

A SURVEY OF CORPORATE GOVERNANCE PRACTICES BY
SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN KAKAMEGA
MUNICIPALITY

BY

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DECLARATION

Declaration by the candidate.

I hereby declare that this is my original work and has not been submitted or published for examination in this university or any other university for award of any degree.

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Date 10-11-2011

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Declaration by the supervisor.

This project has been submitted to the School of Business of University of Nairobi with my approval as the university supervisor.

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God bless you all.

DEDICATION

To my sons Argwings, Amberg and Andy and my daughter, Ansley, my husband Boniface Shikuku Makhandia, for their patience and understanding during my long stay away from home. To my father, Mathias Kweyu Mulama and mother, Paskalia, for educating me. To all sons and daughters of Kweyu's family who encouraged me to learn.

ABSTRACT

There is limited published research on corporate governance practice by SACCOs in Kenya. Most SACCOS in Kenya have suffered loss due to poor management, nepotism and embezzlement of funds.

The role of cooperative societies in the economy need not be overemphasized. Cooperative societies are important vehicles for economic growth and development globally. National economies have benefited from well-governed cooperatives. The converse is true. Good corporate governance in cooperatives would lead to the realization of objectives of the cooperative movement, which is creation of wealth for sustained economic growth and development.

However, despite the great potential of cooperative societies as agents for national development in the country, they have performed poorly. This poor performance is attributed in a nutshell, to poor corporate governance practices by the management committees or other bodies entrusted with the responsibility of governing the cooperative societies. There is therefore need to get the cooperative sector back to sustainable prosperity.

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LIST OF ACRONYMS

OECD –Organization for Economic Co-operation and Development

CEO – Chief Executive Officer

WOCCU – World Council of Credit Unions

CACG – Commonwealth Association of Corporate Governance

HIV – Human Immuno-deficiency Virus

SASRA- Sacco Society Regulatory Authority

CAK – Cooperative Alliance of Kenya

KERUSSU – Kenya Rural Sacco’s Societies Union

NACHU- National Housing Cooperative Union

CIC-Cooperative Insurance Company

KUSCCO – Kenya Union of Savings and Credit Co-operative

KATECO – Kakamega Teacher’s Co-operative

KRRW – Kakamega Rural Roads Workers

CCSWR- Christian Community Services Western Region

KMC – Kakamega Municipal Council

KES – Kakamega Entrepreneurs SACCO

WEAP – Western Empowerment Advocacy Program

WECO – Western College

SACCOs- Savings and Credit Co-operative Societies

CHAPTER ONE

INTRODUCTION

1.1.0. Background of the study

Corporate governance is concerned with ways in which all parties interested in the well being of the firm (the stakeholders) attempt to ensure that managers and other insiders take measures or adopt mechanisms that safeguard the interests of the stakeholders.

The Global Corporate Governance Forum notes in its mission statement that: Corporate governance has become an issue of worldwide importance. The corporation has a vital role to play in promoting economic development and social progress. It is the engine of growth internationally and increasingly responsible for providing employment, public and private services, goods and infrastructure. The efficiency and accountability of the corporation is now a matter of both public and private interest and governance has thereby, come to the head of the international agenda.

Emphasizing on the importance of corporate governance, Sile 2009, says 'Just as a heart is to human being, so is governance to an organization. A faulty heart affects the functioning of the entire body and on the other hand, poor governance can lead to the demise of an organization as witnessed by the collapse of giant organizations like Enron, Tyco, WorldCom and more recently Satyam.'

Researchers have defined corporate governance in a variety of ways and the most widely cited definitions follow: According to Cadbury (1992), corporate governance

is the mechanism used to discipline organizations. Morin and Jarrell (2001) argue that corporate governance is a framework that controls and safeguards the interest of the relevant players in the market. The players of the corporate governance mechanism include managers, employees, customers, shareholders, executive management, suppliers and the board of directors.

Wetherell (2000) observes that corporate governance is more than just board processes and procedures. It involves the full set of relationships between a company's management, its board, its shareholders and stakeholders, such as its employees and the community in which it is located.

The Organisation for Economic Co-operation and Development's (OECD) 1999, definition states, "Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures of making decision on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.

The (OECD) principles of corporate Governance cover five areas (Sparkes, 2002).

These are:

The corporate governance framework should protect shareholders rights, they should receive timely and accurate information about a company where they are investors, and they should have the right to participate in major decisions; The corporate governance framework should ensure the equitable treatment of all shareholders,

including minorities and foreign shareholders; in particular members of the board and executive should disclose any material interests in the transactions; The corporate governance framework should recognize the rights of stakeholders in corporate governance, there should be cooperation between corporations and stakeholders on issues like jobs, the local communities, suppliers and the environment; The corporate governance framework should ensure timely and accurate disclosure is made on all material matters regarding the corporation. This includes ownership and governance as well as financial disclosure, and information material should be audited; The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board's accountability to the company and the shareholders.

The principles can be summarised in terms of five values. These are: Equitable treatment/integrity and fairness; Responsibility; Accountability; Transparency; Efficiency and Effectiveness. These values link corporate governance to important elements of governance in broader sense: the battle against bribery and corruption; corporate responsibility and ethics; public sector governance; and the regulatory form (Witherell, 2000).

Corporate Governance has been a central issue in developing countries long before the recent spate of corporate scandals in advanced economies made headlines. Indeed, corporate governance and economic development are intrinsically linked. Effective corporate governance systems promote the development of strong financial systems, which in turn have an unmistakably positive effect on economic growth and poverty reduction (Chakrabarti, 2002). The role of different instruments in implementing corporate governance is important as highlighted by Bhagat and Black (1999). These

instruments include board of directors, independent directors, board size, CEO, managers, efficient market, political regime, government, regulatory authority and judiciary. The independent directors, CEO, board of directors and managers can improve the value of the firm by performance of their fiduciaries. The role of the authority, government and judiciary is important to improve the value of a firm as these authorities can protect the rights of the shareholders and implement corporate governance in SACCOs (Kashif, 2008).

Some SACCOs have faced liquidation because the mechanisms and structures put in place were unethical leading to their collapse sinking with members' money. Good corporate governance practice has been suspected to be the driver of survival of SACCOs in Kakamega Municipality. The probable determinants such as board size, board of directors, CEO, managers, political regime, government, regulatory authority and judiciary will be investigated.

1.1.1. Savings and Credit Co-operative Societies in Kenya

SACCOs in Kenya are governed by two Acts of Parliament; The Cooperative Societies Act 1997, (revised 2004) and the newly enacted SACCO Societies Act 2008 which is expected to regulate the way SACCOs in Kenya operate. However their ability to address governance challenges need to be strengthened to ensure they meet the regulatory standards (Sile, 2009).

The two Acts of Parliament define SACCO business as 'financial intermediation and any other activity by a SACCO society based on cooperate principles by way of:- Receipt of withdrawable deposits, domestic money transfer services, loans, advances and credit facilities or Receipts of non-withdrawable deposits from members and

which deposits are not available for withdrawal for the duration of membership of a member in a SACCO society and may be used as collateral against borrowing and domestic money transfer services.

To ensure compliance, a legislative supplement No. 27, legal notice No. 95 in the Kenya gazette supplement No. 39, the minister for Co-operatives Development and Marketing gave out the SACCO Societies Regulations 2010 .These regulations gives in detail the functions and jurisdiction of the Sacco Societies Regulatory Authority (SASRA). They provide the recommended reporting standards and demands that all deposits taking SACCOs must be licensed. This study will employ the definition of corporate governance proposed by Monks and Minow (1995). They defined corporate governance as the relationship between shareholders, directors and management.

1.2.0 Statement of the Problem

Kenya's vision 2030 recognizes co-operatives as important players in the realisation of the national development strategy. SACCOs are therefore expected to be key in mobilisation of savings, investment of resources, wealth and employment creation, (Nyaga, 2010).

According to Mudibo, (2005), "Cooperatives have played an important role in the development of the economies of Kenya, Uganda and Tanzania and have led to the uplifting of the standards of living of the people. In Kenya there are more than 2.5 million members in savings and credit cooperatives (SACCOs) out of 5 million co-operators while there are 3,000 SACCOs out of 10,000 registered cooperatives. The savings mobilised by SACCOs in Kenya are Kshs.110 billion (US \$ 1.5 billion) and the loans outstanding Kshs.95 billion (US \$ 1.3 billion). Cooperatives have been

involved in the provision of credit for the purchase of land, farm inputs, housing, education, medication and development of various business ventures.”

The role of cooperative societies in the economy need not be overemphasized. Cooperative societies are important vehicles for economic growth and development globally. National economies have benefited from well-governed cooperatives. The converse is true. Good corporate governance in cooperatives would lead to the realization of objectives of the cooperative movement, which is creation of wealth for sustained economic growth and development. However, despite the great potential of cooperative societies as agents for national development in the country, they have performed poorly. This poor performance is attributed in a nutshell, to poor corporate governance practices by the management committees or other bodies entrusted with the responsibility of governing the cooperative societies. There is therefore need to get the cooperative sector back to sustainable prosperity, the major reason for this research.

Most SACCOs in Kenya do not have a standard way of analysing their activities, structures and policies to gauge their level of conformity to the corporate governance principles stipulated by the OECD. Although there is literature on governance issues, very little has been done to measure governance and provide objective indicators to allow monitoring of the institutions. (Richardson D, 2009, WOCCU Senior Manager). In the recent past, questions have been raised in different forums including the Kenyan tenth parliament about the affairs of the giant Harambee SACCO, (Weekly Citizen 2010, Daily Nation November, 2010) where the MPs had to debate its affairs about the Kshs.800 million money alleged to have been mismanaged by the former

management of the SACCO. Furthermore, MPs failed to find documents that could sustain this case.

Nearly every week on media, a different SACCO is usually in the limelight on issues of corruption, nepotism or embezzlement of funds. In the year 2008, Weekly Citizen brought Bandari SACCO at large condemning the management on mismanagement of SACCO funds. Sukari Sacco in Mumias district which serve Mumias Sugar Company employees has not been spared on issues of tendering, nepotism and corruption (Weekly Citizen, 2010). Bungoma Teachers SACCO in Bungoma County is on its knees over the same allegations. In Migori teachers SACCO, the former manager was arrested and arraigned in court over allegations of mismanagement.

