to the movement owing to situation of leaders failing to observe the basic tenets of good corporate governance.

Corporate governance has a big bearing on the financial performance of an organization. Studies Jebet (2009) show that corporate governance had a profound effect on ROA and ROE in cooperatives societies. In a study to find out the effects of corporate governance on the financial performance of cooperative societies it came out that the societies which practiced the approved tenets of corporate governance with regard to leadership, regularity of holding elections, putting people of integrity in positions of management and the board reflected heavily on the financial growth of the entities. She argued that in the instance of organizations holding regular elections, having strong and effective supervisory committees to undertake the function of audit of the programmes reflected well on the capacity of the firm to post good financial results.

Murang'a County has had a high proliferation of Saccos. The County has a total number of forty three which are registered and operational. The number of licensed Saccos which have fulfilled the regulations requirements is only three which are Mentor Sacco, Unaitas Sacco and Murata Sacco. The situation mirrors a very small and insignificant percentage of Saccos satisfying the required benchmarks and standards and there is thus need to find out the relationship between corporate governance and financial performance because it is only the licensed Saccos which have

passed the test of practicing the requisite standards of corporate governance. The study thus sought to find out the relationship between corporate governance and financial performance. The researcher took cognizance of the situation of corporate governance on the Kenyan business scene. He was keen on finding out the relationship between corporate governance and financial performance of sacco in Murang'a County.

1.3 Research Question

What is the relationship between corporate governance practices and financial performance of Saccos in Murang'a County?

1.4 Objective

To establish the relationship between corporate governance practices and financial performance of Saccos in Murang'a County.

1.5 Value of the Study

The Sacco industry has had a lot of dynamism in terms of growth. This has come along with higher expectations for the shareholders and the industry players at large. It has placed a heavy burden on the shoulders of management cultures and boards of directors in terms of having structures which allow for good and acceptable standards of governance. The study will thus impact positively on the industry by way of relating to the governance structures and style on financial performance.

Shareholders always need to have value for money for their association with the entities that they identify with. The same can only be realized in the event of good corporate governance. The study will thus give an insight to the current practice vis a vis the expectations of the shareholders

showing how enhanced corporate governance would add value in terms of aiding financial performance of the Saccos thus better returns for the shareholders.

The study will contribute immensely to the body of knowledge on corporate governance and financial performance. It will have the ultimate effect of aiding generation of information which may be of value, to future researchers and a document on reference will be brought forth by the study which will always be accessed by other scholars in future.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The following chapter carries out a review of other works by other researchers and relates it to the present study. It carries out a theoretical review, empirical review and a review of past studies, it shows the gaps to be filled by the study and it has the theoretical and conceptual framework.

2.2 Theoretical Review

The study will be guided by the following theories, agency theory, stakeholder theory, resource dependence theory, and the stewardship theory. The four theories identify well with corporate governance structures and the stake holders' theory identifies well with cooperatives which institutions are serving the interests of varying stakeholders in society.

2.2.1 Agency Theory

Agency theory identifies well with corporation and corporate governance arrangements of cooperatives societies where the Saccos identify. The agency theory stipulates that the management acts in the best interests of the shareholders with a majority of board members being independent of management whereby they play an oversight role to ensure that the management affirms to the tenets of industry best practices and is compliant to the standards and benchmarks guiding the industry and always fits the shareholders best interests. The aim of the theory is ensuring that the shareholders interests are taken care of and protected thus having them cushioned from loss.

2.2.2 Stakeholder Theory

The stakeholder theory is founded on the theory that the cooperatives are institutions which serve the interests of varying stakeholders and institutions in society. The theory thus identifies the cooperatives as institutions not only serving the members interests of the society by virtue of

having the society drawing its interests and stake from a broad network of computing social interests.

The theory is thus founded on the premise that the cooperation should incorporate varying community interests to the board. It should thus draw its membership to the board from varying community interests and seek to satisfy all potential interests from the community by having them represented. The situation sets up the board to have a good role of always negotiate and reaching to agreement on conflicting positions by virtue of having non-partisan interests in the board. The theory thus doesn't identify wholly with the cooperative movement whereby we have varying cooperating interests.

2.2.3 Resource Dependency Theory

The resource dependency theory brings forth a picture of organizations which are dependent and interdependent with their environment. The organizations have a dependence on other organizations to ensure their sustainability in terms of acquiring resources and linkages with other external actors from without the spectrum of the organization thus having continuous association and flow of information driven by the good relations maintained with the stakeholders without the organization.

The fostering of good relations pioneers the organization to be in a position to absorb external shocks driven by market focus owing to prior expert knowledge and the corruption of potential external threats into management. It makes the organization have a wealth of experience brought on-board by the various competing and conflicting interests and egos from organizations environments. The cooperative movement however has the leadership drawn from the membership from within.

2.2.4 Stewardship Theory

The stewardship theory is based on the human relations perspective. It places the burden of stewardship on the managers and has them as effective stewards of the organizations resources. The management is more or less corrupted into ownership of programmes to forge a partnership. This ensures that members are selected on the basis of their expertise and previous wealth of experience that they bring to the organization so as to add value and aid grow the profile of the organization. The theory has an emphasis on training and induction which ensures that the managers and board members lead the organization into heights of growth. The cooperatives movement on the other hand is volatile in terms of having long competitive elections processes whereby the leadership is appointed not on the basis of experience and merit but the influence they have over the members. This thus negates the input of the stewardship theory in the cooperative movements.

2.3 Components of Corporate Governance

2.3.1 CEO Duality

The boards of directors have a critical role in terms of governance and management of institutions. They have the power to evaluate members of the top management. The contention however is when the CEO adds up as the chair to the board and his performance is below par. It becomes a challenge to the board charged with the responsibility of carrying out the task of evaluating and determining his suitability for the position, (Namisi, 2008). CEO duality may thus be a source of conflict to the organization by way of having a tough task of managing shareholder expectations and keeping in touch with the performance of the chief executive officer regardless of the prevailing circumstances. The scenario may be a cause of conflict in the running and management of the organization.

Situations of powerful managers wielding a lot of control in the firm bring forth the arising of situations warranting the existence of dual CEOs. The owner manager may not cede any ground in terms of ownership, delegation of authority and has provisions from a non-executive board to satisfy the statutory obligations. The scenario protects the ownership structure of the firm but it may expose the minority shareholders to risk in the event of abuse of power by the dual CEO. This may expose the firm to irreparable loss occasioned by the fact that the CEO has unfettered control of the firm, (Wiley, 2010). Situations of organization going under owing to mismanagement abound and litter the corporate scene driven by the lack of checks and balances brought along by effective boards of management.

CEO duality on the other hand eases the decision making processes. It aids reduce the chain of bureaucracy and gives a leeway to the CEO to always work with speed for the good of the organization. It allows the firm to have a good performance, save on the costs of having two positions by way of having them occupied by one person and brings along separation of executive function from the board, (Baragwe, 2009). The CEO duality however may portend the risk of conflict of interest and situations of rivalry between the board and CEO if some decisions don't go down well with the board members.

Instances of poor performance and losses occasioned to shareholders have brought a sharper focus on CEO duality. Cases of Enron and Palmat in the USA and Housing Finance Kenya Limited have dented the image of dual CEOs. They have shown the imminent risk of flagrant abuse of power and the risk of having non executive directors with no insider knowledge and how it is that the situation can give rise to loss in an of organizations, (Regeru, 2011). The lack of assertiveness and independence of the boards of management may be a source of great pain to the shareholders in the event of wrong decision making.

