

**CORPORATE GOVERNANCE CHALLENGES AND THEIR
IMPACT ON THE PERFORMANCE OF THE SAVINGS AND CREDIT
CO-OPERATIVE ORGANIZATIONS (SACCOS) IN MOMBASA
COUNTY, KENYA**

MBOGO OWEN NGUGI

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT
OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE
OF MASTER OF BUSINESS ADMINISTRATION OF THE SCHOOL
OF BUSINESS, UNIVERSITY OF NAIROBI**

OCTOBER, 2014

DECLARATION

I, the undersigned, declare that this is my original work and it has not been submitted to any other college, institution or university other than the University of Nairobi for academic credit.

Signed 

Date 11/11/2014

MBOGO OWEN NGUGI

D63/73328/2012

This project has been submitted for examination with my approval as the university supervisor.

DR. JACKSON MAALU

Senior lecturer, Department of Strategic Management, School of Business

University of Nairobi.

Signed 

Date 12/11/2014

ACKNOWLEDGEMENTS

I wish to express my deep gratitude to the Almighty God for giving me the opportunity and strength to accomplish this study.

I also owe much gratitude to my supervisor Dr. Jackson Maalu for his continued and tireless guidance and direction during the period of carrying out this research. His insightful views and feedback were invaluable during the period. I also have to express my appreciation to the officers from the office of the County Commissioner of Co-operatives in Mombasa County especially Mr. Joseph Tole for their efforts and support during the period of data collection from various societies. I am also greatly indebted to the SACCO board members and staff who willingly provided the information sought and spent their valuable time with me to assist in the exercise during the duration of data gathering. KUSCCO staff members are also thanked for the materials they provided.

All members of my family and colleagues are highly appreciated for the understanding and continuous encouragement they extended. I pray that all those mentioned and others unmentioned who in one way or another contributed to make this study possible be highly blessed.

DEDICATION

This work is dedicated to my loving parents who taught me the virtues of hard work.

ABSTRACT

The Savings and Credit Co-operative Organizations (SACCOs) have for a long time been offering loans to their members at a relatively cheaper rate which made the institutions the preferred source of funds by the members and even other groups of clients. The main objective of this study was to determine what challenges the institutions faced while carrying out this noble task and how the challenges could be affecting their performance. It is in the realization of the fact that co-operatives play an important role that it was viewed that good corporate governance in the sector will also impact positively in the future growth of the sector and the economy. Likewise the challenges being faced if not well addressed would impact negatively not only on the members themselves but the economy of the many areas where the SACCO movement has taken a foot hold. The research was based on a sample of 66 SACCO societies operating in Mombasa County and it sought to identify the corporate governance practices and measures which have been put in place and the challenges being faced in implementing them and how they had an impact on their overall performance.

Data was collected using a self-administered structured questionnaire and direct questions were asked for clarifications. The challenges focused on, were those experienced by the elected board members, hired societies staff and those emanating from the institutional structure and policy and regulatory framework. Performance impact assessment was gauged on the basis of financial viability as regards to safety of members' funds and easy access and duration involved to access and pay back the loans. Board members' general understanding and adherence to the set corporate governance procedures was also addressed. The results were analyzed, presented in form of charts, percentage distribution tables and interpreted using other statistical methods. From the results it was deduced that despite the challenges being faced, most of the institutions reported an improved level of performance in terms of membership numbers, loans and savings portfolios and efficiency. It was observed that to a great extent those societies that had put in place elaborate governance structures, laid out clear rules and policies generally performed better and experienced few challenges. However it was also noted that many SACCOs were complying with regulatory requirements laid down by the government to streamline the sector mainly to avoid being deregistered and be locked out by the governmental oversight bodies. Further research was recommended to establish the government and the sector's relationship.

LIST OF ABBREVIATIONS

AGM	Annual General Meeting
BOD	Board of Directors
CBK	Central Bank of Kenya
CEO	Chief Executive officer
CMA	Capital Markets Authority
FOSA	Front Office Services Activity
GOK	Government of Kenya
ICA	International Co-operative Alliance
KUSCCO	Kenya Union of Savings and Credit Organizations
MFI	Micro Finance Institution
MOCD&M	Ministry of Co-operative Development and Marketing
OECD	Organization of Economic and Cooperation in Development
SASRA	SACCO Societies Regulatory Authority
SPSS	Statistical Package for Social Sciences
WOCCU	World Council of Credit Union

LIST OF TABLES

Table 4.2.3	Membership/Clients Size	22
Table 4.2.4	Number of Employees.....	22
Table 4.2.5	Institutional Goals.....	23
Table 4.2.6	Training Programmes in Place.....	23
Table 4.2.7	Education level of Board Members.....	24
Table 4.3.1	Sources of Institutional Funds.....	25
Table 4.3.2	Total Loan Portfolio.....	25
Table 4.3.3	Savings Portfolio.....	25
Table 4.3.4	Average Monthly Recoveries.....	26
Table 4.3.5	Loan Disbursement Period.....	27
Table 4.3.6	Average Monthly Interest Rate.....	27
Table 4.4.1	Staff Challenges.....	28
Table 4.4.2	Board Member Challenges.....	29
Table 4.4.3	Challenges caused by Policy and Regulations.....	31
Table 4.4.4	Performance Indicators.....	32
Table 4.5.1	Regression Analysis.....	33
Table 4.5.2	ANOVA Analysis of the Return on Assets.....	33

LIST OF FIGURES

Figure 4.2.1	Response Rate.....	20
Figure 4.2.2	Number of Years in Operations.....	21

TABLE OF CONTENTS

DECLARATION.....	i
ACKNOWLEDGEMENTS.....	ii
DEDICATION.....	iii
ABSTRACT.....	iv
LIST OF ABBREVIATIONS.....	v
LIST OF TABLES.....	vi
LIST OF FIGURES.....	vii
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background of the Study.....	1
1.2 Research Problem.....	4
1.3 Research Objectives.....	5
1.4 Value of the Study.....	6
CHAPTER TWO: LITERATURE REVIEW.....	7
2.1 Introduction.....	7
2.2 Theoretical Review.....	7
2.3 Empirical Literature.....	10
2.4 Summary.....	13
CHAPTER THREE: RESEARCH METHODOLOGY.....	15
3.1 Research Design.....	15
3.2 The Population.....	16
3.3 Sample Design.....	16

3.4 Data Collection.....	17
3.5 Data Analysis.....	17
CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION.....	19
4.1 Introduction.....	19
4.2 Institutional Data.....	19
4.3 Financial Viability.....	24
4.4 Governance Challenges and Interpretation of the Findings.....	28
4.5 Analysis and Summary of the Findings.....	32
4.6 Discussion of the Results.....	34
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS.	36
5.0 Introduction.....	36
5.1 Summary of Findings.....	36
5.2 Conclusion.....	37
5.3 Recommendations.....	37
5.4 Limitations of the Study.....	38
5.5 Suggestions for Further Research.....	38
REFERENCES.....	39
APPENDICES	42

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The modern business environment poses a number of challenges that require sound decision making and appropriate governance. Issues of governance have been raised with the regard to the manner in which countries and corporations are being managed. According to Edwards and Clough (2005) recent failures in corporate governance have led to the proliferation of corporate governance codes which emphasize, in particular, accountability and conformance measures in organizations. Much of the recent interest in the field of corporate governance has been driven by corporate scandals in the public and private organizations. This was clearly highlighted by the organizations for Economic Cooperation and Development (O.E.C.D) in its report where they state “recent corporate scandals have focused the minds of governments, regulators, companies, investors and the general public on the weakness in corporate governance systems and the need to address the issues” (OECD, 2004).

The literature that exists reflects a diversity of theoretical views dealing with corporate governance practices. The theories attempt to explain how managers in organizations govern and how they are in turn governed. This study is anchored on the four key theories which have been propagated and entrenched in a number of organizations. The theories are agency theory, stewardship theory, stakeholder theory and managerial hegemony theory. It will attempt to establish where and when any of the theories is applied in different situations in co-operatives.

There have been several reported cases in the last decade of collapsed co-operative organizations in Kenya which have gone down with millions of shillings worth of members’ savings as a result of poor management (Ojiambo, 2006). This happened despite the existence of corporate governance structures. It is in this context that this study seeks to establish the various challenges which could be affecting performance in the savings and credit co-operative organizations sector.

1.1.1 Concept of Corporate Governance

There have been a number of definitions that has been advanced in the past in regards what corporate governance is. Tirole (2006) says the dominant view is that corporate governance relates to the ways in which the suppliers of finance to corporation assure themselves of getting a fair return on their investment. He further states corporation governance has its roots in the issue of separation between the management and control. According to Clarke (2004) corporate governance is concerned with the holding of the balance between economic and social goals and between communal and individual goals. Clarkson (1995) maintained that corporate governance concern itself with the relationship among various participants in determination of the direction and performance of corporations.

Thomsen (2004) refers to corporate governance as that level of management which is at the pinnacle of any organizations and it engages itself in the provision or propagating the corporate vision and mission. Another definition is given us by Bhasa (2004) who says that corporate governance can be defined as a set of principles concerning the governing of companies and how these principles are disclosed or communicated externally. It is a generic term that describes ways in which rights and responsibilities are shared among the various participants, especially the management and shareholders.