These corporate failures and the need to make SACCOs viable destinations for investments in competitive global market are the main reasons why we should value corporate governance practices since it has an economic pay off (Sile, 2009).

1.3. Objectives of the Study

The main objective is to examine the corporate governance practices by SACCOs in Kakamega Municipality.

The following are the specific objectives that the research will deal with:

- i. To examine the means used in the implementation of corporate governance practices by SACCOs in Kakamega Municipality.
- ii. To examine the activities of the board of directors and their influence on the corporate governance practice in SACCOs in Kakamega Municipality.
- iii. To investigate the role of management in the implementation of corporate governance practices by SACCOs in Kakamega Municipality.

1.4. Significance of the study.

By pointing out the best practices in corporate governance, this study will provide guidance in the SACCO family, the board of directors, the shareholders and all other stakeholders on matters of management and maximization of shareholders wealth.

SACCOs in Kenya operate in an environment surrounded by communities who depend on them for jobs and tax revenues, customers for quality products and services. All stakeholders have interest in the well-being of their corporation /society. The organisations also operate in environment which is characterised by political interests, market existence, culture values, technology, and authorities (Agumba, 2008).

The benefits that come alongside good corporate governance practices are enormous: strategic thinking and strategy setting; balance of power and control; efficiency and effectiveness; transparency and probity, productivity and responsiveness; responsibility and receptiveness; creativity and innovativeness, competitiveness and sustainability cannot allow the shareholders sit and watch SACCOs collapse (Mudibo 2005). This study will reinforce the importance of accruing these benefits through good corporate governance practices.

The added knowledge will be beneficial to the board of directors since it will enhance their full understanding of the operations of the co-operative movement.

The study will also have a significant practical importance because its results will support the application of appropriate regulatory, financial and corporate governance policies in SACCOs. Finance is important for economic development, and sound financial management through good corporate governance can make a substantial

contribution to economic development in these SACCOs. The performance of a firm will be improved by using the recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

In this chapter, the corporate governance literature will be discussed with a particular focus on the origin and definition of corporate governance, the board of directors, the legal and regulatory framework, succession planning and finally empirical studies focusing on SACCOs in Kenya.

The intellectual debate in corporate governance has focused on two very different issues. The first concerns whether corporate governance should focus exclusively on protecting the interests of equity claimants in the corporations or whether corporate governance should instead expand its focus to deal with problems of other groups called 'stakeholders' or non shareholder constituents (Macey and Hara , 2003).

2.2. The origin and definition of corporate governance

The problem of corporate governance is rooted in the Berle and Means (1932) paradigm of the separation of shareholders' ownership and managements' control in the modern corporations. The consequence of this separation was ownership dispersion which could mean that the owners of a corporation had difficulties in monitoring and disciplining managers. Jensen and Meckling (1976) state that the separation of ownership and management created opportunities for managers to behave in their own interests because the owners of a company were unable to properly monitor management.

Zingales (1998) expresses the view that 'allocation of ownership, capital structure, managerial incentive schemes , takeovers, board of directors, pressure from

institutional investors , product market competition , labour market competition, organizational structures, etc, can all be thought of as institutions that affect the process through which quasi-rents are distributed (p4)'. He therefore defines 'corporate governance as the complex set of constraints that shape the ex-post bargaining over the quasi-rents generated by a firm. (p4)'

There are several basic reasons for the growing interest in corporate governance. In the first place, the efficiency of prevailing governance mechanisms has been questioned (Miller and Porter, 1997). Secondly , this debate has intensified following reports about spectacular , high profile financial scandals and business allegations , media allegations of excessive executive pay (Byrne, Grover and Vogel, 1989), the adoption of anti -takeover devices by managers of publicly owned companies and more recently, a number of high visibility accounting frauds allegedly perpetrated by managers (Enron and WorldCom). The commonwealth Association of Corporate Governance in its publication CACG Guidelines –Principles for corporate governance in Commonwealth states: "The globalization of the market place within its contest has ushered in an era where the traditional dimensions of corporate governance defined within local laws, regulations and national priorities are becoming increasingly challenged by circumstances and events having an international impact."

2.3. Board of Directors

Every corporation is required by law to have a board of directors. Its legal function is to govern the affairs of the corporation (Anderson and Anthony, 1992).

Board of directors is the agent of the owner and their principal task is to monitor management's performance. Board members also have a market value and through their performance, they put their human capital at risk. However the problem with

boards in practice is that directors can negotiate with management in ways that do not align with the interests of owners (Gonz and Garay, 2003).

Fama and Jensen (1983) characterize the responsibility of the board of directors as being both the ratification of management decisions and the monitoring of management's performance.

The relationship which directors of co-operatives have with their members is a very different one from that of a board with its shareholders. As a result, co-operative leaders have a full understanding and knowledge of the operations of the co-operative movement (Agumba, 2008). Board of directors should sign a code of conduct to ensure personal integrity. This will avoid potential conflicts of interests, nepotism and other unethical practices. A strong sense of integrity is expected from board members and senior staff for them to work in the best interest of the society and its members (Sile, 2009). The success of board of directors depends on the composition, structure, resources, diligence and authority of the participants of corporate governance including management, external auditors, internal auditors, legal counsel, professional advisors, regulators, standard setting bodies and investors (Murphy and Zimmerman, 1993).

2.3.1. Board activities: Roles and responsibilities

Vafeas (1999) investigated on how the frequency of board meetings affects board composition and performance. He found out that board activities increased with board size, number of positions held by outside directors and number of committees. Vafeas also found out that board activities is increasing with inside ownership and positive past performance.

Board of directors has varied roles and responsibilities. They are entrusted with the following: (Murphy and Zimmerman, 1993) represent shareholders and create shareholders value; align the interest of management with those of shareholders while protecting the interest of other stakeholders (customers, creditors, suppliers); define the companies mission and goals; appoint senior executives to manage the company in accordance with the established strategies, plans , policies and procedures; develop and approve executive compensation, pension, post-retirement benefits plan; review financial reports, including audited annual financial statements and other important financial disclosures; review management reports on the effectiveness of internal control over financial reporting ; ensure the company's compliance with applicable laws , rules and regulations ; approve the company's major operating , investing and financial activities ; evaluate the performance of the board , its committees (e.g. audit, compensation) and the members of each committee ; hold the board, its members and its directors accountable for the fulfillment of the assigned fiduciary duties and oversight functions ; approve dividends , financing , capital changes and other extraordinary corporative matters. Finally, the board of directors has to oversee the sustainability of the company in creating long term shareholder value and protecting interest of other stakeholders.

2.3.2. Board Models

Most of the literature presents three types of board models: One Tier Board Model (Anglo-African model) which consists of both inside (executive) and outside (non executive) directors. Inside directors are perceived as the decision managers and outside managers are assumed to have the power and duty to monitor those decisions.

Two-Tier Board Model consists of a supervisory board and a management board, better known as the German board model, which establishes different authorities and

responsibilities for members of each board. The modern board model has its structure based on the two components of strategic board and oversight board and it is the natural offshoot of the emerging corporate governance reforms (Murphy and Zimmerman, 1993).

The Anglo-African Model takes the view that the exclusive focus of corporate governance should be to maximize shareholders value, to the extent that shareholders wealth maximization conflicts with the interests of other corporate constituencies, those other interests ignored, unless management is legally required to take those other interests into account. The Franco-German approach to corporate governance by contrast, considers corporations to be "industrial partnerships" in which the interests of long time stakeholders – particularly banks and employee groups – should be accorded at least the same amount of respect as those of shareholders. (Macey and O'Hara, 2003).

Allen and Zhao (2007) observes that in the U.S and U.K corporate governance is concerned with the narrow goal of ensuring that firms maximize the wealth of shareholders while in Japan and some other countries, firms are concerned with a broader group of stakeholders including employees , suppliers, customers and other stakeholders as well as shareholders. Further, the two observed that if markets and institutions are well developed and competitive, Anglo-American corporate governance ensures an efficient allocation of resources. In other circumstances focusing on a wider range of stakeholders as the Japanese do can be more efficient. The Kenyan cooperative sector has embraced the Franco-German model. They have two boards; management and supervisory board.

2.3.4. Board committees

Board committees normally function independently from each other, they are provided with sufficient resources and authority and are evaluated by the board of directors (Smith,1996). Board committees are a subset of the board and perform specific functions that assist the board in discharging its advisory and oversight responsibilities.

Researchers on agency theory have recommended the creation of compensation and appointment committees, audit committees and shareholder relation committee that would protect shareholders rights (Demisetz and Lehn, 1985).

According to smith (1996), public companies usually have the following committees: Audit committees; compensation committee; Governance committee; Nominating Committee; Disclosure committee and other standing or special committees.

Lawmakers (Sox), Regulators (SEC Rules) and listing standards of national stock exchanges generally require public corporation to have an audit committee, which must be composed of independent directors with no personal, financial or family ties to management.

2.3.5. Board diversity

The link between diversity and corporate governance is a relatively new one (Fields and Keys, 2003). Within corporate governance, the concept of diversity relates to board composition and the varied combination of attributes, characteristics and expertise contributed by decision making. (Ayuso, et al, 2007).

On corporate boards, the various types of diversity that may be represented among directors include age, gender, ethnicity, culture, religion, constituency representation,

professional background, knowledge, technical skills and expertise, commercial and industry experience and career and life experience (Milliken and Martins, 1996).

2.4. Legal and Regulatory framework

Song –Woo and Chong (2004) in their paper ‘Corporate governance in Asia’ observes that ‘There is no consensus as to what caused the economic crisis that swept through Indonesia, republic of Korea, and Thailand in 1997 and 1998. However it seems obvious that poor corporate governance was one of the culprits .There are several factors behind the poor corporate governance but the most important factor is the failure of these countries in establishing appropriate ‘rules of the game’ for managing corporations that were built up with the money provided by a multiple number of investors.’”

After a slew of scandals, most of them centered in the US, Politicians and regulators, executives and shareholders are all preaching the governance gospel. US lawmakers have reacted most vigorously, passing a tough new corporate reform bill that establishes an oversight board for auditors of public companies and criminalizes securities fraud (The economist Intelligent Unit Ltd, 2002). One investment analysts comments that ‘working on something must be done principle , the temptation of regulators is to come up with a new stricter set of rules that wont be understood and indeed may even obfuscate things and fail to win respect.’