2.3.2 Number of Board Committees

A firm organizational and management structure defines the board size of the organization. The relationship structure with regard to block and institutional owners also has a major role to play with regard to the composition of the board in the quest to protect the shareholder interests. Firms with large boards have the undoing of having the CEO getting a tough challenge of controlling the board members from a diverse array of backgrounds. The chief executive officer may find it difficult to whip the board and have it work in a focused manner driven by the competing interests representing varying investors, (Nancy, 2004). There is thus always need to align the board size with the interests of the organization in terms of achieving the desirous results.

The leadership structure of the organization also determines who possess execution authority and the pecking order in terms of the chain of command. The chair to the board may possess executive authority in some instances while the managing director in other situations may possess executive authority. Decision making and interpretation may thus be hierarchy influenced and aligned to the leadership structure, (Mace, 2007). The orientation of the board and organization may dictate the presence of committees to carrying out particular tasks within the organizational ranks specific to the particular committee given the firms divisional and management structure. We may have committees tasked with remuneration of workers, audit function, finance, environment going by the activities in the organization and the orientation of the board members.

Presence of board committees hastens decision making by way of having specific people tasked with particular activities. The committee system equally brings forth focus and a sense of purpose to the individual tasked with particular functions. It brings forth efficiency in terms of time wastage and saves the institution a lot of resources in terms of having the committees move with speed to perform duties allotted to them with minimal requirements for the whole board to meet.

(Mahinda, 2010). Decision making and consensus building on sticky issues is thus easier owing to the system of delegation and incisiveness brought along by the ownership of committee membership. The committee system thus enables multifunctional activities whereby different committee meet, deliberate and all have their decisions ratified by the whole board for the good of the firm.

Efficiency in terms of having membership of the committees tasked with specific responsibilities within the organizational realer is created. The committees have specific functions and always take responsibility for their particular dockets. They thus fully take charge and manage the affairs of the dockets with a greater sense of purpose as opposed to situations whereby the whole board is tasked with all activities in the organization in terms of management and decision making, (Mclead, 2009). The committee system has a cost reduction effect on the organization attributed to the savings brought forth by the efficiency and reduced number of meetings owing to the capacity to handle various functions simultaneously and elaborately.

The management structures of Saccos demands the use of the committee system for the purpose of satisfying, statutory requirements as per the set rules and guidelines governing the running and management of Saccos. The membership of the various committees dictated by the wealth of experience that one brings on board but in many instances especially in non-formal settings the experience factor does not come onto play but the major motivation is the contenders influence over the membership during the electioneering period, (Atsango, 2010). This brings into focus the levels of competency in terms of skills and character of the members of the boards running and managing their saccos.

2.3.3 Independence of Supervisory Committee

Supervisory committees play an oversight role in the corporate governance landscape. The oversight role helps infuse professionalism and improve the quality of corporate governance hence reducing the risk of corporate failures. The supervisory committees have the role monitoring the activities of the board and the management on behalf of the shareholders. The supervisory committee may be charged with the responsibility of having the task of asking the managers and the directors to amend breaches in policy on procedures that may be injurious to the organization, (Shreetal, 2010). The code of corporate governance stipulates that limited liabilities companies or joint stock companies should always have a supervisory committee.

Regulations stipulate that a supervisory committee should have at least three persons. The supervisor committee should bring on board both shareholder and employee representatives. This is deemed as the best approach to infuse a sense of collective responsibility and a sense of ownership of programmes and at the same time institutionalize probity and representation in the committee, (Atsango, 2010). The organization will thus have the advantage of a feeling of involvement in organizational programmes by both the shareholders and the employees and the stakeholders will always have an assurance that their interests are protected in the organization.

The supervisory committees should have powers to review the financial affairs of the company, have a programme of monitoring and evaluating the director's performance and seeking the director to rectify what the committee considers injurious to the organizations standing and position in terms of performance. The supervisory committee equally has the power to convene interim shareholders meetings in the event of the board failing to do so as required by statutes, (Mahinda, 2010). The supervisory committee should also have powers to attend board meetings and propose on issues for determination by the board of directors.

The supervisory committee should have the powers to always assess and receive the compliance of the organization with the relevant statutes, regulations and procedures. The committee should always review the financial officers accounting information and other business related matters in the enterprise. The operational efficiency profits distribution, management of assets is equally a duty of the committee to carry out a review on, (Celes, 2009). The committee should have the power to evaluate performance, propose remedial action, rewards, penalties, promotions, appointment to office and removal from office.

The independence of the supervisory committee from management should be enhanced for the purpose of improving firm's performance. This helps organizations take a proactive approach with regard to risk management and always monitor the forecast on potential risks that the organization may face, (Muturi, 2011). The supervisory committees can only achieve the task if they have access to information and unfettered access to all areas in the organization to instill the sense of independence and actualize the essence of supervision within the spectrum of the organization.

The cooperative movement has always borne the brunt of the excesses of the leadership. We have had situations of organizations run down and brought to their knees by the leadership due to lack of an oversight body to check and control the excesses of the boards and management. The code of conduct guiding the operations of Saccos demands the putting on place of oversight and supervisory committees which should be empowered and allured of the freedom and mandate to carry out their functions effectively, (Kimathi, 2008). This is slowly turning around the situation in the cooperatives sector and changing the tide of the previous inept systems and structure of management owing to the putting in place supervisory committees for the oversight function.

2.3.4 Disclosure

Disclosure is the process through which an organization communicates with the outside world. Disclosure can either be voluntary or involuntary/mandatory disclosure. It gives an insight as regards the operations of an organization in totality from the top to the bottom (Mellan, 2010). Transparency enables the understanding of the systems and processes that pertains the operations and procedures guiding the operations and requirements of an organization. Transparency helps organizations have the stakeholders understanding all that pertains the administrative procedures, the internal working arrangements and aids in risk reduction in an organization. Issues of controls, planning and management are laid bare for all the stakeholders and they always appreciate the internal working and operations of the organization by virtue of having knowledge on how the functions are carried out.

Disclosure always creates confidence in the management because the membership will always feel appreciated by virtue of having all the information that pertains the relations and internal working of the firm. Disclosure brings all the activities that range from recruitment, supplier and contractor appointments, personnel and human resource relations to the fore and aids the membership appreciate the procedures and internal working of the firm. Disclosure thus minimizes instances of discontent, ill feelings and has goodwill promoted within the organizational setting, (Heskett, 2009). This promotes the creation of a positive corporate image, leads to enhanced internal relations and aids propel the firm's image and standing in society.

Financial information and basic accounting procedures demand disclosure and forthrightness in relation to the stipulated operating standards. Organizations should always conform to the required guidelines which dictate how financial reporting should be done. The shareholders will always appreciate decisions made when the board of management is transparent enough to tell them what it is that influenced the taking of a particular position and the motivation that guided

the decision taken, (NBER, 2010). Disclosure will thus foster the creation of good internal relations and always be guiding principle of the organization. This will have the ultimate effect of inducing a good corporate image and enhancing the creation of good corporate governance.

The level of disclosure in an organization is a reflection of the tenets of corporate governance in it. The directors should always be obliged to disclosure their interests in firms doing business with the organization and they should always strive to uphold high standards of integrity and not profit from the access to insider information in the firm for their own good, (Kisero, 2010). The capital market authority has tightened the noose from the standards of integrity and moral probity thus forcing directors of organizations to strive to play by the rules or risk facing sanctions and a dent in their standing and profiles as market leaders and corporate titans.