1.1.2 The Savings and Credit Co-operative Movement in Kenya

The International Cooperative Alliance (ICA) defines a co-operative as “an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise”. A co-operative is supposed to embrace the values of self help, honesty, openness, self responsibility, social responsibility, democracy, equity, effectiveness, efficiency, transparency and accountability. ICA in 1995 also formulated seven principles that ought to guide the formation, organization and all activities of cooperatives namely (a) Voluntary and open membership, (b) Democratic member control (c) Member economic participation (d) Autonomy and independence (e) Education, training and information (f) Cooperation among co-operatives (g) Concern for community. Savings

and Credit Cooperative Organizations (SACCOs) are co-operatives in all aspects but they specialize in financial services and therefore are alternatively called Co-operative Financial Institutions (CFIs). Kenya is said to be home to one of the leading co-operative movements in the World. According to Adan (July, 2014) the Kenya co-operative sector was ranked the biggest and the best organized in Africa where it took the seventh position worldwide.

The savings and credit cooperative societies are formed with the aim of promoting thrift among their members by providing them an opportunity for accumulating savings thereby creating a source of funds from which they extend credit services to the same members at fair and affordable rates. For SACCOS to attract and retain members, they must design financial products that provide them with convenience and return they seek. This means the products must satisfy the needs and services demanded by the members notes Mutunga (2009). However some members save with a particular co-operative society for various purposes that may not necessarily be credit driven.

There has been a rapid growth in the SACCO sector in the last decade. According to the World Council of Credit Unions (WOCCU) report (2006) there were 3,048 active SACCOS as at December 31st 2005, then there were 3,627 SACCOs in 2007 (KUSCCO – Annual report) and then 5,850 SACCOs as at 2011 KUSCCO annual report (2012). The co-operatives have in the past very successfully provided financial services to many sectors of the Kenya economy including salaried employees, Jua Kali artisans, transport

SACCO societies had for a long time been managed under the Cooperative Societies Act Cap 490 laws of Kenya. However, there has been tremendous growth witnessed over the years with some societies expanding to deposit taking services and running Front Office Services Activities (FOSA). The government identified the need to have the SACCO Societies Act (2008) to specifically regulate and guide their operations. The SACCO Act made provision for the establishment of the SACCO Societies Regulatory Authority (SASRA) which was charged with the duty of licensing, regulation, supervision and promotion of SACCOs in Kenya.

Ojiambo (2006) had observed that the main challenges facing the SACCO subsector that necessitated the new law were poor governance, low outreach and product diversity. He further noted that there was increasing cases of corporate failure and scandals that had been caused by incompetence, fraud and abuse of power and responsibilities by the agents running SACCOs. (Mudibo, 2006) observed that it is only through improved systems of corporate governance practices that cooperatives can address and harmonize the incongruent interest of shareholders. It was hoped that the enactment of a separate SACCO Act with appropriate regulatory mechanisms would bring with it appropriate skills and powers of examination, regulation and enforcement. Since the enactment of the SACCO Societies Act 2008, the subject of corporate governance has gained considerable attention due to the huge amounts of deposit held by these enterprises (Maluki, 2011).

1.2 Research Problem

While the high profile cases of corporate governance failures in both the developed and developing countries have brought the subject of governance to the fore and extensive media attention, the issue has always been central to finance and economics (Chia et al, 2008). Most studies done on corporate governance point to the conclusion that those corporations which embrace good corporate practices perform better than those that do not. (Miringu, 2008). Much of the research done in this area have however been done in companies.

Globally the degree of formal regulation for SACCOs varies widely. In some countries SACCOs also known as Credit Unions in place like U.S.A and Canada are subject to extensive legislation outlining their scope, functions and powers and they operate in a highly regulated environment. Yet in many countries, legislation or regulations have not been developed specifically for SACCOs, or if the legislation and regulation exist, they are often weak and ineffective Kobia (2011). This lack of regulatory framework affects the safety and soundness of SACCOs. If SACCOs are to grow and operate in a manner that provide quality member products and services then adequate regulation is necessary observes Mudibo (2006). The World Council of Credit Unions Inc. developed the regulations guide (Guide) in 2005 and model law for SACCOs, while in Kenya the government has already enacted the SACCO societies Act (2008) and SACCO society's

regulations (2010) and the Co-operative societies (Amendment) Act 2004. There were strong indications that the 2004 Act was not adequate to regulate SACCOs carrying out deposit taking business. Ngaira (2011) observed that the SACCO societies Act (2008) and regulations (2010) were initially well received by some cooperative movement leaders in the SACCO subsector whereas there were others who felt that the law had come to stifle the growth of the sector and the latitude formerly enjoyed by the leaders in making corporate decisions.

The available research done on SACCOs have concentrated on specific governance practices and measures adopted. The research dealt more on compliance to the governance principles and practices. Jebet (2001) studied structures prevalent in SACCOs, Ademba (2006) and Muriithi (2004) dealt with practices. Maluki (2011) researched on performance and Ngaira (2011) impact of regulations. A study done by Ojiambo (2006) among selected SACCOs in Nairobi found out that majority of them had well established governance systems and structures that should enable them deliver efficient services to their members. The question has been whether the applications of these governance measures have actually had an impact on SACCO performance. Going by the conclusion by Ojiambo (2006) that the presence of rules structures did not always result in good performance, there was a suggestion of further investigation on what could be the underlying issues. It is in view of this that this study seeks to determine what are the challenges impacting on SACCO performance in Mombasa County by answering the following question:-

What are the governance challenges facing the savings and credit co-operative societies in Mombasa county and how do they impact on their performance?

1.3 Research Objectives

- i. To identify the governance challenges which are experienced by the savings and credit cooperative societies (SACCOs) in Mombasa County, Kenya.
- ii. Establish the implications of the challenges to the performance of the SACCO sector in Mombasa County.

1.4 Value of the Study

The study is expected to benefit the SACCO sector managers as it will give them an insight on the governance challenges that come with the application of the corporate governance practices and hence determine when and where they may need to make adjustments if necessary. They will be in a position to lay down mechanisms that will be helpful in their operations so as to avoid being knocked out of business.

The government will also have an interest in the study since it is charged with responsibility of formulating policy and regulatory framework that SACCOs operate in. On many occasions the government has been compelled to intervene to safeguard consumer rights and provide protection. From the study the government will be able to determine the extent of success in the implementation of the new set of regulations as well as identify deficiencies in the system in order to come up with improvement geared towards helping SACCOs make with solutions to the challenges they face.

Other stakeholders, institutions that contribute to the development of SACCO policy like Kenya Union of Savings and Credit Organization (KUSCCO) the Capital Markets Authority (CMA), Sacco Societies Regulatory Authority (SASRA) and the Central Bank of Kenya (CBK) will also benefit. The study will also contribute to the body of knowledge existing in the SACCO sector and cooperative movement in general.

It will be useful to academics, researchers and practitioners in the sector who may be interested to understand more about SACCO operations and how they are governed. The study may also stimulate interest in future research in the sector while at the same time providing crucial background and reference material.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter deals with the comprehensive review of literature on past studies conducted on corporate governance and financial performance of organizations. It looks at the concept and theoretical framework of corporate governance. It also explores the regulatory framework of corporations and general performance among some selected

2.2 Theoretical Review

The topic of corporate governance was mainly developed around the financial concerns within a corporation, but has since expanded to elicit great interest to researchers in other fields like Law, Economics, Sociology, Political and Management science specialists (Randall and Steier, 2005). The wide range of literature they add reflect a strong diversity of theoretical views. These theories attempt to explain how managers in the organizations are governed and not how they govern. There are a number of theories which seek to explain corporate governance in organizations which include: The Agency Theory; The Stewardship Theory, Stakeholder Theory, Resource Dependency theory and Managerial Hegemony Theory “(rubber stamp theory model)”. Among the above theories, the first three have been said to hold sway among previous researchers in the corporate sector. In this study the research will explore the four main theories of corporate governance.

2.2.1 Agency Theory

The Principal-Agent theory or an agency theory is short has been dominant theory of the corporation and corporate governance arrangements according to Kelly (2002). It assumes that the owners of the enterprise (the principal) and those who manage it (the agents) will have different interests hence the owner(s) or the shareholders of any enterprise face a risk that managers are likely to act in their own interest rather than those of shareholders. The main challenge that arises from this theory is how to induce the agent to act in the best interest of the shareholders. Jensen and Meckling (1976)

suggested that this can be achieved through incentive schemes for managers which reward them financially for maximizing shareholders wealth. Such schemes typically include plans whereby senior executives obtain shares, perhaps at a reduced price thus aligning financial interest of the executives with those of shareholders. Extending the agency theory to co-operative organizations Thomsen (2004) suggests that members are the principals. He further argues that in agency theory, the principals' interest is to maximize profits and market share control. This he notes may not be the motivation in co-operatives since co-operatives are established to serve their members interest and hence profitability is not an end in itself but rather a means towards the end.

Secondly, the shares in cooperatives are not traded in a securities (stock) market and hence there is not much external pressure on the managers to perform as there is pressure from major shareholders in companies where there is a threat of takeover. Sullivan and Diacon (2003) observe that there is a diversity of goals for co-operative organizations which do not readily translate into traditional measures of business performance. Managerial actions will therefore be less constrained by market forces. They suggest that the boards are the most important instrument that members have of trying to control managerial behavior but at the same time, these boards operate in a context where it may be more difficult to exert influence on hired managers.