“Another external factor that can influence corporate governance is the legal environment. This may manifest itself in several ways. One is in the form of legislation that directly affect the efficiency or the cost of one or more monitoring devices.” (Farihna,2003). According to Chakrabarti (2002), the legal system plays a

crucial role in creating an effective corporate governance mechanism in a country and protecting the rights of investors and creditors. The legal environment encompasses two important aspects – the protection offered in the laws (de jure protection) and to what extent the laws are enforced in real life (de facto protection). Both these aspects play important roles in determining the nature of corporate governance in the country in question.

2.5. Succession Planning

Succession planning for the CEO and management is a critical issue for many organizations. It is the process of transferring managerial control to another board or CEO.

In the corporate world, it is important that the succession plan receives visible support from the CEO and top management (Eastman, 1995). Visible support and commitment of the CEO and top management are cited as cardinal elements of succession planning and some experts have suggested that without support and involvement from the top of the organization, even ‘the best succession plans are doomed for failure (Clark and Lyness, 1991).

Mahler and Drotter (1986) concluded that a major requirement for succession planning is a top management action; top management must make a commitment to and actively participate in the succession planning process. Buckner and Slavenski (1994) suggest that the corporate succession can only be designed after ‘profiling the organization and evaluating a number of issues.’ The succession plan must be flexible and linked with a strategic plan. It should also be based upon well developed competencies and objective assessment of candidates (Eastman, 1995). Therefore, succession planning involves clearly defining the requirements and requisite

competencies for key positions and then identifying which employees could be developed to fill the positions in the future. To ensure that this is a fair and effective process, decisions should be based on a systematic analysis of: (1) job requirements (both current and projected) of upper – level positions; and (2) the current performance levels and potential of individual employees (Rothwell, 1994).

The organization's culture, life cycle stage, technology, degree of risk associated with decision making and the type of feedback cycle should be considered. The assessment of executive/ organization match should involve comparing each potential executive skills and competencies profile with the organizations requirements in terms of tasks, roles, culture, risk, feedback and technology. These are factors that many search committees focus on instinctively but it would no doubt be beneficial to emphasize this function of search committees (Marchese, 1989).

2.6. Empirical Review / Studies

Corporate governance practices in Kenyan Companies have at the macro level been discussed by researchers and international institutions including World Bank, International Co-operative Alliance and Canadian Cooperative Association. At the micro firm level, private sector for corporate governance has come up with a sample code of best practice for corporate governance. The centre for corporate governance has also researched on the best guidelines for SACCOs when it comes to corporate governance.

Agumba (2008) in his paper 'effectiveness of the Sacco governance model, examined the responsibility of all the stakeholders in the governance process and why there was a growing interest in the Sacco governance. He found out that the community needed

to re-assure itself that: cooperative business enterprises are viable, sustainable and competitive; cooperatives comply with legal framework and remain relevant and legitimate in society. Members want to reassure themselves that: the cooperative business enterprise operates in a transparent manner; member's rights, fairness and equitable treatment of all investors; there is corporate leadership for efficiency and probity and finally, SACCOs are responsible, responsive, accountable, transparent, competitive and sustainable. The directors are interested in SACCO governance because : their roles are becoming increasingly professional and much more demanding ; they need to clearly understand their roles , duties , responsibilities and liabilities within the cooperative movement and finally they need to have adequate knowledge of the business they direct, as well as good cooperative governance principles.

Chambo et al (2010) examined the socio-economic impact on cooperatives in Africa and observed that the implementation of policies and legislation in Kenya was very poor, although the contributions of co-operatives in poverty alleviation, employment creation and HIV and Aids management were recommendable. On emerging issues, they noted that 'SACCOs are playing a significant role in the provision of financial services to a larger population than is serviced by the formal financial services sector. The lack of an effective regulatory framework for these SACCOs as they attract larger deposits from public continues to be a serious concern.

The government of Kenya has been instrumental in this area of corporate governance in SACCOs. It has played a key role in the promotion of co-operatives since independence. The aim of the government is to see that co-operatives grow rapidly to embrace a large section of the economy and provide opportunity for the citizenry to

participate in economic activities of the new nation (Chambo et al 2010). Co-operative policies were instituted to promote the development of co-operatives. The sessional paper no. 6 of 1997 entitled co-operatives in a liberalized economic environment provides the policy framework for co-operatives in Kenya. The document was developed to set the structural framework for the co-operative movement and the mode of co-operative liberalization in accordance with structural adjustments at the moment. It addresses key areas such as the role of the government in co-operative development and management within a liberalized environment; co-operative banking and finance, sectorial dimensions of co-operatives, co-operative education and training, and leadership development and management in co-operative organization.

The Co-operative Societies Act of 2004 provides the legislature and regulatory framework. The legislation for co-operatives which was first put in place through Co-operative Societies Act of 1966, has gone through a number of amendments. The Co-operative Societies Act No 12 of 1997 greatly reduced the role of government and increased the freedom and responsibility of the co-operative members. In 2008 the Sacco Societies Act was enacted in recognition that the co-operative society Act of 2004 was not adequately addressing the issue of SACCOs. The requirements of this Act will ensure that SACCOs are run in a transparent and prudent manner. It advocates for good governance and financial management. The Sacco Societies Act 2008 requires SACCOs to first set aside reserves before distributing annual profits to its members. This Act seeks to address the future sustainability of SACCOs.

The Co-operative Alliance of Kenya (CAK) is the apex body of co-operatives in Kenya. In addition we have other national bodies like Kenya Rural SACCOs Societies Union (KERUSSU), Co-operative Bank, and National Housing Co-operative Union (NACHU), Cooperative Insurance Company of Kenya (CIC) and Kenya Union of Savings and Credit Co-operative (KUSCCO). These national co-operative organizations play a vital role in giving shape and national character to the movement. The Co-operative College of Kenya majorly develops the human resource capacity for the co-operative movement.

2.7. Theoretical Framework

The theoretical framework upon which this research will be based on is the agency theory, which posits that in the presence of information asymmetry, the agent (in this case directors and managers) is likely to pursue interests that may hurt the principal or shareholders (Ross, 1973). At first the theory was applied to the relationship between managers and equity holders with no explicit recognition of other parties interested in the well being of the firm. The subsequent research efforts widened the scope to include all other stakeholders including employees, creditors, government etc. This approach which attempts to align the interests of managers and all stakeholders has come to be regarded as the stakeholder theory. The stakeholder theory has been a subject of some investigation; John and Senbet (1998) provide a comprehensive review of corporate governance with a particular focus on the stakeholder theory. These authors define corporate governance as that which deals with mechanisms by which stakeholders of a corporation exercise control over corporate insiders and management such that their interests are protected (p372). They include as stakeholders not just shareholder but also debt holders and even non-financial stakeholders such as employees, suppliers, customers and other interested parties.

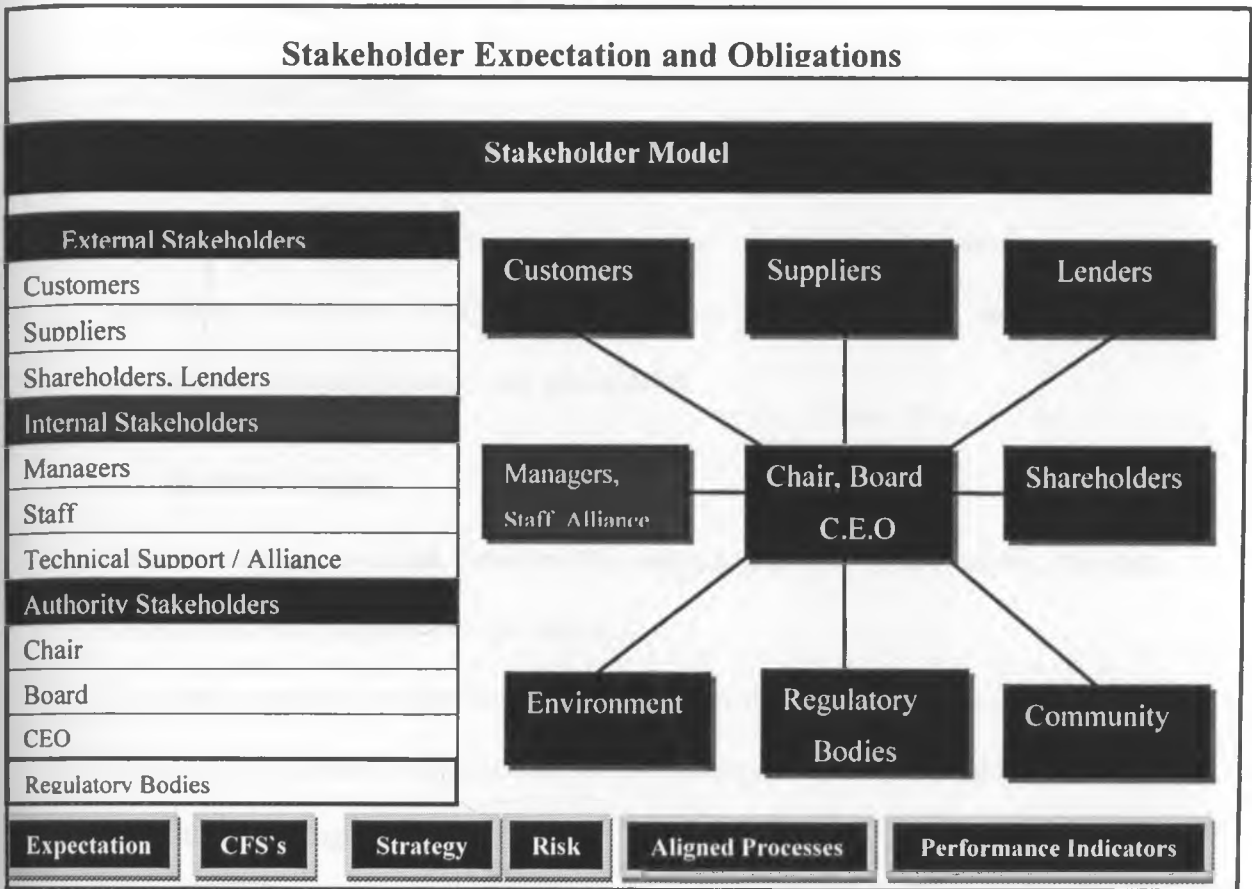
They also emphasize the role of non-market mechanisms, citing as an example the need to determine an optimal size of the board of directors. Other non-market mechanisms reviewed by John and Senbet include ; the need to design a committee structure in a way that allows the setting up of specialized committees with different membership on separate critical areas of operations of the firm.