The bar has been raised with regard to operations of listed firms in terms of authentication of books of accounts, audit and corporate governance procedures. The housing finance corporation saga whereby the directors and the auditors were arraigned in court on the discovery of falsification of the books of accounts is a case in point, (Mutiga, 2011). The prosecution of the former K.C.B chief executive officer on the exploitations of insider information about the situation of Uchumi supermarkets also shows the resolve and zeal of the regulation enforcing corporate governance standards. This is an indication of good tidings on the corporate scene with regard to the upholding of standards and ensuring the industry best practices.

2.3.5 Financial Performance

Corporate governance has a great influence on firm's performance. It has a big bearing on how the organization relates with its core constituencies and the kind of standing, respect and image that it has amongst its peers. This has a major impact on the financial performance of the firm taking into

account that the respect and image that the firm has reflects on all corporate spheres of the organization, (Irer, 2007).

This compares well by studies by (Erhardt et al, 2003) in his study of looking at the board composition with financial performance. He argued that in the event of boards of directors' diversity with regard to gender in the middle and upper management there was profound effect on organizational financial performance taking into account that the firms were drawing from a relatively larger talent pool and from both genders regardless of whether it was male or female. This explains the positive financial performance brought about by a change in business strategy owing to the diversity of the board.

The NZSC (2004) recommends that companies should have audit committees to oversee the audit of financial statements a remuneration committee for setting remuneration for executive officer and directors. The appointment of such committees is expected to have a positive effect on an organizations performance. Empirical research has shown presence of audit committees has associated the companies with reduced financial reporting problems, (Simba, 2009).

This shows that the presence of an effective monitoring system in terms of committees ensures improved financial performance in organizations. (Sirati 2008) It infuses a sense of responsibility and transparency in the administrative function, brings along a likelihood of better earnings management and improved financial performance for the firms.

Previous studies carried out on the relationship between corporate governance and financial performance has shown a crosssectional relationship between governance and performance of firms quantifying performance with accounting based measures. In their study Bhagat and Bolton (2008) looked at the effects of corporate governance on the performance of U.S. companies with Return on Equity being a performance measure. They found out that firms with good corporate

governance had enhanced return on equity, increased shareholders value and better prospects for the firms owing to increased confidence drawn from the enhanced shareholders value.

This concurs with previous studies carried out by (Mugo, 2011) on the role of corporate governance on shareholders value on tea factories affiliated to K.T.D.A and found out that enhanced corporate governance instilled confidence and enhanced market positions owing to the increased dividends on the members resulting from the enhanced R.O.A and boosted the firms profiles and confidence from the membership and forced the peers to take care for the same.

A survey by Baver et al (2008) found out that good corporate governance led to increased stock returns and enhanced organizational value in Europe. This led to enhanced performance and better market presence and the ultimate preference from the shareholders. It also led to increased confidence in the boards of directorships and enhanced preference for the shares in firms listed in the securities exchange.

The study identifies with previous works by (Ndaru, 2009) which measured and compared performance indicators with growth of firms' asset bases, financial profitability, increases in revenue, improvement of product quality, employee turnover and retention rates and organizational processes. The study found a positive relation between the corporate governance standards and ratings and the organizational value owing to the performance posted by the sampled firms.

EPPS & Cereola, (2008) indicated that firm performance can be measured using R.O.A ratio which shows the amount of earnings generated from invested capital assets. Since one of the major reasons for operating a firm is to generate income for the benefit of shareholders and consistent with Barber and Lyon, (1996), and Core, Gavy and Rusticus (2007). The study intends

to consider R.O.A as its primary measures of firm performance in supplementary tests it will use R.O.E as an alternative measure of firm performance.

2.4 Empirical Review

Corporate governance is a key tenet of influencing an organization's standing, respect and rating in the market and industry that it plies its trade. It has a big influence on how the firm is perceived and the respect that it commands from its peers. Corporate governance has a great role in influencing the kind of leadership that is in place in the organization. A study by Jensen (1983) shows that organizations should put in place mechanisms to have effective controls and institute the current best practices and standards with regard to management. This is with respect to the initiation and implementation of decision and having a control of the decision-making processes.

This concurs with previous works of Fama (1986) who said that having in place effective boards of management has a great influence on the firm's decision-making processes with regard to ratification of decisions made by the management team and aligning the management interests with the shareholder's concerns. This ensures that the best interests of the shareholders are taken into consideration and protected and it assures the firm of growth and minimizes instances of conflict between management and the board and equally any discontent from the shareholders. This has the net effect of influencing the posting of good financial performance by the organization for the good of the firm and the best interests of the shareholders.

The current business scene is a wash with high profile cases of the demise of entities like Enron and Tyco. This is a reflection of a diversion from the entrenched and engraved standards of corporate governance which has seen the individuals entrusted with a mandate of taking charge of the shareholder's interests abusing the trust and position accorded to them and exposing the shareholders to the risk of losing their hard earned resources owing to the bad practices and

standards in place, (Davis, 2006). This has cast a bad cloud on the corporate scene and reflected very negatively on the characters of the individuals charged with the responsibility of managing the entities.

The studies concurs with studies carried out by Morland (2005), which show that the presence of a two-tier board structure has always put in place effective checks and balances in the administration and management of the entities. The presence of executive boards comprising of the top level management team and a supervisory board comprising of outside experts infuses a sense of responsibility and integrity in the management and audit function of the systems in place. It instills some good corporate governance mechanism which shields shareholders from abuse and assures them of guaranteed financial returns from the investments made in the entities.

Failure of high profile companies in the US in the year 2001 showed a negative corporate culture and a bleak system of corporate governance. It was a reflection of a situation whereby the corporate practices were not working thus a need to improve on the quality of corporate governance to have a change of heart in the mindsets of the affected investors and build their confidence levels, (Allan, 2004).

The failure in the corporate entities was occasioned by having ineffective boards which were not independent from management and failing to observe good corporate governance practices in the companies. The study vouched for the need to have constant regulation in terms of policing to instill and influence good corporate governance structures which instilled professional ethos in terms of disclosures and financial reporting systems devoid of situations where the real position does not come out to the public. The study concurs with previous works of Jensen (1983), who pointed out that the legal, political and regulatory systems may be too blunt to manage the corporate situation with regard to wasteful managerial behavior and integrity issues on the corporate scene.

He called for the adoption of a rule-based governance structure which ensured that the principles, guidelines and standards of best practices as agreed upon before by the stakeholders in the industry are upheld and adhered to protect the best interests of the shareholders. This ensures that the companies practice good corporate governance and the resultant financial improvement trickles down to the shareholders.

In South Africa the stock exchange listing rules requires the listed companies to have provisions showing why principles, guidelines or best practices were not followed, (Xalema, 2008). The regulator has the capacity to question why the standards and principles were not adhered to because they have access to the firms published accounts and always have the mandate to question the appointed directors in case of any shortcomings. This always infuses good corporate governance practices in the members of the securities exchange and forces them to uphold the standards for the good of the industry and standing with regard to respect and market position. It equally enforces the standards of discipline with regard to financial reporting and has provisions for deterrence with regard to the directors who fail to comply by way of having them banished from positions of governance and authority.

The Kenyan situation of corporate governance standards and practices is equally rooted on the premise of self regulation whereby peers watch each other and provisions for membership in alliances and organizations in a particular industry is governed by the standards put in place by the parent member organizations. This enforces standards to be upheld and instills discipline in the membership in the sense that every member organization will always know that admission is premised on the observance of best practices and standards allowable, (Ng'ang'a, 2003). This identifies with the standards put in place by the private sector initiative for corporate governance in Kenya which is an umbrella organization for the Kenya Private Sector Alliance and it has specific standards and provisions for rules and guidelines to be upheld as a prerequisite for

membership. The standards infuse a sense of discipline owing to the fact that no peer will want to flout the rules and the sense of pride by way of association will always force the upholding of good corporate governance practices.