2.2.2 The Stewardship Theory

According to Clarkson (1995), stewardship theory is grounded in human relations perspectives and starts from the opposite perspective of agency theory. It assumes that in general, managers want to do a good job and will act as effective stewards of an organization resource. As a result, senior management and shareholders (members in case of a cooperative) are better seen as partners. Therefore, the main function of the board is not to ensure compliance with shareholders/members interest but to improve organizational performance. The role of the board is primarily strategic, to work with the managers to improve strategies and add value to top decisions. In this context according to Conforth (2004) management's ideas and practices should be applied to governance. He then proposes that from this perspective, the board should be elected on the basis of

expertise and contacts so that they are in a position to add value to the organizations decisions.

2.2.3 The Stakeholder Theory

The stakeholder theory is based on the argument that other than shareholders, there are other parties with interest in the actions and decisions of corporations. The theory is also premised on the view that organizations should be responsible to a range of groups (stakeholders) in the society other than just the organizations owners or principals. (Hung, 1998) .Stakeholders are groups and individuals who benefit from and whose rights are violated or respected by corporate deeds. Alongside the shareholders, stakeholders include creditors, employees, customers, suppliers, government and communities at large. The stakeholder theory asserts that organizations have a social responsibility that requires them to consider the interest of all parties affected by their actions. Stakeholder theory has been developed mainly in debates over corporate governance in the private sector as an alternative to traditional shareholder models where there has been robust debate about its desirability and likely consequences (Tricker, 2000).

The principle of stakeholder involvement is less controversial in public and not for profit sector organizations and the practice is common. There are however, constraints in membership associations such as cooperatives concerning the involvement of different stakeholders in boards as board members are supposed to be elected from among the membership. Hung' (1998) further points out that within the constraints, there has been a concern about low member participation and lack of involvement of certain groups of members such as women and young people on boards. In response to these concerns, in 2005 the Regional Assembly for Europe of the International Co-operative Alliance (ICA) recommended that co-operatives should seek ways to revitalize member participation and elect more women as board members.

2.2.4 Managerial Hegemony Theory

Managerial hegemony theory relates to the thesis of Berle and Means (1932) that even though shareholders may legally own and control large corporations, they no longer

effectively control them. Control has been ceded to a new professional managerial class. According to Conforth (2004), a series of imperial studies conducted have lent support to this view. It further observed that boards did not get involved in strategy except in crises and that the control rested with the corporations' Chief Executive Officers (CEOs). It concluded that managerial power was always in the context of the latent power of stakeholders such as external board members. Except during crisis, he said power largely remains with the chief executive. From this perspective the boards usually end up more or less like "rubber stamp" for management's decisions. Board functions are therefore symbolic to give legitimacy to managerial actions.

When it comes to co-operatives Tricker (2000) noted that "power and decision making in co-operatives are all too often concentrated at the top in a few hands. Cooperative performance has for a long time been characterized by lack of participation and sense of involvement. Statutory governing bodies seemingly exist only to review past performance and to endorse management decisions rather than to challenge policies and strategies".

The theoretical framework which this study will adopt in the agency theory which looks at the principal agency relationships which subsists between the cooperative members (principals) and their management structures which includes the Board of Directors (BOD), CEOs, managers and other staff.

2.3 Empirical Literature

There is evidence of research that has been carried out on the role of corporate governance in performance of organizations. For instance Wilkes (2004) carried a study among thirty British firms where he sought to find out the effect of corporate governance and the way of measuring performance. He found out Information Technology (IT) added a significant value by being a mechanism to collect and store information from the base transaction system. He however noted that information can often be complex and needs to be presented clearly in a simple manner to become understandable. He concluded that to measure the effectiveness of their governance, both to the outward looking as well as internal performance of the company, there was a need to measure the external perception

of governance practices. The measure should also be unique to the organization and its competitive strategy and performance measures chosen should be used to promote discussion and decide actions. He also warned that information can be hidden or be misinterpreted.

Aboagye and Otioku (2009) carried out a study to investigate whether Ghanaian MFIs' performance was associated with corporate governance. In the study, there was a sample of 35 MFIs and it dwelt on financial performance, corporate governance, outreach, self-sustainability and technology use. From the observations, it was concluded that there was no association between the state of corporate governance, outreach and use of subsidiary information among Ghanaian rural micro finance institutions and financial performance. It recommended that the rules and code of conduct that had been recently designed to guide the conduct of business should be allowed to work. There was also a need to develop the competencies of the board members of the MFIs and the management teams.

Nick and Blumberg (2010) carried out a study to establish the relationship between the corporate governance, global governance and sustainable profits: lessons learned from BP. This was provoked by the April 20, 2010 deep water horizon drilling operated by the British energy company B.P which exploded in the Gulf of Mexico killing 11 workers. Coming along the recent financial crisis, numerous corporate scandals and management misconduct, the Gulf of Mexico disaster was another shock to the world. From the investigations, the researchers found that BP had undertaken several governance efforts to ensure sustainability and to prevent accidents. However, it was noted that the prevailing rules did not sufficiently guide corporate behaviour. In conclusion they pointed out that there should be an underlying philosophy that there should not be a gap between what is said and what is done. Corporations are likely to be more successful if managers and corporate bodies such as boards of directors or committees take the relevant steps and the mode of operations of institutions is made to account. Corporate governance efforts undertaken can only engender effectiveness if external incentives do not oppose the aims. They also noted that corporate governance, global governance, and sustainable good performance are closely related.

Bhasa (2011) conducted a research on 31 listed firms in the Abu Dhabi securities market in the United Arab Emirates (UAE) to establish the relationship between corporate governance challenges and firm performance from a developing country. It specifically looked at the ownership, board structure and the audit committees that had been put in place. The study pointed out that to ensure effective corporate governance, the audit committee report should be included annually in the organizations proxy statement stating whether the audit committee has reviewed and discussed the financial statements with the management and internal auditors.

As a corporate governance monitor, the audit committee should provide the public with accurate, complete and reliable information and should not leave a gap for predictions and unrealized expectations. In the conclusions it was noted that the ownership structure had no significant impact on performance of firms in the UAE. However, CEO duality, board activism, the existence of audit committee had a significance impact on profitability and market performance. It was pointed out CEO duality and lack of audit committees presented a major challenge to some firms which recorded less than satisfactory results.

According to a study conducted by Cook (2011) at the University of Missouri Columbia USA there was a significant relationship between CEO tenure, corporate governance practice and an organization's performance. The study investigated performance challenges based on the following aspects; board composition, formal board sub-committees and procedures, CEO and directors tenure, directors age, board size, board training and frequency of meetings. The study sought to identify the challenges posed by the longevity of CEOs tenure in one organization and role played by other directors. The study revealed normally significant changes took place in board composition where the CEO tenure extended beyond 10 years. It was established that changes in corporate board composition was a mechanism which long tenure serving CEOs seem to use to negotiate less monitoring. In such cases, the study noted there was always a high level of collaboration between the board and management in addition to low monitoring. The study concluded that with lower levels of monitoring the organizations performance seemed to decline gradually over the years. It was observed that boards with long tenure

CEO perceive him to have acquired superior firm's specific knowledge over the length of time and hence choose to capitalize on this knowledge hopefully for the benefit of their principals. It was also established that such boards were very unlikely to include outside directors over the years.

Maigua (2013) conducted a study on the effect of corporate governance on the financial performance of insurance companies in Kenya. The focus of the study was 49 insurance companies as appeared under the Insurance Regulatory Authority. The conclusions drawn from the study indicated that the number of members of board sub-committees affected financial performance of the companies to a great extent. There was also a negative correlation between the number of board meetings held and financial performance of the firms. Fewer board meetings positively influenced the financial performance. The age of a company was also a factor whereby longer established firms performed better in the industry.

2.4 Summary

From the number of studies reviewed it was evident that a number of factors concerned with corporate governance practices affected the performance level of the organizations. But there was a marked lack of consensus about the method to be used in measuring performance. As Wilkes pointed out the information can often be complex. The main factors that featured as contributing to the performance were identified as ownership structure, board composition, CEO duality, CEO tenure, appropriate information system, a proper corporate governance code and presence of audit committees.

It was noteworthy that most of the studies focused on companies and not the co-operative sector which has a separate ownership structure since the members are usually the owners and clients (customers) of the organizations. Cooperative organizations being member owned usually have all the board members elected from among the membership and never allow directors from outside. This is due to their number (2) cooperative principle which advocates for democratic member control. There was a greater attention to the adherence to structures but not much about the challenges that the structure or general rules and practices present that could also impact on the outcome or level of performance.

This gap needs to be investigated to determine how the governance challenges faced impact on policy implementation and affect the performance of the savings and credit organizations.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter describes the research methodology that was employed in carrying out the study. The study was organized in the following parts; research design, target population, sampling technique and sample size and data collection instruments. The study utilized the descriptive research design which is a method of collecting information by administering a questionnaire to a sample of individuals / respondents.

3.1 Research Design

The research design adopted for this study was a cross-sectional survey where information was sought directly from selected societies. It involved collecting information from a cross section of SACCO societies operating within Mombasa County as at December 31st December 2013. This type of research design gives a form of a “snap shot” approach where the cross-sectional data provides information on change processes over a period of time (Mugenda & Mugenda, 2003). It was a form of social survey which investigated governance issues in a cross- section of the SACCO societies and the information gathered was expected to describe, explore and quantify the main issues concerned with governance challenges facing the societies and their impact on performance of the said co-operatives.

In the cross-section survey focus was fixed on the links among the key variables across a sample of cases. It was possible to determine the location and characteristics of SACCOs under the various subsections and analyze the inter relationships within the population. The main justification for using the cross section study approach was the limitations that the researcher faced which were mainly time and resources. It was also expected that the samples chosen would be representative enough of the population and hence references could be made from the data.