The second theory is the resource dependency theory which will be employed in the examination of board size and board activity mechanisms. Hillman and Dalziel (2003) asserts that board of directors serves two important functions: monitoring management on behalf of shareholders (agency theory) and provide resources (dependency theory).

Shleifer and Vishny (1997) states that corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment.

Hart (1995) suggest that corporate governance issue arise in an organization whenever two conditions are present. First there is an agency problem or conflict of interest involving members of the organization. This might be owners, managers, workers or consumers. Second, transaction costs are such that this agency problem cannot be dealt with through a contract.

The relationship among different stakeholders has been expressed in the figure below;



Source: Journal of Corporate Governance; Manual on corporate Governance of Model corporation.

Figure 1: Stakeholder relationship.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0. INTRODUCTION

This chapter presents discussion of the research methodology that was employed to address the research objectives. It comprises of the research design, targeted population, study area, sampling frame, source and type of data, data collection instruments, data analysis and data presentation.

3.1. Research Design

Research design is a link between the research question of the survey, the data collected and the conclusion to be drawn.

The study applied a descriptive research design. A descriptive study is undertaken in order to ascertain and be able to describe the characteristics of the variables of interest in a situation (Muganda 2010).

3.2. Population of the study

Kakamega Municipality is situated in Kakamega County. This is on longitude 34 - 45 E and latitude 00 - 16 W. It is bordered by Mumias District on the West, Nandi on the East, Bungoma on the North and Vihiga on the South.

Most residents in Kakamega Municipality depend on small scale business and entrepreneurial skills such as bodaboda to earn income. The presence of Masinde Muliro University of Science and Technology has impacted positively on the economy of this region which has in turn evolved a consistent culture of saving among SACCO members.

According to the Ministry of Co-operative Development and Marketing, Kakamega Municipality has thirteen SACCOs out of which twelve are active. (Appendix 2.)

The study population comprised the thirteen SACCOs in Kakamega Municipality.

3.3. Sampling Procedure

The study being census employed purposive and convenient sampling techniques. The target was the CEO's and Board Chairmen of the twelve active SACCOs in Kakamega Municipality.

The twelve members one from each SACCO were conveniently sampled. That is the member who was seeking the services of the CEO at the time of administering the questionnaire.

3.4. Data collection

In carrying out this research, the researcher employed the use of both primary and secondary data. Kombo and Delno (2006) described primary data as information gathered directly from respondents while Gupta (2004) defines secondary data as that which has already been collected by others and is contained in journals reports, government publications and research organizations.

The secondary data was obtained from documentary sources and archival records. The primary data was gathered by the use of a questionnaire which contained closed ended questions structured on a five point likert scale. The secondary data was obtained from audited financial statements (2007-2010), by-laws, policies, strategic plan, business plan and code of ethics of the respective SACCO societies. Primary data was obtained from the specified sample through a questionnaire.

3.5. Data Analysis

Data collected was both quantitative and qualitative. Data analysis was conducted using descriptive statistics, which includes measures of central tendency, measures of variability and measures of frequency among others. According to Mugenda and Mugenda (1999) descriptive statistics enable meaningful description of a distribution of scores or measurements using a few indices or statistics. Measures of central tendency gave us the expected score or measure from a group of scores in a study. Frequency distribution showed a record of the number of times a score or record appears.

Qualitative data was analyzed using content analysis. Content analysis is a measure through proportion and is used to measure the pervasiveness of an item being analyzed (Kothari, 2004). This helped in comparing data which are not in a quantitative form. This analysis ensured that all objectives in the study are well catered for. Analyzed data has been presented in form tables, charts and graphs.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.0 Introduction

This chapter presents the results and discussion of the study. The data was collected from three respondents from each of the twelve active SACCOs in Kakamega Municipality

4.1 Results of the study

4.1.1 Corporate Leadership

4.1.1.1 Composition and tenure of the board

Among the twelve chairmen who filled the questionnaires, they had served in the respective SACCO boards for a period ranging from six months to eight years..

The SACCOs have two boards namely; supervisory board and the management boards .The supervisory board comprises of three members while management board has nine members. Out of the twelve SACCOs, only two SACCOs have women sitting on the board. KATECO has one woman in their supervisory board while KMC has two women in the management board.

Most SACCOs have sub committees within their boards. Most cited ones include fosa committee, investment committee, Education committee and finally credit committee.

The audit committee was only was only mentioned by two SACCOs.

4.1.1.2 Board work plan

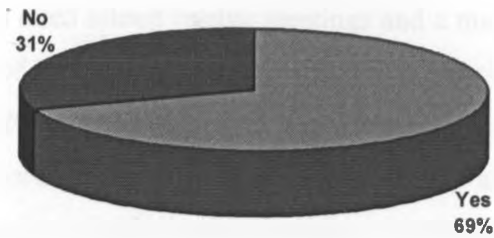


Figure 2: Percentage of Saccos that have board work plan and those that don't have.

The study revealed that 25(69%) of the respondents acknowledge the existence of a board work plan for their Saccos.

4.1.1.3 Board charter

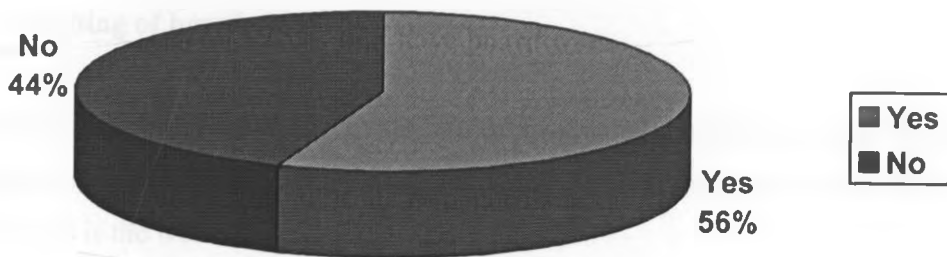


Figure 3: Board Charter Statistics.

The responses received showed that 20 (56%) are aware of the existence of a board charter.

4.1.1.4 Board meetings

Most respondents cited at least twelve meetings and a maximum of fifteen in the year 2010. 16 (44%) of the respondents agree that it is the chairman who calls for board meetings while 20 (56%) think it is the work of the secretary to call for board meetings. The board papers as indicated in this study are sent less than two weeks before the meeting. 29 (80.5%) said no while 7 (19.5%) acknowledged the receipt of board papers at least two weeks before the boards meetings.

4.1.1.5 Agenda for board meetings

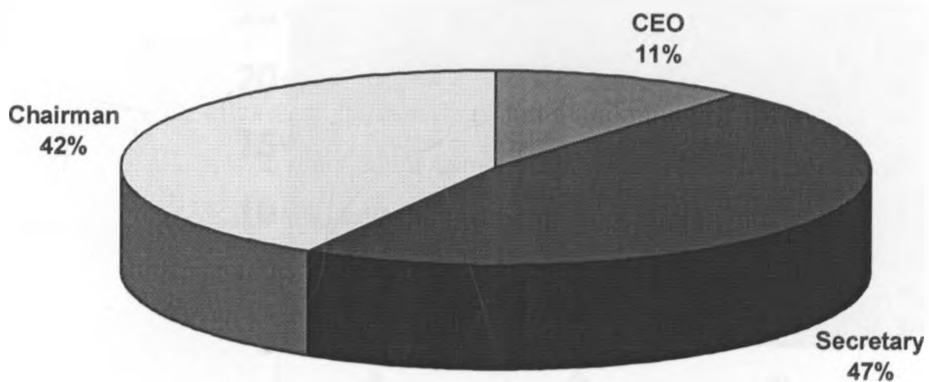


Figure 4: Setting of board meeting agenda

The study indicates that 17 (47%) of the respondents think that the secretary to the board sets the agenda of the meeting, 15 (42%) think it is the chairman while 4 (11%) think that this is the work of the CEO.

4.1.1.6 Common content of the board meetings

The commonly cited contents were; financial allocations, the review of internal controls and the financial reports. Further more, according to the responses received, 31 (86%) of the respondents indicated that most of the board meetings are interactive

and they take atleast 2 – 4 hours, while 5 (14 %) of the respondents indicated that the meetings are never interactive hence a maximum of one hour is taken by board members . Responses on the nature of decisions made during the board meeting indicates that 21 (58%) agreed that board meetings are usually swayed towards strategic issues, 12 (33 %) said that it was a forum for rubberstamping what has been done while 3 (9%) said that both strategic issues and mere rubberstamping applied.

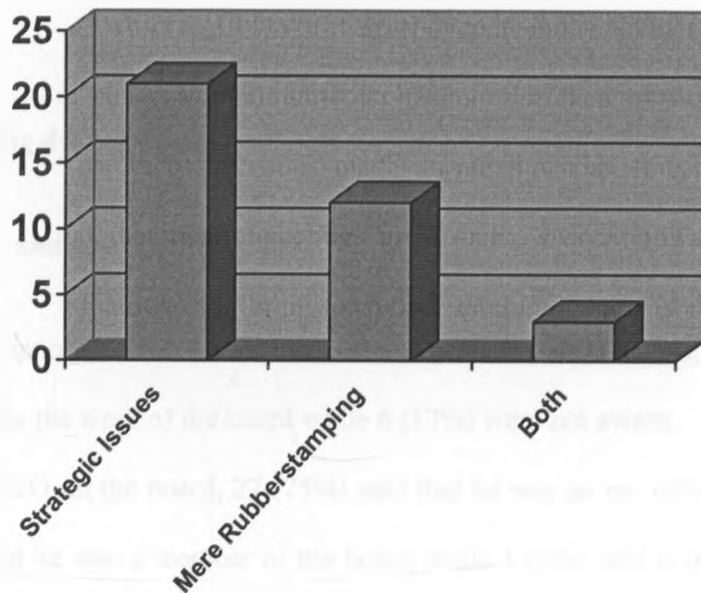


Figure 5: Board meeting decisions.