Studies on the Kenya Cooperative scene have shown that since the advent of regulation by SASRA the corporate governance standards have gone up in comparison to the yester years. This is driven by the fact that licensing demands the upholding of stringent benchmarks which demand observation of high standards of good corporate governance practices, (Mureithi, 2009). This has seen the cooperative movement in Kenya transform itself with regard to governance practices because of the very need of upholding the required standards and playing by the rules. It has brought forth the advent of boards of management with people of integrity higher standards of fiduciary measures with regard to disclosures and allied practices all in the name of playing by the rules.

This concurs with previous studies by Mutwiri (2010), who said that the cooperative sector has had a turnaround driven by the incisiveness and the regulatory framework policing the sector. This has had a big bearing on the licensing requirements and associated demands guiding the sector. It has brought forth the almagation of small entities which are striving to adhere to the rules and standards set by the regulators so as to be eligible for licensing. This has seen a rise in the benchmarks and corporate governance standards in the sector. It has brought a new face to the sector and instilled greater standards of management practices which have infused professionalism and led to better financial returns to the stakeholders.

2.5 Summary

Literature on the relationship between corporate governance and financial performance of sacco's is not exhaustive. More studies need to be carried out to generate more information and enrich the area with regard to generation of more literature for review by other scholars in future.

The study seeks to find out how CEO duality influences financial performance, the extent to which the number of board committees influences financial performance, how the independence of the supervisory committee affects financial performance and the extent to which disclosure affects financial performance. This is with an aim of finding out how corporate governance affects financial performance in Saccos.

On the local corporate governance scene studies have dwelt on listed firms with defined standards of governance financial reporting and which are legal and duly registered entities. The studies have always reflected a positive relationship between the corporate governance standards and the performance owing to the expected regulatory requirements, Shiundu, (2010) and Mudibo (2008). The study seeks to look at corporate governance and its impact on Saccos in Murang'a County. Most of the Saccos are small entities under the regulation of Ministry of Cooperatives and rarely conform to the expected standards. The study thus seeks to find out the relationship between corporate governance and financial performance in the affected Saccos.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research design, target population, data collection instruments and procedures, reliability and validity of instruments that will be used as well as the data processing and presentation methods.

3.2 Research Design

The study employed a descriptive survey research design to find out the relationship between corporate governance practices and financial performance in Sacco in Murang'a County. According to Orodho (2005), a descriptive survey is a method of collecting information by way of interviewing or the administering of a questionnaire from a selected sample. It is mostly used to collect information about people's attitudes, opinions, habits or any variety of social issues. This design is deemed appropriate for the study because the researcher will collect, analyse and report information as it exists on the field without the manipulation of the variables under study.

3.3 Population

All people under consideration in any field of inquiry constitutes of all universe or targeted population (Kombo, 2006). The target population of this study consisted of all the forty three Saccos in Murang'a County licensed by the regulator and under the regulation of the ministry of co-operatives. It encompassed a member of management teams, the enforcement officer from the regulatory authority and the County co operative officer. The study adopted a census study.

3.4 Data Collection

The research used both primary and secondary data. The researcher visited the Murang'a County Cooperatives office and request for an introductory letter to the target respondents. The researcher hand delivered the questionnaires to the target respondents and collected them three days after dropping which was adequate time for them to be filled in.

The study also relied on secondary data to gauge the financial performance of the Saccos. It sought to interrogate the books of accounts to compute the calculations on return on equity, return on assets, profitability ratios and return on total equity. This was with an aim of computing the profitability ratios based on a base year to cover the previous five financial years in the forty three Saccos which were of interest to the study.

The study used questionnaires. The questionnaires were deemed suitable in that they allowed administration to a large group of respondents; they had the benefit of self administerability, anonymity and the standardization of questions for the purpose of easing the data analysis procedures (Orodho, 2005). The questionnaires had both closed and open ended questions.

3.4.1 Data Validity and Reliability

The researcher tested the face and content validity of the questionnaire. Face validity is in relation to the misunderstanding or misinterpretation of the question. This was checked by way of employing the pre-testing method.

Content validity on the other hand refers to the capacity of the instrument to provide adequate coverage of a topic. Adequate preparation of the instruments under the guidance of the supervisors, expert opinion and pre-testing of the open-ended questions helped establish the content validity.

Reliability is a measure of the extent to which an instrument will consistently yield the same result after being administered several times to the same respondents (Orodho, 2005). To establish the reliability of the research instruments, the test retest method whereby the pilot study respondents

were issued with questionnaires for them to fill and the same questionnaires were subjected to a retest to see how the response was.

3.5 Data Analysis

After all the data had been collected, data cleaning followed for the purposes of identifying any incomplete, inaccurate or unreasonable data for the purpose of improving on quality through correction of detected errors and omissions. Coding of the data thereafter followed and the codes were entered into a computer for the purpose of analysis.

Qualitative data was analyzed by way of understanding the meaning of the information divulged by the respondents and comparing it to documented data from previous research on effects of corporate governance on financial performance. It was presented thematically in line with the objectives of the study and thereafter presented by use of frequency distribution tables.

Data analysis involved both quantitative and qualitative procedures. Quantitative data analysis required the use of computer spreadsheets and the Statistical Package for Social Sciences (SPSS) were used. Martin and Acuna (2002) said that the SPSS package is able to handle a large amount of data and given its wide spectrum in the array of statistical procedures which are purposefully designed for social sciences; it was deemed efficient for the task. The study used the Predictive Analytics Software Version of SPSS.

3.5.1 Analytical Model

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where;

Y = Financial performance as measured by ROA

X_1 – Number of board committees

X_2 – Dummy variable for CEO duality which equals one if CEO is also the chairman of the board, and is zero if otherwise.

X_3 – Percentage of independent supervisory committee members

X_4 – Level of disclosure

ϵ - Error term

In the presence of a dual CEO who exercises authority over the board, the assumption was there was less conflict in terms of decision making and management and order was easily enforced in management. On the hand the organization may save on agency cost by virtue of having a dual CEO but it may run the risk of exposing the shareholders in the event of abuse of power by the CEO.

Board committees enable the function of delegation and ease decision-making by a way of allowing for innovation and creativity in the team of management. The system of board committees should be reigned in to check escalating costs owing to duplicity of functions and the risk of antagonism in the organizational functions.

Independence of the supervisory committee enhances governance by way of ensuring scrutiny and the supervision function in the management and coordination of organizational activities. The supervisory committee in many instances may find itself handicapped in terms of having its proposals taking so long to be acted on owing to the fact that it reports to the shareholders on an annual basis. A system of strengthening the capacities of the supervisory committees by ay of giving them power to call for extraordinary general meetings in the event it feels the situation warrants the calling of meetings may empower the committees and make them more effective in terms of delivering their mandate.

Disclosure allows for transparency and openness in the organizational activities and raises the bar as regards integrity and accountability. Mechanism should be put in place to ensure timely

disclosure and accuracy in terms of the information availed to instill integrity and industry respect among peers.

On the observance of all the independent variables the financial performance of the institution is bound to be enhanced and the organization may ultimately reap from the good performance.

The researcher used F- Test to test for the overall significance of the model while the independent variables significance was tested using the T – test.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

The following chapter presents out the data analysis, presentation and interpretation. The study sought to find out the relationship between corporate governance practices and financial performance of Saccos in Murang'a County. The objectives that guided the study were CEO duality, number of board committees, independence of supervisory committees and the level of disclosure.