3.2 The Population

The population in this study was all the registered SACCO societies which existed on December 31, 2013 in Mombasa County.

There were 187 registered SACCO societies which were operating within the county according to a list obtained in June 2014 from the office of the county commissioner of co-operatives who is the local government representative in charge of supervising the co-operative sector. The said societies were clustered around sub sectors like salary earning employees SACCOs, transport business SACCOs, small scale traders SACCOs which were all running the Back of Service Activity (BOSA) and there were seven societies operating the Front Office Services Activity (FOSA). The other classifications which could be made based on the size of the society in terms of membership like those below 100 members, up to 500 members and those above 1000 members. The population similar characteristics are identifiable within given clusters.

3.3 Sample Design

During the study, a sample size of 70 societies was selected in a stratified selection criteria to reflect the various subsectors within the SACCO movement. Representation was from the subsectors which included; salaried employee SACCO, transport business (matatu) SACCOs, Small traders SACCOs (all operating Back Office Services Activity) and the FOSA operating SACCOs. Homogeneity among SACCOs was mainly found within the subsectors reflected and hence random selection was done within a sub sector. The size of 70 was estimated to be appropriate since previous researchers indicate a response rate via return of questionnaires at 73.3% (Maigua, 2013) and 78% (Mutunga, 2009). (Maluki, 2007 had reported a 100% response rate which is rare.

This was expected to give a response rate of over 55 societies. It was also possible to easily reach the number as most of the SACCOs are concentrated on Mombasa Island and its environs. With 70 societies selected, this reflected a sample size of 37% and with 66 societies responding a total response rate of 35% to the total population.

3.4 Data Collection

The data was collected from both primary and secondary sources. The primary data was gathered through structured questionnaire which was self-administered. This type of data was easy to access from co-operative respondents. The questionnaire was delivered to the CEOs or the chairmen (where there were no employees) of the societies to fill and they were collected later. The CEOs are preferred because they had access to all official records within the SACCO and were readily available being fulltime employees of the societies. They also had information on the board members and their activities since they attend board meetings.

Secondary data sought was in the form of the audited reports of the societies for the 5 year period between 2009 and 2013 (both years inclusive). These gave more detailed and refined information especially on the financial performance of the organizations. These reports were expected to be easily accessible from the societies since after adoption by the SACCOs at general meetings they are expected to be public documents. However this was not the case in many societies. The audited accounts/reports are useful in comparing the trends that emerge throughout the period under review. They are also not easy to manipulate in order to conceal some information which the CEO may feel uncomfortable giving on face to face interview. The questionnaire which is the tool of data primary collection was structured to comprise of five sections: General information; CEO and staff obligations and challenges; the boards' functions and challenges; Financial viability and Policy and regulatory framework. From the five sections, the respondents' views were sought and mainly involved awarding a score on the range of 1-5 on various aspects required including some brief explanations in specific areas.

3.5 Data Analysis

Since the study was aimed at establishing the linkage between corporate governance challenges and performance, the data collected was checked and verified for completeness, consistency and accuracy to ensure that it brought out those aspects variables which were under investigation. It was then edited and coded appropriately and weighted accordingly. The main parameters used were data relating to the CEO and staff,

their understanding of their roles and obligations and the challenges they encountered and how it impacted on performance. The board of directors understanding of their functions and effectiveness in carrying them out and the challenges they faced were also investigated.

Descriptive statistics employed to analyze the data which generated frequencies, percentage tables and graphs for quantitative data. Qualitative data was organized in major themes and used to draw conclusions.

A multivariate regression model was applied to determine the impact of challenges on the SACCO sector in Mombasa County.

The model below was used to determine the relation between the challenges of governance and SACCO performance.

$$Ps = \beta_0 + \beta X_1 + \beta X_2 + \beta X_3 + e$$

Where Ps= Performance of the SACCO (dependent value)

X_{1-n}= Independent variables

β = the constant

e = error term

Ps = Sacco Performance indicators (safety of members savings, Accessibility of funds, cost of loans, growth in terms of membership, assets and other services offered)

(X₁ X₂ X₃) = Staff challenges, board challenges and Regulatory provisions implementation challenges respectively.

The Sacco performance indicators were regressed against independent variables.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

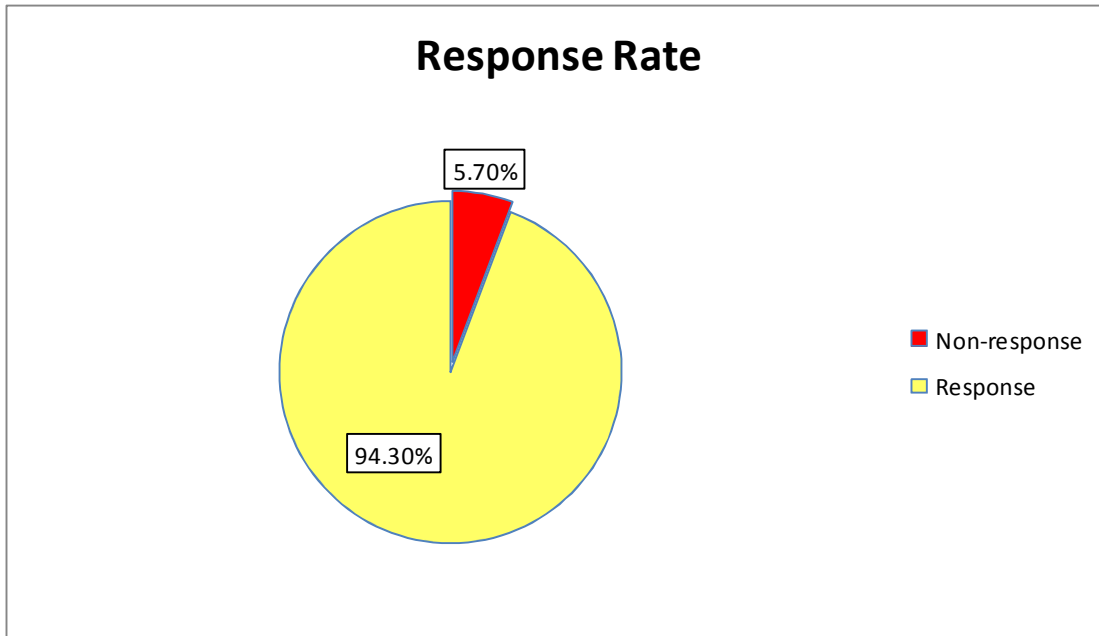
In this chapter, the results of the study and findings are presented. The study objectives were to look at the challenges that faced by the SACCO societies and how they impacted on the performance of both the board and staff. It was also intended to find the challenges being met in the implementation of government imposed regulations by societies and the impact it had on them. The data was collected from sample of 66 respondents which included 6 SACCOs running FOSA. The findings are presented in percentage scores graphs, frequency distribution tables' standard, deviations and regression analysis.

4.2 Institutional Data

4.2.1 Response rate

A total of 70 questionnaires were sent out to prospective respondents out which 66 were returned indicating a response rate of 94.3%. This indicates 5.7% were not returned. The returned questionnaires were vetted for completeness and consistency. They were also considered enough for appropriate analysis.

Figure 4.2.1 Response rate

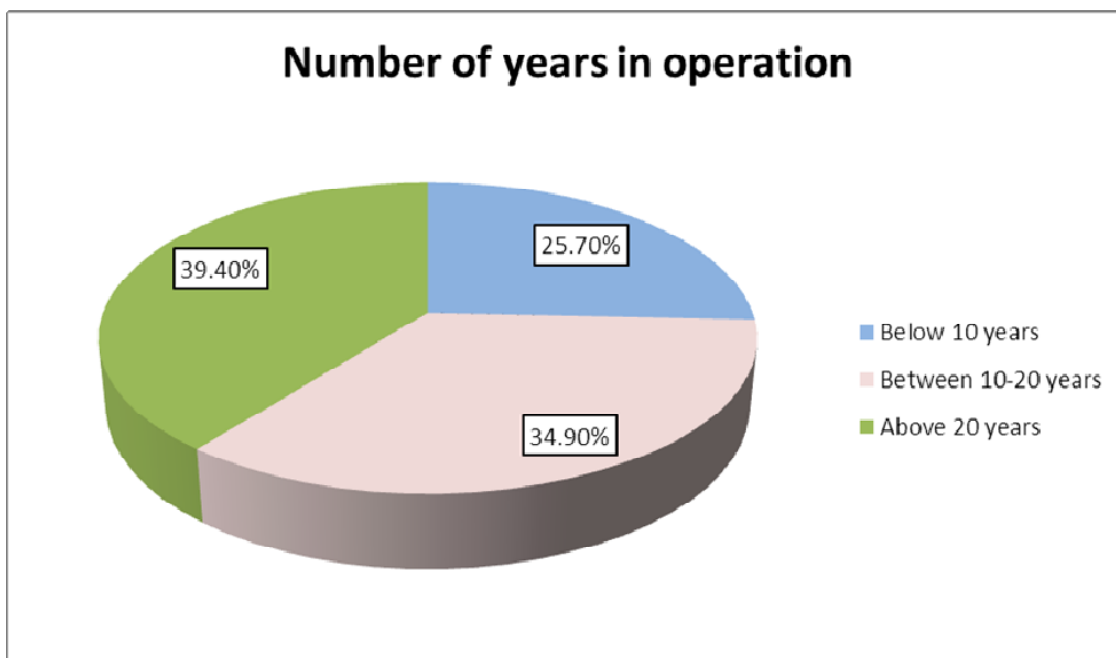


Source survey Data (2014)

4.2.2 Number of Years the of the Societies Operations

The period for which the studied societies had been in existence was established and the results are shown on Figure 4.2.2.