The respondents also indicated that sometimes decisions are made through consensus 6 (17%) , 22 (61%) suggested that decisions were made through voting while 8 (22%) said both consensus and voting were used.

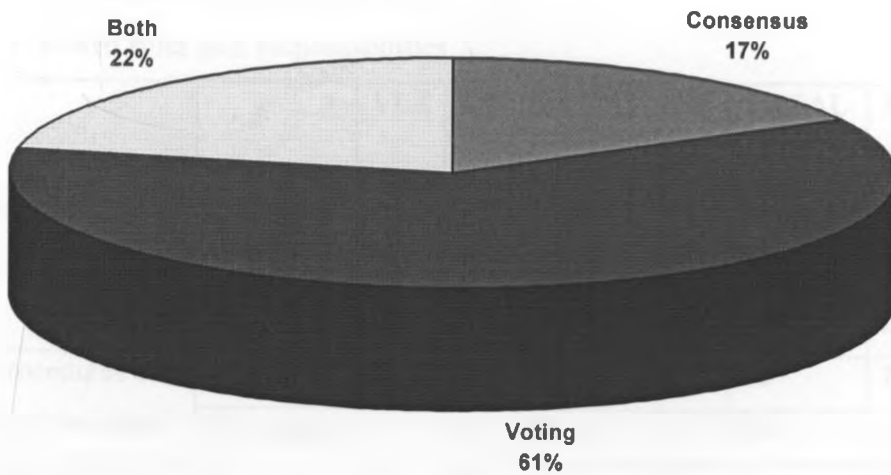


Figure 6: Decision making during board meetings

4.1.1.7 The appointment and status of the CEO

The question about who appoints the CEO was answered by all the respondents, 30 (83%) suggested that it was the work of the board while 6 (17%) were not aware.

As per the status of the CEO on the board, 27 (75%) said that he was an ex- official member, 8 (22%) said that he was a member of the board while 1 (3%) said that he was not a member of the board.

4.1.1.8 Board roles and responsibilities

Table 1: Board roles and responsibilities

		VLE	LE	ME	SE	NE	TOTAL	Mean% & Frequency
Understanding roles of the board by the board members	Frequency	5	16	9	2	4	36	7
	Percentage	14	44	25	6	11	100	20
Clarity of procedures of appointment of the board	Frequency	9	18	5	1	3	36	7
	Percentage	25	50	14	3	8	100	20
Clarity of procedures of appointment of the C.E.O	Frequency	13	13	4	0	6	36	9
	Percentage	36	36	11	0	17	100	25
Effectiveness of planning at the board level	Frequency	16	16	1	1	2	36	7
	Percentage	44	44	3	3	6	100	20
Presence of conflict of interest	Frequency	6	4	4	13	9	36	7
	Percentage	17	11	11	36	25	100	20
Effectiveness of board evaluation	Frequency	1	7	18	5	5	36	7
	Percentage	3	19	50	14	14	100	20
Independence of the board	Frequency	4	13	9	7	3	36	7
	Percentage	11	36	25	19	8	100	20
Separation of the role of the board chair & C.E.O	Frequency	9	17	4	2	4	36	7
	Percentage	25	47	11	6	11	100	20
Effectiveness of risk management at the board	Frequency	2	19	7	3	5	36	7
	Percentage	6	53	19	8	14	100	20
Clarity & availability of board minutes	Frequency	21	7	4	1	3	36	7
	Percentage	58	19	11	4	8	100	20
Boards adherence to ethics & governance guidelines	Frequency	14	11	6	2	3	36	7
	Percentage	38	31	17	6	8	100	20

Key: VLE =Very Large Extent, LE=Large Extent, ME=Moderate Extent, SE=Small Extent, NE=No Extent.

Source: Field data 2011. Total cases 36.

As shown in table 1, respondents had to rate roles and responsibilities of the board of the respective SACCOs . On understanding the roles of the Board by board members 5 (14%) agreed to a very large extent, 16 (44%) Large extent, 9 (25%) Moderate extent, 2 (6%) small extent and 4 (11%) No extent. The mean percentage of agreement was twenty.

Regarding the clarity of procedures of appointing the board, 9 (25%) agreed to a very large extent , 18 (50%) large extent , 5 (14%) Moderate Extent, 1 (3%) Small Extent and 3 (8%) No extent . Mean percentage was 20 implying that the respondents agree to a large extent that there is some clarity regarding the board appointment.

On clarity of procedures of appointing CEO, 13 (36%) said the procedures were clear to a very large extent, 13 (36%) Large Extent, 4 (11%) Moderate Extent and 6 (17%) No extent.

Effectiveness of planning at the board level was rated 44% both as very large extent and large extent. This means that the planning aspect was being taken seriously by most boards.

Conflict of interest was evident. 6(17%) agreed to a very large extent, 4 (11%) for both Large Extent and moderate extent, 13 (36%) indicated small extent while 9 (25%) said no extent. This means that most boards are avoiding issues that might lead to conflict of interest. Board evaluation and its effectiveness scored the highest frequency on moderate extent 18 (50%).This simply means that the procedure of evaluating the board are not very clear in most of the SACCOs surveyed .

Independence of the board rating showed that 4 (11%) agreed to a very large extent, 13 (36%) Large Extent, 9 (25%) Moderate Extent, 7 (19%) small Extent and 3 (8%) No Extent. The mean percentage was 20. This means that atleast there is some independence on decisions made by various boards.

The role of the chair and that of the CEO seemed to be clear to most SACCOs. 9 (25%) agreed to this to a very large extent, 17 (47%) Large extent, 4 (11%) Moderate Extent, 2.(6%) Small Extent and 4 (11%) No Extent. The effectiveness of managing risks at the board level scored 2(6%) to a very large extent, 19 (53%) large extent, 7 (19%) moderate extent, 3 (8%) small extent and 5 (14%) No extent. This implies that at least 53% of the SACCOs are endeavoring to manage risks at board level.

While 21 (58%) of respondents agreed to a very large extent concerning the clarity and availability of board minutes , 7 (19%) agreed to a large extent , 4 (11%) moderate extent , 1 (4%) small extent , 3 (8%) no extent.

When rating the boards adherence to the code of ethics and governance guidelines, 14 (38%) agreed to a very large extent, 11 (31%) agreed to a large extent, 6 (17%) moderate extent, 2 (6%) small extent and finally 3(8%) said no extent . The mean percentage was 20. This implies that a total of (69%) agreed that the board adhered to the code of ethics.

4.1.2 Accountability of the board

4.1.2.1 Monitoring and Reviewing of policies and procedures

Table 2: The monitoring aspect of the board

		VLE	LE	ME	SE	NE	TOTAL	Mean% & Frequency
Review, monitor & approves SACCO finances & strategy	Frequency	11	19	1	2	3	36	7
	Percentage	31	53	3	6	8	100	20
Review, monitor & approves the SACCO structure	Frequency	14	7	6	2	7	36	7
	Percentage	39	19	17	6	19	100	20
Maintain all round understanding of SACCO activities	Frequency	3	18	2	10	3	36	9
	Percentage	8	50	6	28	8	100	25
Contribute on major arising issues	Frequency	17	7	3	5	4	36	7
	Percentage	47	19	8	14	11	100	20
Monitor & review SACCO performance	Frequency	15	12	3	4	2	36	7
	Percentage	42	33	8	11	6	100	20
Monitor & review performance of CEO	Frequency	14	6	4	2	10	36	7
	Percentage	39	17	11	6	28	100	20
Participate effectively in discharging roles of board committees	Frequency	16	9	4	2	5	36	7
	Percentage	44	25	11	6	14	100	20
Lead in resolving conflicts as they arise	Frequency	14	10	4	4	4	36	7
	Percentage	39	28	11	11	11	100	20
Identify & initiate changes appropriately	Frequency	12	8	9	0	7	36	9
	Percentage	33	22	25	0	19	100	25

Key: VLE =Very Large Extent, LE=Large Extent, ME=Moderate Extent, SE=Small Extent, NE=No Extent

Source: Field data 2011. Total cases 36

The study sought to obtain the extent to which the board of directors review and monitor some of the critical policies and procedure of the SACCO s. When looking at the SACCO finances and strategy, 11(3%) agreed to a very large extent that the review takes place, 19 (53%) large extent and on the extreme 3 (8%) said that the procedures were never reviewed. The results also indicated that the SACCO structure was regularly monitored , reviewed and approved as 14 (39%) agreed to a very large extent, 7 (19%) large extent , 6 (17%) moderate extent , 2 (6%) small extent and 7 (19%) No extent. The respondents were also asked to rate whether the board maintained an all round understanding of SACCO activities 18 (50%) of the respondents indicated that this applied to a large extent while 3(8%) indicated no extent. The mean percentage was 20.The general trend shows that 17 (47%) indicated that to a very large extent the board contribute on major issues, 15 (42%) of the respondents agreed to a very large extent that the board monitors and reviews SACCO performance. The performance of the CEO was being reviewed and monitored by the board to a very large extent by 14 (39%) while 10 (28%) it did not apply. The results also indicate 16(44%) of the respondents agreeing to a very large extent that the board effectively participate in the discharging of their roles in board committees while 9 (25%) agreed to a large extent. On the resolution of conflicts as they arise, 14 (39%) agreed to a very large extent, 10(28%) large extent , then 4 (11%) each for moderate extent small extent and extent.

12 (33%) of the respondents agreed to a very large extent that the board can identify and initiate changes appropriately, 8 (22%) large extent 9(25%) moderate extent, while 7 (19%) No extent. Mean percentage was 25. This means that most respondents agreed to a large extent that the board is accountable.

