

**EFFECT OF CORPORATE GOVERNANCE PRACTICES ON FINANCIAL  
PERFORMANCE OF SELECTED SAVINGS AND CREDIT COOPERATIVE  
ORGANIZATIONS IN NAIROBI COUNTY**

**BY**

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## DECLARATION

I declare that this Dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

Sign.....

Reg. No.....

Date.....

I do hereby confirm that I have examined the master's dissertation of

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## **ABSTRACT**

Corporate governance is of great importance for financial performance. In Africa, Savings and Credit Cooperative Organizations (SACCOs) have been growing as a strong tool to meet financial needs. This is because, cooperatives are well placed to bring about equitable development and justice. However, SACCOs like any other business, are faced with challenges in their quest for growth and corporate governance stand as one of the main challenges facing SACCOs. Some of these SACCOs have come under spotlight for cases of mismanagement and number of them have closed and therefore if this trend is not checked, it may lead to depletion of SACCOs' funds and collapse of more SACCOs in Kenya. This study therefore, investigated effect of corporate governance practices on financial performance of cooperative societies a case of Savings and Credit Cooperative Organizations (SACCOs) in Nairobi County. The study focused on influence of; Board size, CEO duality, Board Ownership and Board Composition. The findings of this study will hopefully be beneficial to executive members of SACCOs and other cooperative societies in improving the performance of cooperative societies and enable them to compete globally. This study applied descriptive survey design. The study focused on 38 deposit taking SACCOs in Nairobi County licensed by SASRA. The study applied simple random sampling method to select a sample. Data was collected through the questionnaire which comprised of both close ended and open ended questions. The data was coded in SPSS Vs21 through which analysis was conducted and the results of the findings were presented in tabular form to reflect both descriptive and regression analysis.

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## **DEDICATION**

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## **ACRONYMS AND ABBREVIATIONS**

- KFA - Kenya farmers association
- KNFC - Kenya national federation of co operatives
- SASRA - Sacco Societies Regulatory Authority
- CEO - Chief executive officer
- SPSS - Statistical package for social sciences
- ROI - Returns on investment
- FTSE - Financial Times Stock Exchange
- ISDA - International Swaps and Derivatives Association
- OCED - Organization for Economic Co-operation and Development
- SACCO -Savings and Credit Cooperative Organizations

## DEFINATION OF TERMS

**Cooperative society-** an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned democratically controlled enterprise (villalonga, 2002).

**Corporate governance-** the structures, processes, cultures and systems that ensure the successful operation of an organization it's the process through which organizations are led toward the attainment of the objectives for which they were founded (Donaldson, 2003)

**Good governance-** it addresses the allocation of resources to respond to collective problems, Calls for a strong and independent audit function and effective board process (Maina and Kabianga, 2004)

**Financial performance-** is a measure of how well a firm can use its resources to generate profits (Nombiro, 2004)



## CHAPTER ONE

### 1.1 INTRODUCTION

#### 1.1.1 Background of Study

The concept of corporate governance has been a key topic on the strategy plan in created market economies for 21st century. Other than that, the idea is dynamically warming itself as a principle worry in the African landmass. In reality, it is trusted that the Asian emergency and the relative poor execution of the corporate segment in Africa have made the issue of corporate administration a catchphrase in the advancement wrangle about (Berglof and Von - Thadden, 1999).

Corporate governance in this way alludes to the systems and structures by which the business and undertakings of foundations are coordinated and oversaw, so as to enhance long haul shareholders' esteem by improving corporate execution and responsibility, while considering the enthusiasm of different partners (Jenkinson and Mayer, 1992). Corporate administration is in this way, about building validity, guaranteeing straightforwardness and responsibility and also keeping up a compelling channel of data exposure that will encourage great corporate execution. Globalization has preceding with pace which makes the monetary enclosure to end up more open to new items and administrations developed. Notwithstanding, budgetary controllers all over the place scrambles to evaluate the progressions and expert the turbulence (Sandeep, Patel and Lilicare, 2002:9).