Figure 4.2.2 Number of Years in Operations



Source: Survey Data (2014)

Figure 4.2.2 shows that of the responding societies 25.7% had been operating for below 10 years, while 34.9% had been in operation for between 10-20 years with the other 39.45% having been in existence for over 20years.

4.2.3 Institutional Size

The size of the societies was gauged on the number of members or clients it served. The results are presented in the Table 4.2.3.

Table 4.2.3 Total membership/clients size

Number of members/clients	Distribution	
	Frequency	Percentage (%)
Below 100	22	33.3
101 - 500	33	50
501- 1000	5	7.6
1001- 5000	6	9.1
Total	66	100.0

Source: Survey Data (2014)

4.2.4 Number of Staff

The number of employees each institution had was considered and the results are summarized on the Table 4.2.4:

Table 4.2.4 Number of employees

Number of employees	distribution	
	Frequency	Percentage (%)
None (0)	48	72.7
Between 1-10	15	22.7
Between 11-50	3	4.6
Total	66	100

Source: Survey Data (2014)

Table 4.2.4 shows that most of the respondent societies operated without any employed member of staff at 72.7%, while only 22.7% had between 1-10 employees with the remaining 4.6% having between 11-50 employees.

4.2.5 Goals of the Institution

The researcher sought to find out the goals of the organizations and came out with the following summarized results as the major ones. However some respondents indicated they had more than one goal but they restricted themselves to the main one

Table 4.2.5 Institutional Goals

Goal	Distribution	
	Frequency	Percentage
Profit motive	3	4.54
Encouragement of savings	12	18.18
Easy credit	49	74.24
others	2	3.03
Total	66	100

Source: Survey Data (2014)

4.2.6 Training Programmes for the Board Members

The question of whether the members of the board received regular training on management issues elicited the responses shown on Table 4.2.6.

Table 4.2.6: Training Programmes for Board Members

Any Training Received	Frequency	Percentage
Yes	36	54.54
No	30	45.45
Total	66	100

Source: Survey Data (2014)

4.2.7 Level of Education for Board Members

The inquiry into the highest level of education of board members running the institutions produced the results summarized on Table 4.2.7.

Table 4.2.7 Education level of Board Members

Level of Education(highest)	Frequency	Percentage
Primary education	4	6.06
Secondary/high school	38	57.57
Diploma	12	18.18
University degree	9	13.63
Masters degree	3	4.54
Total	66	100

Source: Survey Data (2014)

4.3 Financial Viability

4.3.1 Sources of Institutional funds

The main sources from which the SACCOS get their funds were sought and they emerged as presented in Table 4.3.1.

Table 4.3.1 Sources of Institutional Funds

Sources	Frequency	Percentage
Membership subscriptions	61	92.14
Interests	4	6.06
Transaction fees	-	-
Bank Loans	1	1.51
Total	66	100

Source: Survey Data 2104

Table 4.3.1 indicates that majority of the societies raised their funds from membership subscriptions (92.42%) while interest contributed 6.06% and bank loans just 1.51%.

4.3.2 Average Loan Portfolio per member

On the question of average loan portfolio given out by the institutions, the respondents' responses were as summarized in Table 4.3.2.

Table 4.3.2 Total Loan Portfolio

Average Portfolio (Kshs)	Frequency	Percentage
Below 100,000	9	13.63
100,001-200,000	26	39.39
200,001-500,000	26	39.39
500,001-1,000,000	5	7.57
Total	66	100

Source: Survey Data (2014)

Table 4.3.2 indicates that 13.63% of the responding organizations had an average loan portfolio per member of below Kshs.100,000, while 39.39% of the institutions had between Kshs.100,001-500,000. Most of the societies (78%) indicated that there was an improvement on the amount extended to the members which they attributed to growth in membership. The other 22% who said there was no improvement attributed it to the massive layoffs of members from employment especially in the hotel industry.

All the six (6) responding SACCOs which were running FOSA indicated an improvement in performance which they said resulted from diversification of products they offered as well as rebranding of their image and opening of the common bond.

4.3.3 Savings Portfolio

The analysis for the saving portfolios of the responding SACCOs was given is shown on Table 4.3.3.

Table 4.3.3 Savings Portfolio

Savings portfolio (Kshs.)	Frequency	Percentage
Below 1,000,000	5	7.57
Between 1,000,001-5,000,000	16	24.24
Between 5,000,001-10,000,000	10	15.15
Between 10,000,001-50,000,000	24	33.36
Over 50,000,000	11	16.67
Total	66	100

Source: Survey Data (2014)

From Table 4.3.3 indications are that most of the societies had savings in excess of between Kshs.5 million-50 million (48.54%) while (16.67%) had saving in excess of Kshs.50 million. Further probe about performance indicated that (82%) of the societies had recorded an improved performance which they attributed to increased membership and improved salaries for the employed members. The other 18% respondents reported no improvement some claiming to have deteriorated due to scaling down of operations in the Tourism sector and the hospitality industry.

4.3.4 Average Monthly Recoveries

The recoveries of the loans disbursed per month inquiry gave the feedback as shown on Table 4.3.4.

Table 4.3.4: Average Monthly Recoveries

Monthly Recoveries (Kshs)	Frequency	Percentage
Below 100,000	11	16.67
Between 100,001-500,000	27	40.90
Between 500,001-1,000,000	14	21.21
Between 1,000,000-5,000,000	10	15.15
Above 5,000,000	4	6.06
Total	66	100

Source: Survey Data 2014

The table above demonstrates that most of the SACCOs (40.90%) on average recovered between Kshs 100,000-500,000 while (16.67%) collected below Kshs. 100,000 and the top (6.06%) collected above Kshs 5 million. Further inquiries on the trend of recoveries indicated that there was an improvement in over 90% of the societies while 10% complained of delinquent loans caused by abrupt lay-off of members from employment in the employee based SACCOS.

4.3.5 Average Loan Disbursement Period

The survey also sought to find out the length of time it took from the time a loan is applied for by a member to the time it is actually disbursed to him/her. This is usually a good indicator of financial performance and liquidity position of a SACCO.

Table 4.3.5 Loan Disbursement Period

Loan Disbursement Period	Frequency	Percentage
1 month	38	57.57
Below 3 months	25	37.87
4-6 months	3	4.54
Above 6 months	-	0
Total	66	100

Source: Survey Data 2014

Table 4.3.5 indicates that majority of the institutions (57.57%) were able to disburse a normal loan in the recommended period of 1 month. (37.87%) of the societies disbursed the applied for loan in the period between 1 month and 3 months while the rest 4.54% managed to give out the loan between 4 and 6 months. The repayment of the loan commences in the month immediate after disbursement in all societies.

4.3.6 Average Monthly Interest Rates

Interest rate charged is usually viewed as a good indicator of performance. From the data collected the findings were summarized in Table 4.3.6.

Table 4.3.6 Average Monthly interest Rate

Monthly Interest	Frequency	Percentage
0-1%	12	18.18
1.1-1.5%	37	56.06
1.6-2.0%	13	19.69
Over 2.0%	4	6.06
Total	66	100

Source: Survey Data (2014)

From table4.3.6, the respondents indicated that most of the SACCOs (56.06%) were giving out the loans on a monthly interest rate of between 1.1-1.5%, while a small portion of the societies (6.06%) were granting the loans at above 2%.

4.4 Governance Challenges and Interpretation of the Findings

4.4.1 Governance challenges in respect to staff capacity and institutional framework.

The institutions were required to give a rating on how particular aspects and challenges relating to the staff affected and or impacted on the performance of their employees on a scale of 1-5. These included the level of education and professional training, presence or absence of clearly written staff procedures, availability of IT equipment (Computers, Internet Connections and so on), supervision and availability of appraisal reports and proper communication within the departments, sections and branches. It is worth noting that a majority of the societies studied 48 out of 66 which is (72.7%) operated without any hired staff. Only 18 societies had employed staff working on a whole time basis. The results of the staff challenges responses are shown on Table 4.4.1 whereby the mean is indicated for every factor of a challenge and a deviation indicated.

Table 4.4.1 Staff Challenges

Challenge	Mean	Deviation
Low level of education	2.57	0.07
Lack of professional training	2.51	0.01
Absence of clearly written and adequate procedures	3.71	1.21
Lack of IT equipment, internet connections	4.40	2.10
Lack of updated product information	2.57	0.07
Absence of one on one supervision	4.00	2.0
Absence of management appraisal reports	3.8	1.3
Lack of periodic inspections and auditing	3.733	1.23
Communication within sections & Branches	3.00	0.50

Source: Survey Data (2014)

From the findings it was noted that the biggest challenge facing the societies included lack of IT equipment (mean 4.40), lack of one on one supervision (mean 4.00), absence of management appraisal reports (3.73). Another challenge that featured strongly is the absence of clearly written and adequate procedures (mean 3.71)

4.4.2 Board Member Challenges

The respondents were required to rate the challenges that had something to do with the performance of board members. Such included and average level of board members level of education, presence or absence of continuous training on SACCO management and policy formulation, attendance of board meetings receiving and or requirement to give bribes for service delivery, conflict of interest and political interference as well as board composition in terms of gender balance i.e. male to female ratio. The survey also sought to know about the existence of duality problem (where the CEO happens to be the chairman or a member of the board).