4.1.2.2. Quality of stand alone reports

Table 3: Quality of reports

		E	G	M	P	V	TOTAL	Mean% & Frequency
				E		P		
Board papers	Frequency	1	16	7	3	9	36	7
	Percentage	3	44	19	8	25	100	20
Board minutes	Frequency	11	23	0	0	2	36	7
	Percentage	31	64	0	0	6	100	33
Board's work plan	Frequency	2	21	8	3	2	36	7
	Percentage	6	58	22	8	6	100	20
Board's charter	Frequency	2	13	2	0	19	36	9
	Percentage	6	35	6	0	53	100	25
The sacco's financial reports	Frequency	11	16	6	0	3	36	9
	Percentage	31	44	17	0	8	100	25
The Sacco's ICT reports	Frequency	9	11	5	1	10	36	7
	Percentage	25	31	14	2	28	100	20
Sacco's research and development reports	Frequency	1	7	14	0	14	36	9
	Percentage	3	19	39	0	39	100	25
The Sacco's procurement reports	Frequency	2	12	10	3	9	36	7
	Percentage	6	33	28	8	25	100	20
Social Responsibility reports	Frequency	3	7	12	5	9	36	7
	Percentage	8	19	25	14	25	100	20
Corporate communications report	Frequency	5	10	10	3	8	36	100
	Percentage	14	28	28	8	22	100	20
Board evaluations reports	Frequency	5	7	14	1	9	36	7
	Percentage	14	19	39	3	25	100	20
Risk management reports	Frequency	2	8	12	2	12	36	7
	Percentage	6	22	33	6	33	100	20

Key: E= Excellent , G= Good , M= Moderate, P= Poor, VP = Very Poor

Source: Field data 2011. Total cases 36.

Board papers were examined 16 (44%) of respondents indicated that they were good, 7 (19%) Moderate, 3 (8%) poor, 9 (25%) very poor. Mean percentage was 20, an indication that the board papers were atleast moderate. The board minutes scored 11 (31%) excellent, 23 (64%) and 2 (6%) very poor. Mean percentage was 33. The boards work plan received 21 (58%) good, 2 (6%) excellent, 8 (22%) Moderate, 3 (8%) poor and 2 (6%) very poor. The mean percentage was 20. Most SACCOs did not have a board charter. 19(53%) of the respondents rated this report as very poor. The SACCO financial reports scored high on the first 3 scales. 11 (31%) excellent, 16(44%) good, and 6(17%) moderate. The SACCOs ICT reports received the following rating 9(25%) excellent, 11 (31%) good, 5 (14%) moderate, while 10 (28%) very poor.14 (39%) of the respondents indicated that the SACCOs research and development reports were very poor , 14 (39%) rated them as moderate , 7 (19%) good and 1(3%) excellent. This means that SACCOs rarely carry out research and development. The SACCOs procurement report received a rating of 2 (6%) excellent 12 (33%) good, 10 (28%) moderate, 3 (8%) poor and 9 (25%) very poor.

The mean percentage was 20. This implies that atleast you can access and read something on SACCOs procurement proceedings. The social responsibility reports and corporate communication reports had the highest frequencies and percentages appearing at good and moderate. Board evaluation reports was rated as follows 5 (14%) excellent, 7 (19%) good, 14 (39%) Moderate, 1(3%) poor and 9(25%) very poor. 12(33%) of the respondents indicated that the quality of risk management reports was very poor. 2 (6%) poor, 12 (33%) moderate, 8(22%) good and finally, 2 (6%) was excellent.

4.1.3 Measures of control

4.1.3.1 Policies or operation manuals

Table 4: Availability of policies or operation manuals

Policies/Operational Manual	Frequency	Percentage
Yes	24	67
No	12	33
Total	36	100

Source : Field data 2011. Total cases 36.

4.1.3.2 Clarity and adequacy of policies.

Table 5: Policies or operation manuals

		VLE	LE	ME	SE	NE	TOTAL	Mean% & Frequency
Board recruitment Policy	Frequency	6	3	13	2	0	24	6
	Percentage	25	13	54	8	0	100	25
Board compensation policy	Frequency	5	7	5	5	2	24	4.8
	Percentage	21	29	21	21	8	100	20
General human resource policy	Frequency	2	10	10	1	1	24	4.8
	Percentage	8	42	42	4	4	100	20
Finance policy	Frequency	7	12	5	0	0	24	8
	Percentage	29	50	21	0	0	100	33.3
Procurement policy	Frequency	3	5	10	2	4	24	4.8
	Percentage	13	21	41	8	17	100	20
Research and development policy	Frequency	1	10	7	3	3	24	4.8
	Percentage	4	41	29	13	13	100	20
Information Technology policy	Frequency	5	10	1	8	0	24	6
	Percentage	21	42	4	33	0	100	25
Corporate social responsibility policy	Frequency	3	9	7	3	2	24	4.8
	Percentage	13	37	29	13	8	100	20
Corporate communications policy	Frequency	4	10	3	3	4	24	4.8
	Percentage	17	40	13	13	17	100	25
Directors liability	Frequency	2	3	16	2	1	24	4.8
	Percentage	8	13	67	8	4	100	20

Key: VLE =Very Large Extent, LE=Large Extent, ME=Moderate Extent, SE=Small Extent, NE=No Extent

Source: Field data 2011. Total cases 24.

The board recruitment policy, board compensation policy, general human resource policy , finance policy, procurement policy, research and development policy, information technology policy, corporate social responsibility policy, corporate

communications policy, and directors liability policy were featured . Most responses attained the highest frequency at moderate extent. This means that most SACCOs have these policies, but the extent to which they address SACCOs issues adequately varies.

4.1.3.3 Implementation of various policies

Table 6: Policy implementation

		VLE	LE	ME	SE	NE	TOTAL	Mean% & Frequency
Board recruitment policy	Frequency	9	6	9	0	0	24	8
	Percentage	38	25	37	0	0	100	33.3
Board compensation policy	Frequency	2	5	4	6	7	24	4.8
	Percentage	8	21	17	25	29	100	20
General human resource policy	Frequency	2	4	14	0	4	24	4.8
	Percentage	8	17	50	0	25	100	25
Finance policy	Frequency	5	12	7	0	0	24	8
	Percentage	21	50	29	0	0	100	33.3
Procurement policy	Frequency	1	9	10	3	1	24	4.8
	Percentage	4	38	41	13	4	100	20
Research and development policy	Frequency	3	8	3	5	5	24	4.8
	Percentage	13	32	13	21	21	100	20
Information Technology policy	Frequency	7	5	5	7	0	24	6
	Percentage	29	21	21	29	0	100	25

Key: VLE =Very Large Extent, LE=Large Extent, ME=Moderate Extent, SE=Small Extent, NE=No Extent

Source :Field data 2011. Total cases 24.

The implementation of various policies in the SACCO was examined. 9(38%) agreed that board recruitment policy was being implemented to a large extent, 6 (25%) large extent, 9 (37%) moderate extent . The mean percentage was 33.3%.The finance policy, general human policy and procurement policy had been implemented by various SACCOs to a moderate extent. The board compensation policy, Research and Development policy information Technology policy implementation results indicated that most SACCO did not value these policies.

4.1.4 SACCO Performance

4.1.4.1 SACCO `s financial performance

Table 7: SACCOs Financial performance

		A	S	R	TOTAL	Mean% & Frequency
SACCO exceeds its financial target	Frequency	1	20	15	36	12
	Percentage	3	55	42	100	33.3
SACCO meets its financial target	Frequency	14	19	3	36	12
	Percentage	39	53	8	100	33.3
SACCO fails to meet its financial target	Frequency	1	9	26	36	12
	Percentage	3	25	72	100	33.3

Key: A- Always, S-Sometimes, R-Rarely,

Source :Field data 2011. Total cases 36.

The respondents rated SACCOs performance in terms of always, sometimes and rarely. 20 (55%) indicated that sometimes the SACCO exceeds its financial target while 15 (42%) indicated that it was rare.14 (39%) indicated that the SACCOs always meets financial target. 19 (53%) noted that it sometimes does while 3 (8%) indicated

that the SACCO s rarely met their financial targets. SACCOs also sometimes fail to meet its financial target as indicated by 9 (25%), then 26 (72%) rarely fails to meet the financial target.

4.1.4.2 Stakeholder satisfaction Surveys

Among the 36 respondents, 19 (53%) indicated that their SACCOs usually carries out stakeholders satisfaction surveys while 17 (47%) indicated that there were no such surveys.

4.1.4.3 The level of stakeholders satisfaction

Table 8: Stakeholders satisfaction

		VS	S	I	D	VD	TOTAL	Mean% & Frequency
SACCO employees	Frequency	3	7	7	2	0	19	4.8
	Percentage	15	37	37	11	0	100	25
SACCO customers	Frequency	3	12	2	0	2	19	4.8
	Percentage	15	63	11	0	11	100	20
SACCO suppliers	Frequency	10	5	2	0	2	19	4.8
	Percentage	52	26	11	0	11	100	20
Members of the community around the SACCO	Frequency	5	5	5	2	2	19	3.8
	Percentage	26	26	26	11	11	100	20
Government of Kenya	Frequency	12	7	0	0	0	19	9.5
	Percentage	63	37	0	0	0	100	50

Key: VS= Very Satisfied, S=Satisfied, I=Indifferent, D=Dissatisfied, VD=Very Dissatisfied

Source :Field data 2011. Total cases 19.

The government of Kenya was very satisfied to a margin of 63% while 37% indicated satisfied. The mean percentage was 50. SACCO employees satisfaction survey showed 3 (15%) very satisfied, 7 (37%) for both satisfied and indifferent while 2

(11%) were dissatisfied. 10 (52%) of the SACCO suppliers were very satisfied, 5 (26%) were satisfied, 2 (11%) indifferent, 2 (11%) very dissatisfied. The members of the community around the SACCO according to respondents indicates that 5 (26%) each were very satisfied and indifferent. 2 (11%) were both dissatisfied and very dissatisfied. This means that the respondents were not very sure of the social activities extended to the immediate community by the SACCOs.

4.1.4.4 Efficiency of internal processes

Table 9: Internal processes

		VLE	LE	ME	SE	NE	TOTAL	Mean% & Frequency
Financial procedures Processes	Frequency	7	15	10	0	4	36	9
	Percentage	19	42	28	0	11	100	20
Human resource Procedures	Frequency	2	10	9	7	8	36	7
	Percentage	6	28	25	19	22	100	20
SACCO's ICT processes and operations	Frequency	0	15	7	9	5	36	9
	Percentage	0	42	19	25	14	100	25
SACCO's procurement procedures	Frequency	7	9	7	3	10	36	7
	Percentage	19	25	19	8	28	99	20
Corporate communications procedures	Frequency	1	12	5	9	9	36	7
	Percentage	3	33	14	25	25	100	20
Board evaluation processes	Frequency	3	9	9	5	10	36	7
	Percentage	8	25	25	14	28	100	20

Key: VLE =Very Large Extent, LE=Large Extent, ME=Moderate Extent, SE=Small Extent, NE=No Extent

Source :Field data 2011. Total cases 36.