The study had its target population as the forty three registered Saccos in Murang'a County. All the forty three Saccos with members of board and senior management serving as the population of interest to the study.

All descriptive statistics were in percentage.

4.2 Data Analysis According to Research Questions

4.2.1 Response rate

The study had a target of 43 saccos in Murang'a county. Out of all the saccos considered for the study, thirty six questionnaire were considered eligible for analysis after evaluation on collection after they were returned from the field. Two questionnaires were incomplete and not eligible for analysis. While five Saccos did not return their questionnaires.

Table 4.1 Response rate

Questionnaires Returned	38	88.37
Questionnaires not Returned	5	11.63
Questionnaires Rejected	2	4.65
Total Number of Questionnaires	43	100

Source: Research Findings

The study thus has participation rate of 83.37%

4.2.2 CEO Duality

Table 4.2 Findings on CEO Duality

Finding	Frequency	Percentage
Presence of dual CEO	4	11%
Absence of dual CEO	32	89%
Total	36	100%

Source: Research Findings

The study sought to interrogate secondary information from the organizational records to confirm the presence of dual CEO’s in the Saccos in the County. The study found out that only 11% of the Saccos had a chief executive officer who doubled up as the chair to the board. This is a reflection of a defined system of governance in the Saccos whereby there was a clear separation of powers and the chairs of boards of governance have no authority to exercise executive function in the majority of the Saccos.

The results of the study give credence to previous studies by (Regeru, 2011) who argued that previous cases of poor management and the occasioning of losses to the shareholders have dented the images of dual CEO’s. The instances of Enron, Parmalat in the USA and the Housing Financing Kenya Corporations all cast a bad light to the function of dual CEO’s. The studies brought forth the imminent risk of the abuse of power of the dual CEO’s and exposure of shareholders to the risk of loss and thus advocated for the executive function to be separate from the board of directors.

The scenario aptly identifies with the case of the cooperative movement and success in Kenya. This is driven by the fact that most of the members of boards of management have very little knowledge as regards the insights of management of the societies and they are elected into office

mainly by the virtue of getting to exercise influence over the membership. The separation of the executive function from the boards of management thus serves the shareholders well by way of having them assured of able and capable individuals in positions of management by virtue of the training and close scrutiny of them by the watchful and incisive boards of management.

The findings of the study thus resonate with the ideals of protection of shareholders interests by way of having constant checks and balances by way of having management exercising executive function and the board ratifying decisions made by the management.

4.2.3 Number of Board Committees

Table 4.3 Findings on Number of Board Committees

Number of Board Committees	Frequency	Percentage
3	4	11%
4	8	22%
5	17	48%
6	4	11%
7	3	8%
Total	36	100%

Source: Research Findings

The study sought to find out if there was a system of board committees in the Saccos in Murang'a. This was done by way of an analysis of secondary data by way of interrogating and scrutinizing the organizational records. The study found out that there was a system of board committees in all the Saccos in Murang'a. The response shows 11% of the saccos had 3 committees, 22% had 4

committees, 48% had 5 committees, 11% had 6 committees while 8% had 7 committees. This shows an overwhelming embracement of the board committee system by all the Saccos.

The findings confirm previous studies by (Mace, 2007) who argued that the leadership structure of the organization determines the individuals in the organizational sector who possess executive authority and the orientation of the board members with regard to experience and organizational divisions may dictate the particular committees found in the organization and the particular tasks that the committees are charged with.

The study found out the presence of supervisory committees, audit committees, finance committees and credit committees in the organizations. This is a confirmation of spreading of authority, delegation of functions in line with the board members orientation and seeking an infusion of efficiency in the organizational structures and realms.

Presence of the board committees system in the majority of the Saccos is a confirmation that the system of board committees effectively serves the organizations. It's a true reflection of the ability of the system to bear results that identify with the organizations thus its adoption and embracement in totality by the organizations. The system is the hallmark of delegation of functions and authority which may greatly influence the accountability to shareholders and have a defined leadership structure and approach.

4.2.4 Independence of the Supervisory Committee

The study confirmed the presence of supervisory committees in all the Saccos. This shows that the Saccos have adopted the requirements for the presence of a supervisory committee and have abided by the set rules and regulations governing the sector and it's equally a reflection of the regulators capacity to effectively police the sector.

The findings are a confirmation of previous works by (Shreetal, 2000) who argued that the supervisory committees play an effective oversight role in the corporate governance landscape. The oversight role she argued helped to infuse professionalism and improve the quality of corporate governance hence reducing the risk of failures. This he argued was by way of monitoring the activities of the board and management on behalf of the shareholders in line with the code of corporate governance.

Table 4.4 Response on the Membership of Supervisory Committee

Response	Frequency	Percentage
Employees	-	-
Shareholders	13	37%
Executive directors	-	-
Management	-	-
Non-executive directors	23	63%
Total	36	100%

Source: Research Findings

The respondents affirmed to having had the membership of the supervisory committees drawn from the shareholders and the non-executive directors at 37% and 63% respectively. This was a confirmation of having membership drawn from pools of cadre’s independent from the management activities of the organizations.

Table 4.5 Size of Supervisory Committee

Size	Frequency	Percentage
3	29	81%
4	7	19%
Total	36	100%

Source: Research Findings

The respondents equally confirmed that the supervisory committees had memberships of four persons at 19% and three persons at 81%. This confirms the fulfillment of the regulatory requirements by the organizations and it's a reflection of an assertive membership from within the ranks of the Saccos.

The respondents were asked to confirm the following attributes with regard to the independence of the supervisory committee. The responses were as shown below

Table 4.6 Attributes of the supervisory committee

Attribute	SA	A	U	DA	SDA
The supervisory committees is independent from the board of management	18%	52%	12%	8%	-
The supervisory committees has the correct mix of skills and expertise to offer its oversight function	4%	56%	30%	10%	-
Supervisory committee recommends timely corrective action on policies and procedures in the organization	12%	35%	18%	15%	-
The supervisory committee regularly reviews internal control systems	13%	44%	32%	11%	-
The supervisory committees reviews and monitors the external auditors independence, objectively and effectiveness of audit processes	31%	42%	19%	8%	-

Source: Research Findings

The response as shown in table 4.6 indicates that 18% of the respondents strongly agreed that the supervisory committee is independent from the board of management while 52% agreed 12% were undecided while 8% disagreed. The response also showed that 4% of the respondents strongly agreed that the supervisory committee had the correct mix of skills and expertise to offer oversight function, 56% of the respondents agreed while 30% of them were undecided and 10% disagreed.

The response equally indicated that 12% of the respondents affirmed that the supervisory committee recommends timely corrective action on policies and procedures in the organization, 35% of the respondents agreed while 18% of them were undecided while 15% disagreed. The respondents strongly agreed that the supervisory committee regularly reviews the internal control systems at 13%, 44% of the respondents agreed, and 32% were undecided while 112% of the respondents disagreed.

The responses showed that 31% of the respondents strongly agreed that the supervisory committee reviews and monitors the external auditors independence, objectivity and effectiveness of the audit process, 42% agreed while 19% of the respondents were undecided and 8% disagreed.

The response shows that majority of the respondents were agreed on the effectiveness of the supervisory committees in terms of executing their mandates and it tallies with the position of the county cooperatives officer with regard to the position of efficiency the supervisory committees to ensure the effectiveness of the governance systems of cooperative societies. The supervisory function has enormous impacts on the financial performance on the cooperative societies.