The findings were summarized in table below. The rating was also done on a scale of 1-5 where 1 represented highest negative impact and 5 high positive impact.

Table 4.4.2 Board Member Challenges

Board members challenges	Mean	Deviation
Low level of education	2.35	0.15
Lack of regular continuous training	3.28	0.78
Failure to attend board meeting regularly	3.13	0.63
Demand for bribes to get elected and retained in the board	2.68	0.18
Receiving bribes in order to extend favors to members especially when granting loans	2.40	0.08
Conflict of interest (especially while deciding on board member loans)	2.52	0.02
Collusion between board members and staff members in matters of self interest	2.71	0.21
Political interference by external forces	2.43	0.07
Board composition (ration of men and women)	1	1.5
Duality problem (CEO is also the chairman of the SACCO)	1.1	1.4

Source: Survey Data (2014)

From the findings it was observed that one of the major challenges faced by the SACCOS was to achieve gender parity in board composition or at least get the recommended 33.3% (one third rule). It scored a (mere of 1.0) it was noted that out of the total elected 613 board members only 128 were women representing just 20.9% of the total board of directors' positions. Another major finding was that the duality problem was rife with a total of 48 societies out of 66 having the chairman or a board member acting as the chief executive. This represents 72.7% of the total responding societies. It also reflects the number of societies without any employee whether permanent or casual. This scored a (mean of 1.1)

Generally there was a marked low level of education for the people appearing in board membership with a majority 42 of 66 societies having an average level of education for board members being high school leavers and below. That represents 64% while only 34% of societies have an average of diploma qualification and above. This scored a mean of 2.35. Another challenge identified was the tendency to receive bribes from members with the expectation of receiving favours when granting loans (mean 2.40) and demand for bribes by members in order to vote in a person to the board (mean 2.68). Other challenges identified at a lesser scale included failure to attend meetings regularly, (mean 3.28) and collusion between staff members and the board on matters of self interest (2.71).

4.4.3 Challenges Based on Policy and Regulatory Framework

The institutions studied were to rate how they felt the policy and regulatory framework set up by government and the SACCO Societies Regulatory Authority affect their operations. The results on table below summarize the responses. Scores were based on a scale of 1-5.

Table 4.4.3 Challenges Caused by Policy and Regulations

Policy impact on	Mean	Deviation
Ownership	3.50	1.00
Capital adequacy	2.21	0.39
Accountability	3.91	1.41
SACCOs image	3.40	0.90
Management capacity	4.28	1.78
Outreach Programmes	4.12	1.62
Supervision	4.15	1.65
Access to funds	2.8	0.3
Performance standards	4.38	1.88

Source: Survey Data (2014)

From the data, observations were made that the regulations had impacted most heavily on the management capacity (mean 4.28) supervision by the regulators (mean 4.15) and outreach programme (mean 4.12)

Accountability stood at a (mean of 3.91) while ownership remain relatively unchanged at (mean of 2.50) but capital adequacy dropped (mean 2.21). Performance standards was recorded at a high of (mean 4.38)

4.4.4 Performance Indicators

The respondent were required to rate their performance on a number of parameters which included safety of members loans, accessibility to sources of funds, cost of loans, growth in terms of membership and growth in terms of service offered.

As for the employees rating, indicators included better salaries and benefits to employees, good working environment while for the society in general performance was to be based on growth in assets and compliance to regulatory framework. The findings are indicated in Table 4.4.4.

Table 4.4.4 Performance Indicators

Performance indicator	Mean	deviation
Safety of members savings	3.01	0.51
Accessibility to sources of funds	2.62	0.12
Cost of loans	2.15	0.35
Speed of getting loans	3.10	0.60
Growth in membership	2.91	0.41
Growth in services offered	3.45	0.95
Good salaries for employees	3.95	1.45
Good working environment	4.16	2.66
Growth in terms of assets	3.60	1.60
Compliance to legal regulatory framework	4.20	1.70

Source: Survey Data (2014)

Findings indicate a general improvement on the performance of the societies especially on the following areas; compliance to legal regulatory framework (mean 4.20), better working environment (mean 4.16), better salaries for workers (mean 3.95), and growth in assets (mean 3.60) while growth in service and number of products offered (mean 3.45). The growth in services offered, speed of getting loans and safety of members savings also scored favourably above a (mean of 3.0)

4.5 Analysis and Summary of findings

4.5.1 Regression Analysis

In this study a multiple regression analysis was conducted to test the influence among predictor variables. The researcher used the Statistical Package for Social Science (SPSS) to code, enter and compute measurements of the multiple regressions.

Table 4.5.1 Regression Analysis

Model	R	R square	Adjusted R square	Standard error of the estimate
1	0.267	0.071	0.042	0.0653

Source: Author Computation

The adjusted R squared coefficient of determination tells us the variation in the independent variable due to the changes in the independent variable. From the findings in the above table, the value of R squared was 0.042, an indication that there was a variation of 4.2% on the final performance of the SACCOs due to challenges faced by the implementation of the laid down policy and regulatory framework. This means that only 4.2% change in performance could be attributed to said challenges.

R is the correlation coefficient which shows the relationships between the study variable. The findings however show that there was a weak positive relationship between the study variables as shown by 0.267

Table 4.5.2 ANOVA Analysis of the Return on Assets

	DF	Sum of squares	Mean score	F	Significance F
Regression	8	0.0547931	0.0068491	2.161672	0.031904
Residual	202	0.853368	0.00422		
Total	210	0.9081617			

Source: Author computation

From the ANOVA statistics in the above table, the processed data, which is the population parameters had a significance level of 0.032 which shows that the data is ideal for making a conclusion on the populations parameters as the value of significance (p-value) is less than 5%. The calculated value was greater than the critical value ($1.98 < 2.162$) an indication that the staff challenges, board of directors challenges had a significance influence on SACCO performance in Mombasa County. The significant value was also less than 0.05, an indication that the model was statistically significant.

The established linear regression equation becomes:-

$$\text{Sacco performance} = 2.162 - 1.848X_1 + 1.880X_2 + 0.0834X_3$$

Where:

$\beta_0 = 2.162$ shows that if all independent variables were rated zero, Sacco performance would be equal to 2.162

$\beta_1 = 1.848$ shows that a unit change (increase in staff challenges) would result in a 1.848 decrease in performance

$\beta_2 = 1.880$ shows a unit change (increase in board member challenges) would lead to a 1880 units decrease in SACCO performance.

$\beta_3 = 0.0834$ show a unit increase in regulatory framework challenges would have a slight decrease in Sacco performance of 0.0836 units

4.6 Discussion of Results

According to the study findings, the number of staff employed by society was found to be small with only 72.7% of the society hiring independent staff. It also indicated that there was a significant CEO duality problem at a similar level of 72.7% while other staff issues of concern included structure and technological deficiencies. If these were addressed, there would be a great reduction in the number of challenges which cause a decline in the good performance of the SACCO institutions.

The study also revealed a positive correlation between the societies performance and board of directors' challenges and the level of their performance which impacted negatively on the institution if they increased. The most significant challenges relating to the board were found to be low levels of education, gender imbalance, lack of professional training on SACCO management matters as well as incidences of corruption involving bribe taking and bribe giving. This could be addressed by enhancing board member education and adherence to the public officer ethics Act which is a requirement for board members. When respondents were asked to comment on their experiences in terms of recent growth in portfolio, disbursement and recoveries, many answered in the

affirmative confirming that there had been a marked improvement on efficiency in management of the Sacco societies. There was also a marked improvement in the availability of sources of funds while the products on offer had significantly been diversified.

In regard the regulatory framework and policy formulation, the respondents seemed to highly agree that the implementation of the guidelines had greatly impacted on the general improvement in performance of SACCOs. Accountability was reported to have gone up as well as improvement of the SACCO public image. More and more prospective members are gaining confidence in the movement with reported cases of many members joining from outside what was formerly known as the common bond.

Generally there were established relationships between the challenges faced by the staff the board of directors, regulatory framework and the Sacco performance especially in members funds safety, assets increase and the speed of service delivery.

CHAPTER FIVE

SUMMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

The main objective of this study was to identify the challenges that are faced by the SACCO sector in Mombasa County in Kenya. It also set to determine how the said challenges affected the performance of the organizations while executing their mandates. This is a summary of the findings and recommendations reached.

5.1 Summary of Findings

Corporate governance has become an integral part of the major roles being played by the elected board members of SACCOs. However the study revealed that in carrying out their work, both the board and employed staff of the societies experience a variety of challenges which eventually have a bearing in the ultimate overall performance of the SACCOs. The staff members' major complaint was lack of adequate resources and low salaries.

The main challenges identified on the part of the board consisted of their moderate level of academic qualifications with a majority having not gone beyond high school level and lack of professional training in management. On the other hand performance was seen to be impacted on by presence or absence of staff in majority of the SACCOs. The SACCO societies are primarily supposed to be self-governing private sector enterprises but the government has come out with the regulatory framework and policy guidelines regarding how they should be managed. This was meant to ensure security and safety of members funds for the societies that are running the deposit taking activity the Savings Societies Regulatory Authority (SASRA) have been established to give policy guidelines and carry out supervision.