The efficiency of financial procedures and processes was rated 7 (19%) rated them as very large extent, 15 (42%) large extent, 10 (28%) moderate extent, 4 (11%) no extent. The mean percentage was 20.

The rating of human resource procedures in terms of efficiency indicated 2 (6%) applied to a very large extent , 10 (28%) large extent , 9 (25%) moderate extent , 7 (19%) small extent and finally 8 (22%) small extent.

SACCOs ICT processes and operations were to a large extent efficient by 15 (42%), 7 (19%) moderate extent, 9 (25%) small extent and 5 (14%) no extent.

SACCOs procurement processes and their efficiency indicated that there are no clear processes as to what happens. 7 (19%) very large extent, 9 (26%) large extent. 10 (28%) no extent.

4.1.5 SACCO background information

The survey of corporate governance practices was carried out on twelve SACCOs in Kakamega Municipality. The SACCOs were established during different years. Bukhungu was established in 1973, KMC – 1976, KATECO -1977, Golf-1980, KRRW – 1984, Mama Watoto – 1987, Kakamega Jua – Kali- 1993, KES – 1995, CCSWR -1998, Wevarcity – 2003, WEAP – 2005, and Kakamega Traders-2006.

The nature of products or services provided by these were purely savings and credit.

The staff establishment for the respective SACCO has been presented by the bar chart as indicated in figure 7. The highest staff establishment is 45 (KATECO) while the lowest is one.

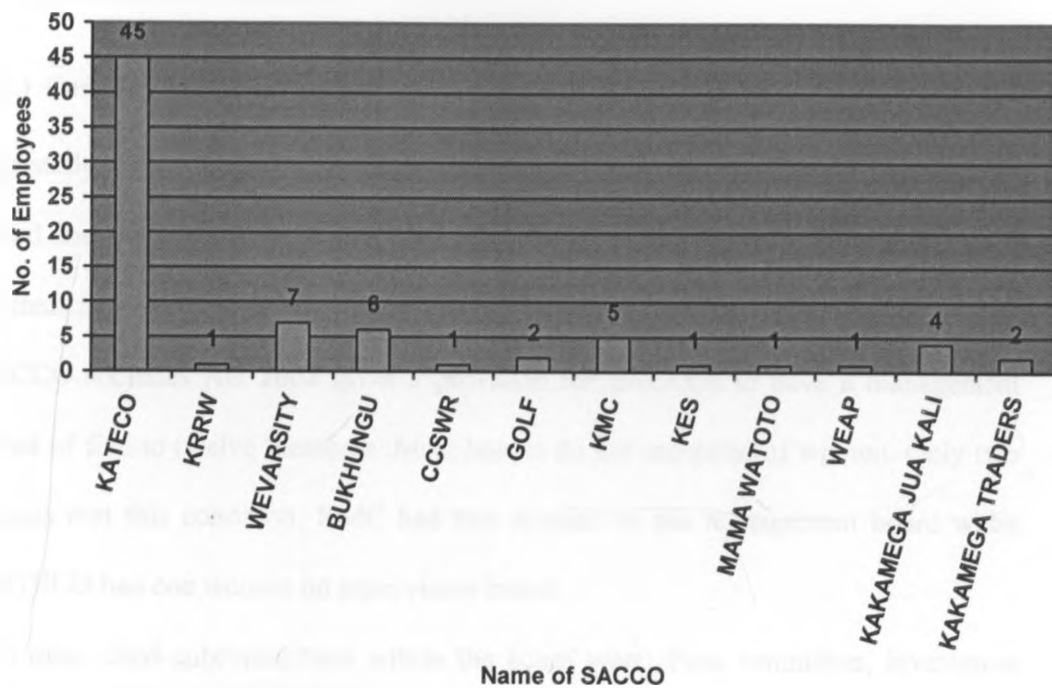


Figure 7: Number of employees.

Source: Field data 2011. Total cases 12.

4.2 Discussion of the Results

4.2.1 Corporate Leadership

The study results indicate that SACCOs generally have two boards; the management board and the supervisory board. The composition of the supervisory board is three elected members while the management board constituted nine members. The SACCO societies Act 2008 gives a provision for SACCOs to have a management board of five to twelve members. Most boards do not comprise of women. Only two Saccos met this condition. KMC had two women on the management board while KATECO had one woman on supervisory board.

The most cited subcommittees within the board were; Fosa committee, investment Committee, Education Committee, Terms and Conditions Committee and Credit Committee. The Audit Committee was cited by two SACCOs. Most of the SACCOs indicated that they had both a board work plan and a board charter. The board meetings generally according to respondents usually takes one to four hours. The contents of these meetings usually include a discussion on financial allocation, internal controls and a review of financial reports.

The appointment of the CEO was done by a board of directors. The SACCO societies Regulations 2010 section 63 states that the board of directors shall be responsible for the appointment and removal of the chief executive officer of a SACCO society.

The roles and responsibilities of the board were examined. The study indicates that some roles are taken seriously by most boards. Most of them understand their roles to a large extent. The effectiveness of board evaluation was moderate. The SACCOs did handle the issue with a lot of concern. The planning function was clear to a very large extent. The board minutes were also clear and available to a very large extent (58%)

The presence of conflict of interest in the board was evident at all levels hence the SACCOs board of directors should check on this aspect to avoid agency problems.

4.2.2 Accountability of the board

The board of director's responsibility is to monitor management's performance, (Anderson and Anthony 1992). The study highlighted the various elements that the board should monitor, review and be held accountable incase an error occurs. The Sacco's finances and strategy, performance of the SACCO, the performance of the CEO, the roles of the board committees all had a mean percentage of 20 implying that these aspects are regularly monitored and reviewed by the board. Saccos are required by law in Kenya to generate, prepare and keep some reports. When looked at in isolation, the reports were rated as excellent, good ,moderate, poor and very poor. The quality of board papers, board minutes, board work plan, and the Sacco financial reports were either good or moderate an indication that most boards are trying to be transparent and accountable about the affairs of the Sacco .

The other reports like the boards charter, the Sacco's ICT reports, the Saccos research and development reports, corporate communications reports , Board evaluation reports and risk management performed averagely on all the scales . This implies that most Saccos have either neglected the importance of these exercises and reports or they are putting in less emphasis on their importance.

4.2.3 Measures of control

The SACCO societies Regulations 2010 section 60 (4) outlines the mandatory policies and operation manuals that Saccos must have. These policies are supposed to be prepared or established by the board of directors.

In this study, 24 of the respondents (67%) acknowledged that their SACCOs had policies in place .12(33%) had never seen such documents in their SACCOs .Board recruitment policy, general human resource policy and finance policy were present in most SACCOs as indicated by respondents. Other policies such as board compensation policy, research and development policy, information technology policy , corporate social responsibility policy, corporate communications policy and director liability policy scored poorly on the scale . The frequency distributions was spread uniformly over the scale. This indicated that the respondents were not so sure of their existence.

4.2.4 Sacco Performance

Most SACCOs failed to meet their financial targets as indicated in the results of this study. 53% of the respondents agreed that sometimes the SACCOs fail. Only 39% agreed that SACCOs always meet the set financial target.

The yearly stakeholder survey were carried out by some SACCOs as indicated by 19 (53%) of the respondents. However, the government scored high because most SACCOs pay taxes, SACCO suppliers were very satisfied (52%), an indication that SACCOs settle suppliers demands on time. SACCO customers were satisfied (63%) with the services being offered, SACCO employees satisfaction survey shows some level of dissatisfaction by employees because (37%) indicates that the respondents were indifferent. The community around the Sacco also showed dissatisfaction. 26% of the respondents were indifferent.

4.2.5 Sacco background information

The information obtained by this study regarding the year of establishment vis avis the number of employees is shocking. This indicates that most SACCOs are stagnant in terms of products and membership growth.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.0 Introduction

This chapter provides a summary, conclusion and recommendations for the study. The study set out to survey on corporate governance practices by SACCOs societies in Kakamega municipality. It adopts the descriptive survey research. A census study was applied where all the twelve active SACCOs were studied.

5.1 Summary of study findings

The study revealed that all SACCOs have two types of boards; the supervisory board and the management board. However, their composition ignored the aspect of gender where men were the majority. The SACCOs had also subcommittees. Most of them ignored the importance of an audit committee as stipulated by the Sacco Societies Act 2008.

The study also revealed that it was not clear as to who should set the agenda of the board meetings and who should also call for these meetings, is it the secretary or the chairman.

The study also established that most SACCOs lack policies or operational manuals. Those that purported to have , had only a few, leaving out some significant policies such as the ICT policy, procurement policy and research and development policy.

On accountability of the board, the board of directors regularly reviews, monitors and approves the Sacco finances and strategy as indicated in the results. Generally on the monitoring of specific functions such as the performance of the Sacco , the performance of the CEO, the study indicates that the board of directors are very vigilant.

The quality of some reports turned out to be very poor. The most affected ones are the Sacco ICT reports, the Sacco research and development reports, the Sacco procurement reports, corporate communications reports, the social responsibility reports and the risk management reports. The board papers, board minutes and board work plan turned out to be either excellent or good for most Saccos.

5.2 Conclusion

This study was done in Kakamega Municipality to assess the corporate governance practices by Sacco societies. The study therefore concluded that although most SACCOs have their own ways in the implementation of corporate governance practices, there is need for all of them to implement the standard corporate governance practices as highlighted in the Sacco societies Act 2008, part five and in the subsequent Sacco societies regulations 2010 sections 59 through to 60.

The study also concludes that, the level of employment in these Sacco is not promising. A Sacco that has only one employee is as good as dead. It is incomparable that a board with twelve directors only monitors the performance of one staff. Findings show that five Sacco out of twelve had one employee each.