4.2.4 Disclosure

Table 4.7 Declaration of Directors interests on Shareholding

Attribute	Frequency	Percentage
To a great extent	25	69%
To a fair extent	11	31%
Not at all	-	-
Total	36	100%

Source: Research Findings

The study sought to find out the levels of disclosure in the Saccos and how it is that they impacted on the financial performance of the Saccos. The respondents were asked to confirm if the directors were asked to declare their interests and shareholding in entities doing business with the organization. The response showed that 69% of the respondents affirmed to the fact that the directors were required to declare their shareholding to a great extent while 31% of the respondents were of the opinion that the directors declared their interests to a fair extent. The response is an indication of the fact that the directors were asked to declare their interests and shareholding in entities doing business with the organization in all the organizations. This shows that the organizations upheld standards of disclosure and practiced tenets of transparency allowable within the organizational realms.

This confirms previous works by (Mellan, 2010) who said that disclosure is the process through which an organization communicates with the outside world. Disclosure can either be voluntary or involuntary/mandatory disclosure. It gives an insight as regards the operations of an organization in totality from the top to the bottom. Transparency enables the understanding of the systems and processes that pertains the operations and procedures guiding the operations and requirements of an organization. Transparency helps organizations have the stakeholders understanding all that

pertains the administrative procedures, the internal working arrangements and aids in risk reduction in an organization. Issues of controls, planning and management are laid bare for all the stakeholders and they always appreciate the internal working and operations of the organization by virtue of having knowledge on how the functions are carried out.

All the Saccos confirmed that they published the accounts annually as it was a regulatory requirement. It was a confirmation of an effective policy and regulating environment with regard to the sector.

All the Saccos attributes to having external auditors as required by statutes. This is a confirmation of having an effective system in place to check and maintain the standards in the Sacco sector with regard to the exercise of the audit function and the realization of the same by way of putting in place mechanisms for external audit in the organizations.

Table 4.8 Disclosure attributes

Attribute	SA	A	U	DA	SDA
The organizational restricts insider trading	14%	46%	22%	18%	-
The organization carries out due diligence of suppliers	13%	53%	14%	18%	2%
Information is accessible to intended users within the organization	12%	34%	14%	24%	16%
Information that is disclosed is fairly presented and free from	14%	41%	5%	18%	22%
Disclosure meets regulatory requirements	37%	33%	18%	12%	-
Disclosure satisfies the organizations obligations to all its stakeholders	11%	48%	19%	12%	10%
Directors declare interests and shareholding in entities doing business with organization	30%	41%	9%	9%	11%

Source: Research Findings

The response as indicated in table 4.8 shows that 14% of the respondents strongly believed that the organization restricts insider trading while 46% of the respondents agreed, 22% were

undecided while 18% disagreed. The response equally showed that 13% of the respondents strongly agreed that the organization carries out due diligence of suppliers, 53% of the respondents agreed while 14% of the respondents were undecided 18% disagreed while 2% strongly disagreed. The response shows that 12% of the respondents strongly agreed that information is accessible to intended users within the organization, 34% agreed, 14% were undecided while 24% disagreed and 16% strongly disagreed.

The response also showed that 14% of the respondents strongly agreed that the information was presented fairly and free from errors, 41% of the respondents agreed while 5% were undecided, 18% disagreed while 22% strongly disagreed. The respondents were of the opinion that the disclosure meets regulatory requirements with 37% of the respondents strongly agreeing while 33% agreed, 18% were undecided while 12% strongly disagreed. The response shows that 11% of the respondents believed that disclosure satisfied the organizations obligations to its stakeholders at 11% of the respondents strongly agreeing, 48% of them agreeing while 19% were undecided, 12% disagreed while 10% strongly disagreed.

The response shows that 30% of the respondents strongly agreed that directors declared their interests and shareholding in entities doing business with the organization while 41% of them agreed, 9% were undecided while 11% strongly disagreed.

The response was a good indicator of allowable levels of disclosure in the Saccos though access to information within the organizational spheres was questioned by the indecision and disagreement from a significant percentage of respondents.

The response identifies with the practice of good corporate governance which demands high levels of fiduciary and disclosure of pertinent information within the organizational confines and realms.

4.2.5 Financial Performance

The study sought the published accounts of all the Saccos to evaluate their financial performance.

The study considered the Return on Assets as its primary measure of firm performance and the

Return on Equity as the alternative measure of firm performance.

This identifies with Cereola, 2008 who indicated that firm performance can be measured using Return on Assets ratio which shows the amount of earnings generated from invested capital assets owing to the fact that the major reason for operating a firm to generate income for the benefit of shareholders.

The study employed the following analytical model:-

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where;

Y = Financial performance

X₁ – Number of board committees

X₂ – Dummy variable for CEO duality which equals one if CEO is also the chairman of the board, and is zero if otherwise.

X₃ – Percentage of independent supervisory committee members

X₄ – Level of disclosure

ε – Error term

Table 4.9 Coefficients

Model		Unstandardized Coefficients		T
		B	Std. Error	B
1	(Constant)	14.944	6.582	2.270
	No. of Board Committee	.381	.101	3.772
	CEO Duality	.200	.098	2.041
	Supervisory independence	.529	.119	4.445
	Level of disclosure	.314	.103	3.049

Source: Research Findings

The researcher conducted a multiple linear regression analysis so as to determine the relationship between financial performance of Saccos and four corporate governance practices aspects. The specific model was estimated as follows:

$$Y = 14.944 + 0.381 X_1 + 0.2X_2 + 0.529X_3 + 0.314X_4 + \varepsilon$$

According to the regression equation taking all factors (number of board committees, CEO duality, supervisory committee independence and level of disclosure) constant at zero, the Sacco's performance will be 14.944. The data findings analysed also indicate that that taking all other independent variables at zero, a unit increase in number of board committee will lead to 0.381 increase in financial performance, a unit increase in CEO duality will lead to 0.2 increase in financial performance, a unit increase in supervisory independence will lead to 0.529 increase in financial performance while a unit increase in the level of disclosure will lead to a 0.314 increase in financial performance. This infers the four independent variables have a positive relationship with financial performance.

To establish whether the β 's were independently significant the researcher estimated the T critical from the tables at 95% confidence interval and 2- tailed.

$T_{critical} = 2.037$

$T_{critical} < T_{calculated}$

Reject the null hypothesis of $H_0: \beta = 0$

Therefore in conclusion all β 's in the model are statistically significant

Table 4.10 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.82	.67	.63	.134

Source: Research Findings

R^2 which is referred as coefficient of determination tell us the variation in the dependent variable that is due to change in the independent variables. According to the table above the value of R^2 was found to be 0.67, this shows that variation of 67% in the financial performance of Saccos is explained by the number of board committees, CEO duality, percentage of independence of supervisory committee and the level of disclosure.

R which is the correlation coefficient indicates the strength of the relationship between the independent and dependent variables. An estimate of 0.82 indicates a strong linear relationship between the independent and dependent variables.

Table 4.11 ANOVA

Model		Sum of Squares	DF	Mean Square	F
1	Regression	456.396	4	114.099	16.242
	Residual	224.793	32	7.025	
	Total	681.189	36		

Source: Research Findings

To estimate the overall significance the researcher estimated from F tables the F critical at 5% level of significance and $n-1$, $n-k$ degrees of freedom as:

F critical = 2.92

F critical < F calculated

Reject the Null Hypothesis of $H_0: R^2 = 0$ therefore in conclusion R^2 is significant hence the overall model is significant.

4.3 Interpretation of Findings

The study sought to find out from secondary information which was derived from the organizational records the presence of dual CEO's in the Saccos in the County. The study found out that only 11% of the Saccos had a chief executive officer who doubled up as the chair to the board. This was a reflection of a defined system of governance in the Saccos whereby there was a clear separation of powers and the chairs of boards of governance have no authority to exercise executive function in the majority of the Saccos.