The study revealed that there was a correlation between the societies performance and the challenges that are experienced. The more the challenges were addressed the better the performance. Most of the SACCOs reported a marked improvement in their operations

which they mainly attributed to adherence to the rules and policy guidelines spelt out for them as well as a positive working relationship with the government agencies which they rated as being good or very good. However, some SACCOs especially the deposit taking societies expressed fear that some of the regulations especially rules on capital adequacy requirement of Kshs. 10 Million was stifling their performance since a big amount of funds has to be maintained as reserves. Attainment of such levels was seen as a challenge leading even to one SACCO reporting it operated a Front Office Services Activity (FOSA) without the required license.

5.2 Conclusion

From the findings, the key challenge faced by the SACCOs emanate from three sources which are, the cadre of staff employed (where they exist) the level of knowledge exhibited by the board members and the ability of the institutions to implement the set prudential standards by the regulator. Greater focus need to be directed towards continuous provision of training in SACCO management techniques in order to inculcate the requisite skills and competences for the both board members and staff. Also the ethical requirements laid out for the public officers need to be emphasized to address the danger posed by the report cases of graft (bribe taking) for service delivery and campaigns to be elected to the board.

5.3 Recommendations

Since the general asset base for most of the responding institution seemed low and shaky, the society's officials have to institute measures that will increase their income levels to meet the liquidity requirements.

The societies also need to be seriously addressing the problem of duality by having at least one employee each to separate policy making organs (the boards) from the implementors (employees). This creates more transparency and accountability and eliminates the possible conflict of interests. On its part the government regulatory agencies have to continuously keep in touch with the institutions to help in policy formulation and avoid the much distorted view that the regulations were made in the

governments interest and should only be followed to avoid possible deregistration by the regulating authorities.

5.4 Limitations of the Study

This study targeted a minimum of 70 societies but responses were received from 66 societies. The respondents were spread across the Mombasa County and the researcher used the drop and pick method for self-administered questionnaire. Due to the time constraints the exercise was very involving and especially where the societies did not have employees. This made tracing the relevant board member a daunting exercise.

Some officials were not co-operative and to collect the questionnaires from them, the researcher had to visit and return to the societies up to 2 or 3 times.

There were cases of suspicious respondents who deemed the exercise as a possible inspection or investigation and had to be convinced through a lot explaining the purpose of the study. Many societies were uneasy when secondary data like previous audit reports were requested. Some did not even have up to date audited accounts.

5.5 Suggestions for Further Research

The study recommends that since with the devolved government system, the co-operative sector has been devolved to the county level, further research should be carried out to establish the new form the sector will take in the county. It would be prudent to find out what mechanisms the new system would employ to address the challenges being met in the future.

REFERENCES

- Aboagye J. and Otieku J. (2010) Are Ghanaian MFIs Performance Associated with Corporate governance? *Corporate Governance Journal* 10(3) 307-320
- Adan M. (July, 2014). "Ministerial statement at the 92nd International Cooperative Day" Ushirika Day Celebrations held at KICC. Nairobi.
- Ademba, C.O. (2006). *A survey of Corporate Governance system in SACCO Front Office Savings entities*. (Unpublished MBA project). University of Nairobi
- Bhasa M.P. (2004). Understanding the Corporate Governance quadrilateral. *Corporate Governance Journal* 6 (4) 8-19
- Berle, A. Means G. (1932) *The Modern Corporation and Private Property*. New York: Macmillan.
- Chia et al (2008). Corporate Governance and Corporate failure *Corporate Governance journal* 4 (4) 29-39
- Clarke, T. (2004). *Theories of Corporate Governance*. New York: Routledge
- Clarkson, M.B (1995) A stakeholder framework for analyzing and evaluating Corporate social performance. *Academy of management Review* 20 (11) 92-117
- Cooper, D. R. and Schindler, S.P. (2001). *Business Research Methods. 8th Ed*. New York: McGraw-Hill.
- Cornforth C (2004). The governance of Co-operatives and mutual associations a paradox Perspective. *Annals of Public and Co-operative Economics*, 75(1) pp 11-32
- Edwards M. & Clough R. (2005) Corporate Governance and performance. An evaluation of the connection in Public Sector context. *Corporate Governance ARC Project*. Issue: 2 Semes paper No. 1
- Hung' J. (1998) 'A topology or theories of governing boards' *Corporate Governance* 6, 2,101-111
- GoK, Government Printer (2004). *The Co-operative Societies (Amendment) Act 2004*.
- GoK, Government Printer (2008). *The SACCO Societies Act (2008)*
- GOK, Government Printer (2010). *The SACCO Societies Rules (2010)*
- Jebet C. (2001). *Corporate structures Prevalent in co-operatives*. (Unpublished MBA Project). University of Nairobi.
- Jensen, M.C. and Meckling, W.H. (1976), Theory of the firm: managerial behavior,

- agency costs and ownership. *Structure, Journal of Financial Economics*, 3, 26-28
- Kelly (2002). Boards of Directors and firms performance: integrating agency and resource dependence perspectives. *Academy management review* 28 386-396
- Kobia, S.K. (2011) *The co-operative movement in Kenya; Challenges and Opportunities*. Nairobi: Lukiko Consulting Trust.
- KUSCCO Ltd .(2011) *Co-operatives Make a Better World*. Annual Report. Nairobi; Kenya
- Maigua, S. N. (2013). *The effect of corporate governance on the financial performance of insurance companies in Kenya*. (Unpublished MBA research project). University of Nairobi
- Maluki, P.M (2011). *The effect of the Adoption of Corporate Governance practices on the financial performance of SACCOs in the public sector*. (Unpublished MBA project). Kenyatta University, Nairobi.
- Miringu, N. (2008). *An analysis of the effect of Corporate Governance performance of Commercial state corporations in Kenya*. (Unpublished MBA project) University of Nairobi
- Mudibo, E.K. (2006) *Corporate governance in Co-operatives*. Nairobi. Pan Africa Press.
- Mudibo, E.K. (October, 2006.). The importance of SACCO regulations and supervision a case for regulatory reforms in Kenya. *Symposium conducted at the KUSCCO Headquarters Nairobi*.
- Mugenda, M.,O. & Mugenda, G., A (2003). *Research Methods: Quantitative And Qualitative Approaches*. Nairobi. Lab graphics services.
- Muriithi, C.(2004). *The effects of licensing requirements on the performance of Co-operative Societies in Kenya*. (Unpublished MBA project). Kenyatta University. Nairobi
- Mutunga, E. (2009) *A study of Corporate Governance practices and challenges by the Co-operative societies in Nairobi*. (Unpublished MBA project). University of Nairobi.
- Ngaira, L.K. (2011). *The impact of SACCO Regulatory Authority guidelines on The SACCO operations in Kenya. The case of Nairobi deposit taking SACCOs* . (Unpublished MBA project). University of Nairobi
- Nick, L.H and and Blumberg I (2010). The relationship between corporate governance, Sustainable Profits, Lessons Learnt from BP *Corporate Governance Journal*.
- O.E.C.D (1999). Why institutions fail *Finance Journal* 15(6) 21-35
- Ojiambo, O. (2006) *Corporate Governance Practices in SACCOs*. (Unpublished MBA

Project). University of Nairobi.

Randall, K.Steier (November 2005) The Global history of Corporate Governance An Introduction. *National Bureau of Economics Research* University of Chicago Press.

Sullivan N. and Diacon, S.R (2003) 'Board Composition and Performance in Life Insurance Company' in *British Journal of Management*, 14 115-129

Thomsen, S. (2004). Corporate value and Corporate Governance *Corporate Governance journal* 4 (4) 29-39

Tirole, J. (2006). *The Theory of Corporate Finance*. Princeton. N.J. Princeton University Press.

Tricker, B.(2000) Editorial – Corporate Governance – The subject whose time has come , *Corporate Governance Journal* 8, 4, 289-296.

Wilkes, J.(2004) Corporate Governance and measuring performance. *Measuring Business Excellence* 8 (4) pp 13-16

APPENDICES

APPENDIX: I

The chairman

-----SACCO LTD

P.O. Box.....

MOMBASA

Dear Sir/Madam

RE: REQUEST TO USE YOUR ORGANISATION AS A CASE OF STUDY FOR MY MBA RESEARCH PROJECT

My name is Owen Mbogo and I am currently a student at the University of Nairobi pursuing a Master of Business Administration (MBA) degree course.

I am carrying out a survey on the Corporate Governance challenges and their impact on the performance of SACCO societies in Mombasa County. I have selected your SACCO as one of the organizations I would wish to get information from. The information provided will be treated with outmost confidentiality as it deserves and will not be used for any other purpose except academic pursuit. I would be grateful if you would accept my request and give me cooperation during the study period to make this exercise a success.

I thank you,

Your sincerely,

Owen Mbogo

Reg D61/73328/2012

MBA student UON

APPENDIX II

SECTION A: GENERAL INFORMATION

1. What is the name of your society?
-----Location-----
2. What is the age of the SACCO? (please tick one)
Below 1 year [] Between 1-5 years [] 6-10 years []
11-15 years [] 16-20 years [] above 20 years []
3. Total number of clients /members (Tick one)
Below 100[] 101-500 [] 501-1000 []
1001-5000 [] 5001-10,000[] above 10,000 []
4. How many employees do you have?
None [] between 1-10 [] Between 11-50 [] above 50 []
5. Total number of Directors-----
(i) Male [] Female [] State number
6. Is there a separation of the post of chairman and the Chief Executive Officer?
(CEO) in your society? Yes [] No []
7. Who are the current external auditors of your SACCO?.....
8. What are the main goals of the SACCO?
Profit motive [] Encouragement of savings []
Easy credit [] Others [] specify.....