Measures of internal control are very critical to any organizations. The study indicates that 33% of the SACCOs did not have policies or operational manuals. These would mean that these SACCOs lack important guidelines; their working is based on guess work which might turn out to be dangerous for these organizations. Lack of policies would also mean that there is no clear procedures regarding the savings and credit function and hence lack of consistency in the implementation of corporate governance practices.

The study has also established that among the stakeholders who are satisfied by the governance practices of Sacco are the government, suppliers and customers. If customers are satisfied then, the future of the business is guaranteed.

Regarding the availability of financial reports from year 2007-2010, it is only KATECO that produced these reports with a lot of ease. Most SACCOs declined, yet financial statements are supposed to be displayed to the public at the societies head offices.

5.3 Recommendations of the study

5.3.1 Policies and operation manuals

Policies and operational manuals are very critical documents for most organizations. They give details on the procedures and operations of an organization.

This study therefore recommends that all the SACCOs in Kakamega Municipality should establish appropriate policies and operational manuals as stipulated in the Sacco Societies Regulations 2010 Section 60 (4).

5.3.2 Accountability of the board

The Sacco Societies Regulations 2010 Section 60 (1) states that ‘in the conduct of the affairs of the Sacco society, the board of directors shall exercise prudence and diligence of ordinary men of business and shall be held jointly and severally liable for any loss occasioned by their actions which are contrary to the Act’

The board of directors should monitor, review and approve some of the major decisions by the SACCOs. The Sacco stand alone reports with regard to ICT, research and development, Procurement, social responsibility, corporate communications, board evaluation and risk management should be prepared by all SACCOs to give a clear picture of what is happening at the Sacco.

5.3.3 Sacco performance

Most SACCOs in Kakamega municipality should endeavor to meet the set financial targets or even exceed. This is the only measure of performance assuming that the target set was realistic. Practices such as budget preparations incorporating the views of all stakeholders would prove to be economical.

The views of other stakeholders such as suppliers, customers, employees, the immediate community and the government of Kenya should be incorporated for service improvement.

5.3.4 SACCOs financial reports

SACCOs in Kakamega Municipality should embrace the practice of displaying their final financial statements at a visible place for the public. As stipulated in Sacco Societies Act 2008 section 46 (1), 'A Sacco Society shall display throughout the year, in a conspicuous position in every place of business, a copy of its last audited financial statements in the prescribed format.'

5.4 Recommendations for further Research

This study makes suggestions for further research in the following areas;

- i. A similar study should be carried out on Small and Micro Enterprises.
- ii. Study making comparison between the corporate governance practices and SACCOs financial performance should be done.

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APPENDICES

APPENDIX I: QUESTIONNAIRE COVER LETTER

Dear respondent,

I am a postgraduate student at the University of Nairobi pursuing a Masters Degree in Business Administration. As part of partial fulfillment I am conducting a research on: **'A SURVEY OF CORPORATE GOVERNANCE PRACTICES BY SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN KAKAMEGA MUNICIPALITY'**. For this reason I would appreciate if you would kindly spare a few minutes of your time to fill in the blanks in attached list of questions to the best of your knowledge as they apply to yourself or your business.

The information in this questionnaire will be treated with confidentiality and in no instance will your name be mentioned in this research. In addition, the information will not be used for any other purpose other than for this research. Your assistance in facilitating the same will be highly appreciated.

Thank you in advance.

Yours Faithfully

AWINO ANYANGA MARY

D61/73261/2009

APPENDIX II: QUESTIONNAIRE

SECTION ONE: CORPORATE LEADERSHIP

1. Name of your SACCO? _____
2. What is your position in the board? _____
3. For how long have you sat in the SACCO's board? _____
4. How many are you in the SACCO's board of directors? _____
5. What's the number of female members of the board? _____
6. How many other boards do you sit in? _____
7. What are your positions in the other boards you sit in? _____

8. a) Please list the committees you have within the board _____

- b) Do you have sub-committees within the board? If so, please list the subcommittees _____

9. Do you have a board work plan? _____
10. Does your SACCO have a board charter? _____
11. How many board meetings did you attend in your SACCO in 2010? _____
12. Who sets the agenda for the board meetings? _____
13. Who calls for the board meeting? _____
14. Are the board papers sent at least two weeks before the board meetings? _____
15. What are the common content of your board meetings? _____

16. a) Are your board meetings interactive? _____

b) How long do the meetings take? _____

17. Are your board meetings swayed towards strategic issues or mere rubberstamping? _____

18. Are board decisions made through consensus or voting? _____

19. Who appoints the C.E.O? _____

20. Is the C.E.O a member of board? _____

21. Using the scale given below, please rate the extent to which the following applies to your SACCO board of directors.

RATING SCALE		
1=Very Large Extent	2 = Large Extent	3= Moderate Extent
4= Small Extent	5 = No Extent	

- a) Understanding of the roles of the board by the board members []
- b) Clarity of the procedures of the appointment of the board []
- c) Clarity of the procedures of the appointment of the C.E.O []
- d) Effectiveness of planning at the board level []
- e) Presence of conflict of interest []
- f) Effectiveness of board evaluation []
- g) Independence of the board []
- h) Separation and clarity of the role of the board chair and C.E.O []
- i) Effectiveness of risk management at the board []
- j) Clarity and availability of board minutes []
- k) Boards adherence to the code of ethics and governance guidelines []

SECTION TWO: ACCOUNTABILITY OF THE BOARD

22. Using a five point Likert scale given below, please rate the extent to which the following applies to your company board of directors.

RATING SCALE		
1=Very Large Extent	2 = Large Extent	3= Moderate Extent
4= Small Extent	5 = No Extent	

The board:

- a) Regularly review , monitor and approves the SACCO finances and strategy []
- b) Regularly review , monitor and approves the SACCO structure []
- c) Maintain an all-round understanding of the SACCO's business activities []
- d) Contribute as appropriate on any major issues which arise []
- e) Monitor and review the performance of the SACCO []
- f) Monitor and review the performance of the C.E.O/ Executive director []
- g) Participate effectively in discharging the functions of board committee []
- h) Take the lead in resolving potential conflicts of interest when they arise []
- i) Identify the need and initiate changes, in all areas when appropriate []

23. Using a five point Likert scale given below, please comment on the quality of the following stand alone reports.

RATING SCALE		
1=Excellent	2 = Good	3= Moderate Extent
4= Poor	5 = Very Poor	

- a) Board papers []
- b) Board minutes []
- c) Board's work plan []
- d) Board's charter []
- e) The SACCO's financial reports []
- f) The SACCO's ICT reports []
- g) The SACCO's research and development reports []
- h) The SACCO's procurement reports []
- i) Social Responsibility Reports []
- j) Corporate communications reports []
- k) Board evaluation reports []
- l) Risk Management Reports []

SECTION THREE: MEASURES OF CONTROL

24. Does your SACCO have policies or operation manuals? Yes [] No []

25. If your answer to question 23 is Yes, using a five point Likert scale given below, please rate the clarity and adequacy of the following policies within your SACCO.

RATING SCALE		
1=Very Large Extent	2 = Large Extent	3= Moderate Extent
4= Small Extent	5 = No Extent	

- a) Board recruitment policy []
- b) Board compensation policy []
- c) General Human Resource Policy []
- d) Finance Policy []
- e) Procurement policy []
- f) Research and Development policy []
- g) Information Technology policy []
- h) Corporate Social Responsibility policy []
- i) Corporate Communications policy []
- j) Directors liabilities []

26. Using a five point Likert scale given below, please indicate the extent to which the following policies have been successfully implemented in your SACCO.

RATING SCALE		
1=Very Large Extent	2 = Large Extent	3= Moderate Extent
4= Small Extent	5 = No Extent	

- a) Board recruitment policy []
- b) Board compensation policy []
- c) General Human Resource Policy []
- d) Finance Policy []
- e) Procurement policy []
- f) Research and Development policy []
- g) Information Technology policy []

SECTION FOUR: SACCO PERFORMANCE

27. By ticking an appropriate box below, please comment on the SACCO’s financial performance.

	Always	Sometimes	Rarely
a) The SACCO exceeds its financial targets	[]	[]	[]
b) The SACCO meets its financial targets	[]	[]	[]
c) The SACCO fails to meet its financial targets	[]	[]	[]

28. Does your SACCO conduct yearly stakeholder satisfaction surveys? Yes [] No []

29. Using the five point Likert scale below, indicate the extent to which the following stakeholders are satisfied with the SACCO.

RATING SCALE		
1=Very Satisfied	2 = Satisfied	3= Indifferent
4= Dissatisfied	5 = Verv dissatisfied	

- a) SACCO employees []
- b) SACCO customers []
- c) SACCO suppliers []
- d) Members of the community around the SACCO []
- e) The government of Kenya []

30. Using a five point likert scale given below, please rate the efficiency of the following internal processes within your SACCO.

RATING SCALE		
1=Very Large Extent	2 = Large Extent	3= Moderate Extent
4= Small Extent	5 = No Extent	

- a) Financial Procedures and processes []
- b) Human resource and procedures []
- c) The SACCO's ICT processes and operations []
- d) The SACCO's procurement procedures []
- e) Corporate communications procedures []
- f) Board evaluation processes []

SECTION FIVE: SACCO BACKGROUND INFORMATION

31. Kindly provide the following information. _____

a) Year the SACCO was established _____

b) Number of employees _____

c) Nature of products or services provided by the SACCO _____

d) Location of head office _____

e) Name of the responded (optional) _____

f) Position held by the responded _____

g) Phone number (optional) _____

THANK YOU FOR RESPONDING.

APPENDIX III: SACCO SOCIETIES-KAKAMEGA MUNICIPALITY**As at YEAR 2011**

SNO.	CS/ No	SACCO SOCIETY
1	2738	KATECO
2	4161	KRRW
3	10243	WEVASITY
4	2143	BUKHUNGU
5	8370	CCSWR
6	3776	GOLF
7	2537	KMC
8	9909	KES
9	7032	MAMA WATOTO
10	11681	WEAP
11	9214	KAKAMEGA JUA KALI
12	11701	KAKAMEGA TRADERS
13	4554	WECO

**DISTRICT CO. OPERATIVE OFFICE
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KAKAMEGA.**