The response from the study thus confirmed the ideals of protection of shareholders interests by way of having constant checks and balances by way of having management exercising executive function and the board ratifying decisions made by the management.

The study sought to find out if there was a system of board committees in the Saccos in Murang'a. This was done by way of an analysis of secondary data by way of interrogating and scrutinizing the organizational records. The study found out that there was a system of board committees in all the Saccos in Murang'a.

The study found out the presence of supervisory committees, audit committees, finance committees and credit committees in the organizations. This is a confirmation of spreading of authority, delegation of functions in line with the board members orientation and seeking an infusion of efficiency in the organizational structures and realms.

Presence of the board committees system in the majority of the Saccos is a confirmation that the system of board committees effectively serves the organizations. It's a true reflection of the ability of the system to bear results that identify with the organizations thus its adoption and embracement in totality by the organizations. The system is the hallmark of delegation of functions and authority which may greatly influence the accountability to shareholders and have a defined leadership structure and approach.

The study sought to find out the levels of disclosure in the Saccos and how it is that they impacted on the financial performance of the Saccos. The respondents were asked to confirm if the directors were asked to declare their interests and shareholding in entities doing business with the organization. The response showed that majority of the respondents affirmed to the fact that the directors were required to declare their shareholding to a great extent. The response was an indication of the fact that the directors were asked to declare their interests and shareholding in entities doing business with the organization in all the organizations. This shows that the organizations upheld standards of disclosure and practiced tenets of transparency allowable within the organizational realms.

The study thus confirmed that most of the saccoes in Murang'a County had a distinction with regard to separation of powers between the board and the management owing to most of the saccoes having a CEO who reports to the board. The study further confirmed the presence of board committees in all the saccoes. This was a confirmation of the function of effective delegation and a spread of authority within the confines of the organizations. The supervisory committees were equally present in all the saccoes. The membership as confirmed by the response was drawn from the shareholders and non-executive directors. This was a confirmation of the independence of the supervisory committees. Disclosure was confirmed by way of all the saccoes confirming to having modalities of availing information to all in accurate form. These attributes were a confirmation of the practice of good corporate governance practices by saccoes in the County which was further an indicator of the financial performance of the saccoes.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The following chapter has the discussions, conclusions and recommendations made from the study. The study sought to find out the relationship between corporate governance practices and financial performance in Saccos in Murang'a County. The objectives that guided the study were CEO duality, number of board committees, and independence of the supervisory committee and the level of disclosure.

5.2 Summary

The study found out that all the Saccos in Murang'a County had a clear separation of authority with regard to executive function and only 11% of the CEO's in the Saccos chaired the board of management. This shows that the CEO's were involved in the day to day management of the firms operations while the boards were involved in the level of policy formulation and decision making.

The study confirmed the existence of board committees with defined functions and delegated authority with regard to the structures of governance. The study found out that all the Saccos had systems of board committees in place and the committees exercised the functions allocated to them by the boards of management. The study was thus a confirmation of the Saccos satisfying the stipulated regulatory provisions requiring the putting in place of committees to enhance the functions of management and governance.

The study equally confirmed the presence of supervisory committees in all the Saccos. The response shows that 53% of the respondents viewed the supervisory committees as highly independent while 47% of the respondents held the opinion that the supervisory committees were fairly independent. The response was a confirmation of the respondent awareness of the

independence of the supervisory committees taking into account of the general agreement across board in all the Saccos.

Response from the study confirmed that all the Saccos practiced disclosures to levels allowable by the membership and constituents across board. This is going by the general agreement and consensus on the levels of disclosure, availing of information for intended users within the organizations, having directors declaring their interests and fulfilling the requisite regulatory requirements. The response was thus a confirmation of the Saccos striving to fulfill the basic tenets of the allowable levels of disclosure in the wake of practicing corporate governance practices within the organizational spheres.

5.3 Conclusions

Presence of a clear separation of functions and authority between the CEO and the chair to the board enhances corporate governance. It brings forth clear benchmarks as regards the functions, duties and obligations of the offices. It gives a clear distinction between management and the exercise of executive function and the formulation of policy and decision making. This has a major effect of defining the corporate governance standards and rating of a firm and it may greatly influence the level to which shareholders interests may be protected from the exposure to undue risk of the abuse of power derived from the exercise of executive function by a dual C.E.O and the arising of conflict between management and the board.

The presence of defined board committees in the system of governance enhances the function of delegation and it creates run for the spread of authority within the organizational realm. It allows for the hastening of the decision making processes and allows for the exploitation of talent and previous experience between the boards of directors as possessed by the numbers. It also allows for autonomy of the firms making process. The presence of board committees allows for creation

goodwill and harmony in the board owing to the confidence and trust best owed on the particular committees by the board and allows for the conducive atmosphere encouraging good corporate governance practices.

Presence of supervisory committees enhances the oversight function. This independence of the supervisory committee ensures the non-participation of the committee allowing it the freedom to function and carry out its mandate independent from any intrusion. Independence of the supervisory committees allows the exercise of oversight function. The essence of defined structures for oversight and supervision puts in place mechanisms for checks and balances and allows for the constant review of systems of internal controls. This allows for the upholding of ethos, playing by the rules and enhancement of corporate governance practices in the Saccos.

Disclosure is a regulatory standard and requirement which ought to be practiced by the Saccos and entities seeking to fulfill the tenets of corporate governance practices. Allowing for the provision of information from within the organizations records easily restriction of inside trading by way of having a declaration of interests of share holding by the directors in entities doing business with the firm. This instills the requisite standards of good corporate governance practices which may be conducive for good financial performance.

5.4 Recommendations for policy

The study recommends the clear separation and definition of functions between the chair of the board and the C.E.O. This will always create a conducive environment allowing for the exercise of executive authority and formulation of policy in Saccos. Saccos should thus be encouraged to always have a clear separation of powers, competitive recruitment of chief-executive officers and have able and competent boards of management for the exercise of policy formulation and executive function. This will always give the Saccos room to practice the allowable standards of

ate governance practices. It will cushion the shareholders for the risk of loss owing to abuse of power and the net effect of good governance practices will ultimately improve financial performance.

cos should always embrace and adopt the system of board committee in totality. This will ensure the exercise of the function of delegation and the allowance of tapping of talent and exploitation of previous experiences when the board members sit in the committee that they are versed with in terms of expertise and exposure. Decision making processes may end up being streamlined and fit the organizational needs by way of having fewer individuals undertaking the duty of arriving at a decision and chances are that the decision may be motivated by knowledge devoid of circumstances whereby the board has its way out of a misinformed position or a position that may be curtailed by bickering and endless infighting owing to the large number of board members. The board committees may infuse professionalism purpose and enable creation of harmonious relations hence excellence in the corporate governance ratings for the firm thus improved financial performance.

Independence of the supervisory committees should always be upheld. The supervisory committees should be put in place and given the mandate to fully discharge their cause and obligation for the firm's good. This will always ensure an effective system of checks and balances, efficiency in terms of instituting controls and corrective oversight and the having in place an effective oversight system. This will always guarantee the firm of a situation of aligned systems and structures conforming to the allowable standards with regard to governance. It will always keep the board and management on its toes well in the knowledge that a legal entity with power to have sanctions and corrective measures is watching. It will raise the bar as regards the corporate governance practices and guarantee the shareholders of assured investments and value

their money and it may infuse growth in the financial performance of the entities for the good of the membership.