SECTION B: CORPORATE GOVERNANCE PRACTICE

9. On a scale of 1-5 please indicate to what extent the statements below apply regarding your SACCO

1. No extent - 5 very large extent

PRACTICE	1	2	3	4	5
a. The shareholders elect and remove members of the board.					
b. Shareholders participate and vote in the general meeting.					
c. The shareholders rights are protected by the SACCO.					
d. Members have effective mechanism for redress in case of rights violation.					
e. The members obtain relevant material information on the SACCO on timely basis.					
f. The members right to transfer shares is upheld by the society.					
g. Members of the Board and the executive are required to disclose to the board whether they directly or indirectly or on behalf of third parties have material interest in any transaction or matter affecting the society.					
h. Management ensures timely and accurate disclosure is made on all material matters including financial position.					
i. The appointment of the CEO and senior staff is done by the board.					
j. The appointment of the CEO and senior staff is done by an external recruiting agency					

10. Does your SACCO have training programmes for the board members?

Yes [] No []

11. What is the board of directors' members' highest level of education? (Tick one)

High school [] Diploma [] University degree []

Master degree and above []

SECTION C: GOVERNANCE CHALLENGES

STAFF CHALLENGES:

12(a) (i). Please indicate on scale of 1-5 how the factors listed below generally pose a challenge and impact on the performance of your employees. Please note 1 lowest (negative) – 5 Highest (positive) impact. Assess the average for all staff.

	Challenges	1	2	3	4	5
i.	Low level of education					
ii.	Lack professional training					
iii.	Absence of clearly written and adequate staff procedures					
iv.	Non availability of continuous training on various aspects of SACCO management					
v.	No available IT equipment (computers internet connections etc.)					
vi.	Lack of updated product information					
vii.	Lack of one on one supervision					
viii.	Lack of management appraisal reports					
xi.	Problems due to lack of communication between sections and branches					
x.	Lack of periodical inspections and audits.					

For education use the following rating.

1. Primary level
2. Secondary level
3. College level Diploma
4. University degree
5. Post graduate qualifications.

(ii) Any other challenges (specify)-----

BOARD MEMBERS CHALLENGES

12(b) (i) Please indicate here below, to what extent the following challenges have had an impact on the performance of your board members on scale of 1-5 Note:

1. Very negative impact
2. Low impact
3. No impact
4. High positive impact
5. Very high positive impact

	Board member challenges	1	2	3	4	5
i.	Low level of education					
ii.	Lack of regular continuous training of SACCO management and policies					
iii.	Failure to regularly attend board meetings					
iv.	Demand for bribes to get elected and be retained in the board					
v.	Receiving bribes in order to extend favours to members especially in granting loans					
vi.	Conflict of interest (especially on deciding on board members loans)					
vii.	Collusions between board members and staff in matters of self interest					
viii.	Political interference by external forces					
ix.	Board composition (ratio of men and women)					
x.	Duality problem (CEO is also the chairman of SACCO)					

Note for education use

1. No formal education 2. Primary education 3. Secondary education

4. College diploma 5. University degree and above

(get the average)

(ii) Any other challenges (specify)-----

SECTION D: FINANCIAL VIABILITY

13. What are the main sources of finances in your society? (tick one)

Membership subscription [] Interest [] Transaction Fee []
Bank Loans [] Others [] specify.....

14. What is the current average loan portfolio per member in Kshs.(approximately) Tick appropriately.

Below 100,000 [] between 100,001-200,000 [] between
200,0001-500,000 [] between 500,001-1000,000 []
above 1000,000 []

- (i) Would you say that there has been an improved growth lately?
- (ii) If the answer is Yes above explain why

(iii) If the answer is No explain-----

15. What is your total savings portfolio in Kshs.? (approximately) Tick one
 Below 1,000,000 [] Between 1,000,001-5000,000 []
 Between 5,000,001-10,000,000 [] Between 10,000,001-50,000,000 []
 Above 50,000,000 []

16. Would you say there had been an improvement lately?

Yes [] No []

i. If Yes above explain. Why.....

ii. If No above explain why.....

17. Total average monthly recoveries/collection (Tick)

Below 100,000 [] between 100,001-500,000 []
 Between 500,000-1,000,000 [] between 1,000,000-5,000,000 []

i. Has there been an improvement lately

Yes [] No []

ii. If answer is Yes above explain

iii. If answer is No above explain.....

18. What is the average loan disbursement period for a normal loan?

1 month [] below 3 months []

Between 4-6 months [] above 6 months []

19. (a)What is the average Program's monthly interest rate?

Below 1% [] between 1.1% - 1.5 %[]

Between 1.6% - 2.0 % [] above 2.0% []

(b) What is the rate of dividend payment in (%) for the following years:

2009..... 2010..... 2011..... 2012..... 2013.....

SECTION E: POLICY AND REGULATIONS

20. Does your SACCO operate a Front Office Services Activity (FOSA)

Yes [] No []

21. Have you been licenced by SACCO Societies Regulations Authority (SASRA)

Yes [] No []

22. (a) To what extent has government regulations had an impact on the following areas in your SACCO (tick on appropriate degree of influence)

[1] No impact [2] low impact [3] moderate impact [4] very high impact
[5] Extremely high Impact

	Impact on	1	2	3	4	5
i.	Ownership					
ii.	Capital adequacy					
iii.	Accountability					
iv.	SACCOs image					
v.	Management Capacity					
vi.	Outreach					
vii.	Supervision					
viii.	Access to funds					
ix	Performance standards					

(b). The current government support for SACCOs operations can be termed as :

[1] Poor [2] Fair [3] Good [4] Very Good [5] Excellent (tick appropriately)

23. On a scale of 1 to 5 please rate the overall performance of the SACCO improvement in terms of the following aspects of since SASRA regulations were enacted

Where no improvement [1] and the highest improvement [5]

	Performance Indicator	1	2	3	4	5
i.	Safety of members savings					
ii.	Accessibility to sources of funds					
iii.	Cost of loans					
iv.	Speed of getting the loans					
v.	Growth of SACCO in terms of membership					
vi.	Growth in terms of services offered					
vii.	Good salaries and benefits to employees					
viii.	Good working environment for workers					
ix.	Growth in terms of assets					
x	Compliance to legal regulatory framework					

24. What are the major complaints received from the SACCO members?

Low Dividends [] Delay in giving loans []

Favoritism in giving loans [] Others [] specify.....

THANK YOU VERY MUCH!

APPENDIX III

LIST OF RESPONDENT SACCO SOCIETIES IN MOMBASA COUNTY

1. ABOO SACCO LTD
2. AIR PORT TAXIS SACCO LTD
3. ALARMS SACCO LTD
4. AVASO SACCO LTD
5. A-Z TRANSPORTERS SACCO LTD
6. B.O.G SACCO LTD
7. BAMBURI WANAINCHI SACCO LTD
8. BANDARI SACCO LTD
9. BENZ SACCO LTD
10. BROOKIE SACCO LTD
11. C.D.A SACCO LTD
12. CHOICE SACCO LTD
13. CIVICON SACCO LTD
14. CONTRAVAG SACCO LTD
15. COTTS SACCO LTD
16. DIAMOND SACCO LTD
17. EIB SACCO LTD
18. EXTRACO SACCO LTD
19. EASCO SACCO LTD
20. GOLDEN KEY SACCO LTD
21. GRAIN MILLERS SACCO LTD
22. HAKIKA SACCO LTD
23. HARDWARE SACCO LTD
24. HIGHWAY SACCO LTD
25. HOTEL SAPHIRE SACCO LTD
26. IMANI SACCO LTD
27. TRANSEAST SACCO LTD
28. KARATASI SACCO LTD
29. KMFRI SACCO LTD
30. KENKAZI SACCO LTD
31. KENSALT SACCO LTD
32. KIVUKO SACCO LTD SACCO LTD
33. LIKONI MATATU OWNERS SACCO LTD
34. MACDAL SACCO LTD
35. MANUFAA SACCO LTD

36. MASH SACCO LTD
37. MATUNDA SACCO LTD
38. MAVUENI SACCO LTD
39. MCHECHETO SACCO LTD
40. MPC SACCO LTD
41. MSA PORT SACCO LTD
42. MSA TEACHERS SACCO LTD
43. MSAIDIZI SACCO LTD
44. MWAMKO SACCO LTD
45. MWANGAZA SACCO LTD
46. MZALENDO SACCO LTD
47. NGOMENI SACCO LTD
48. NYUMBA SACCO LTD
49. OCEANFREIGHTERS SACCO LTD
50. POLY SACCO LTD
51. POP SACCO LTD
52. RAFFIA BAGS SACCO LTD
53. REEF SACCO LTD
54. RETREAD SACCO LTD
55. SAFE FREIGHT SACCO LTD
56. SECO SACCO LTD
57. SEVERIN SACCO LTD
58. SHANZU UNDUGU SACCO LTD
59. SHEIKH KHALIFA SACCO LTD
60. SOCKS SACCO LTD
61. SPAN SACCO LTD
62. SPEEDAG SACCO LTD
63. TORCH SACCO LTD
64. TRANSCREST SACCO LTD
65. TRAMOM SACCO LTD
66. TRANSPARES SACCO LTD
67. TRAVELLERS SACCO LTD
68. TUDORFARM PURCHASE SACCO LTD
69. UCHONGAJI SACCO LTD
70. UMEME SACCO LTD