Saccos should always uphold the standards and allowable levels and practices of disclosure within their ranks. This is driven by the virtue that industry standards demand that all the pertinent information is made available to all intended users freely. The industry standards equally stipulate that no one should use inside information for their own personal gain. The regulators who are the Ministry of Cooperatives and the SASRA should always enforce the requirements for publishing of accounts, appointment of external auditors and the availing of information to the membership to safeguard shareholder interests and assure the saccos of growth. This will have the ultimate effect of raising the thresholds as regards the corporate governance standards and it will have a big bearing in the financial performance of the saccos by way of infusing professionalism which may influence the posting of better results.

5.5 Limitations of the Study

The study encountered the challenge of confidentiality with regard to disclosure of information from the saccos. Most of the respondents were apprehensive when it came to divulging of information which they considered confidential. The researcher surmounted the challenge by way of assuring them that the study was purely academic and their identities and those of the saccos they were affiliated to would always remain confidential. This aided them to freely give out the information.

The study heavily relied on the questionnaire and secondary data for the data collection purposes. The questionnaires had the undoing of restricting the respondents to the questions on them as compared to other data collection methods like focus group discussions and oral interviews. This heavily curtailed the flow of information and restricted the respondents heavily. The researcher

surmounted the challenge by way of developing the instruments under the tutelage of the supervisor to make sure that it was all encompassing.

Murang'a County is a vast area with a hilly terrain and the sacco's considered for the study were distributed in the whole County. This was an enormous challenge to the researcher in terms of creating time to travel and traverse the area. The researcher surmounted the challenge by way of engaging research assistance to assist in the data collection exercise which entailed handing out the questionnaires and explaining the importance of the study to the target respondents. This also assisted in reducing the researcher bias.

5.6 Areas for Further Research

The study proposes that further research should be carried out with consideration to other aspects of corporate governance other than the ones considered for the study with a view of finding out if the study findings will be consistent with the current study. This is because the principles of corporate governance are numerous and the study considered only four.

The study further proposes that a study on the relationship between corporate governance practices and financial performance should be carried out on a wider scale with a consideration of sacco's in the whole country to find out if the findings of the study carried out in Murang'a County tallies with the situation on the national scene.

The study finally proposes that a research should be carried out to find out if the financial performance and the aspect of corporate governance are influenced by the size of the organization. This is in consideration of the fact that most of the licensed sacco's which have satisfied the regulators requirements are large while the entities which are yet to satisfy the requirements are small.

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APPENDIX 1: OPERATIONALIZATIONAL FRAMEWORK

Variable	Indicator	Measure	Scale	Instrument used
Dependent variable				
Financial performance	- Revenue generated - Return on Assets - Return on Equity	Organizational performance with regard to financial performance	Nominal	Questionnaire Secondary data
Independent variables				
CEO Duality	- Executive function	Exercise of executive authority	Nominal	Secondary data
Board Committees	- Number of board committees and extent of delegation	Number of board committees in place	Nominal	Secondary data
Independence of Supervisory Committee	- Presence of supervisory committee and membership	Capacity of the supervisory to exercise mandate	Nominal	Questionnaire Secondary data
Disclosure	- Access to information within organization	Capacity of the organization to provide information	Nominal	Questionnaire Secondary data

APPENDIX 2: QUESTIONNAIRE

A STUDY TO FIND OUT THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE PRACTICES AND FINANCIAL PERFORMANCE OF SACCOS IN MURANG'A COUNTY

How long have you served the organization?

Less than 1 year ☐

1 – 5 years ☐

6 – 10 years ☐

11 – 15 years ☐

16 – 20 years ☐

Any other _____

Independence Of Supervisory Committee

2. Which category of stakeholder provides the membership to the supervisory committee?

Please tick from below

Employees ☐

Shareholders ☐

Executive directors ☐

Management ☐

Non-executive directors ☐

3. What is the size of the supervisory committee in terms of the membership? Please indicate

Kindly confirm the following:-

SA – Strongly Agree A– Agree U – Undecided

DA - Disagree SDA- Strongly Disagree

	SA	A	U	DA	SDA
The supervisory committee is independent to the board of management	1	2	3	4	5
The supervisory committee has the correct mix of skills and expertise to offer its oversight function	1	2	3	4	5
The supervisory committttee recommends timely corrective action on policies and procedures of organization	1	2	3	4	5
The supervisory committee regularly reviews internal control systems	1	2	3	4	5
The supervisory committee reviews and monitors the external auditors independence, objectivity and effectiveness of audit process	1	2	3	4	5

Disclosure

5. Are directors required to declare the interests and shareholding in entities doing business with the organization?

To a great extent ☐

To a fair extent ☐

Not at all ☐

6. Are the books of accounts published in the organization?

Yes ☐

No ☐

1. Does the organization have external auditors?

Yes ☐

No ☐

8. Kindly confirm the following:-

SA – Strongly Agree A– Agree U – Undecided

DA - Disagree SDA- Strongly Disagree

	SA	A	U	DA	SDA
The organization restricts insider trading	1	2	3	4	5
The organization carries out due diligence of suppliers	1	2	3	4	5
Information is easily accesible to intended users within the organization	1	2	3	4	5
Information that is disclosed is fairly presented and free from errors	1	2	3	4	5
Disclosure meets regulatory requirements	1	2	3	4	5
Disclosure satisfies the organization's obligations to all its stakeholders	1	2	3	4	5
Directors declare interests and shareholding in entities doing business in the organization	1	2	3	4	5

APPENDIX 3 THE SACCOS IN MURANG'A COUNTY

Murang'a County has forty three Saccos. The Saccos cover a diverse array of fields. Some are in the financial services provision, farmers, service provision and the transport sector. The Saccos are under the regulation of the Ministry of Cooperatives while three of the Saccos are licensed by the regulator which is the SASRA.

	C/S Reg. No.	Name
1	1145	Mariira Parish Sacco
2	1844	Kimuri Sacco
3	1930	Mumathi Sacco
4	2376	Kamuchii Sacco
5	2648	Mentor Sacco
6	2902	Lower Karuri Sacco
7	3272	Pundamilia Sacco
8	3301	Murang'a Polytechnic Sacco
9	3863	Murang'a College of Technology Sacco
10	4243	Mugumo wa Murang'a Sacco
11	4630	A.C.K Mt Kenya Central Sacco
12	4669	Greystone workers Sacco
13	6760	Unaitas Sacco
14	7332	Farmnut Sacco
15	8056	Murata Sacco
16	8943	Namuga Sacco
17	9392	MTN Sacco
18	9536	Kahuro Jua Kali Sacco
19	9624	Kamuna Sacco
20	9718	Kwihota Sacco
21	9940	Emuki Sacco
22	10200	Muna Transport Sacco
23	10289	PCEA Kandara Parish Sacco
24	10374	NTK Sacco
25	10551	Mukuyu Market Umoja Sacco
26	10663	Camoco Women Sacco
27	10671	Murang'a Teachers College Sacco
28	10751	Kandara Travellers Sacco
29	10863	Kigumo Travellers Sacco
30	10876	Makuyu Travellers Sacco
31	10963	TIT Sacco
32	11023	Ithiru Community Sacco
33	11051	Mamukika Sacco
34	11232	Muigana Sacco
35	11284	Kamugathi Kanyitu Sacco
36	11678	MG'A Chamber of Commerce Sacco

37	12127	Katoc Sacco
38	12226	Kangema Travellers Sacco
39	12342	Nicola Sacco
40	12358	Namuka Staff Sacco
41	12599	Kamuingi Sacco
42	13205	MTS Sacco
43	13358	Namuka Sacco

Source: Ministry of Cooperative Murang'a County Records 2012