A global flood of mergers and acquisitions has likewise cleared the keeping money industry. In accordance with these progressions, the truth stays unaltered that there is the requirement for nations to have sound flexible keeping money frameworks with great corporate administration. This will fortify and overhaul the establishment to make due in an undeniably open environment (Qi, Wu and Zhang, 2000; Köke and Renneboog, 2002 and Kashif, 2008).

Given the fierceness of exercises that have influenced the endeavors of Sacco's to consent to the different union arrangements and the forerunners of a few administrators in the framework, there are worries on the need to reinforce corporate administration in Sacco's. This will support open certainty and guarantee proficient and successful working of the managing an account framework (Soludo, 2004).

As per (Heidi and Marleen, 2003), saving money supervision can't work well if sound corporate administration is not set up. Therefore, keeping money managers have solid enthusiasm for guaranteeing that there is compelling corporate administration at each saving money association. As opined by Mayes, (Halme and Aarno 2001), changes in bank proprietorship amid the 1990s and mid 2000s considerably modified administration of the world's managing an account association. Corporate administration of money related establishments brought up critical strategy research issues. The pivotal inquiry is the means by which these progressions influence execution. In this exploration, the analyst plans to concentrate on discovering how the corporate administration segments influence the monetary execution of Sacco industry when all is said in done.

Governance is the procedure by which a governing body, through administration, manages an organization in satisfying its corporate mission and ensures the instincts resources after some time. (Standards and practices of microfinance administration by, Rachel Rock Maria Otero and Sonia Saltzman). Nonetheless, the achievement of and quality of a money related helpful in some parts of the world demonstrates that administration issues can be amazing quality when fundamental standards are taken after. Along these lines is corporate administration the reason for all inconveniences in Sacco's. Administration is a framework intended to control and disperse power inside an association for financial, enterprise and advancement (OCED). Corporate administration includes an arrangement of connections between an organization administration, its board, shareholders and different partners. Corporate administration additionally gives the structure through which the goals of the organization and method for achieving those destinations and observing execution are resolved.

Sacco's were initially presented in Kenya in 1964. In 1969 the administration made a radical relationship which has been the fast development of Sacco's in Kenya. Today there are assessed 2600 dynamic Sacco's social orders in Kenya which together have possessed the capacity to activate Kenya shillings. In Kenya the service of helpful advancement and promoting supervises Sacco exercises yet this moves to the Sacco's Regulatory Authority (SASRA) set up by the new law. Right now Sacco's are recently checked. There is no yearly or continuous examination of Sacco's by the administrative body. Additionally there is no far reaching set of measures by which Sacco's need to consent. It is trusted that the new Sacco control will build up prudential guidelines to administer.

### **1.1.2 Corporate Governance**

Good corporate governance shields an organization from inability to meet financial obligations (Bhagat and Jefferies, 2002). The argument has been advanced on numerous occasions that the governance structure of any corporate entity affects the firm's capacity to respond to external factors that have bearing on its financial performance (Donaldson, 2003). As a result, it has been established that good run firms perform better and good corporate governance is of essence to a firms financial performance. In Accordance to ( Demsetz and Villalonga,2002), a performing corporate governance structure helps a firm to attract investment, raise finances and strengthen the foundation for a firms financial performance.

It is believed that good management generates investor goodwill and confidence. Once more, inadequately governed firms are expected to be less profitable. (Claessens et al.2002) additionally posits that better corporate framework benefits firms through more noteworthy access to financing, lower expense of capital, better money related execution what's more, more ideal treatment of all partners. They contend that feeble corporate administration does not just lead to poor firm monetary execution and unsafe financing designs, but at the same time are helpful for macroeconomic emergencies like the 1997 East Asia emergency. Different scientists fight that great corporate administration is essential for expanding speculator certainty and business sector liquidity (Donaldson, 2003). Among the numerous inquirers on association's money streams, value shareholders have dependably guaranteed a unique consideration might be a result of the remaining way of their cases. (Parker, 2007) worldview of the detachment of offer holder proprietorship and administrations control clarified that office issue happens when the central (Shareholders) does not have the important force/data to screen and control the operator (director) and when the remuneration of the vital and the specialist is most certainly not adjusted.

The accentuation set on the part of cooperatives in national improvement changes from one nation to the other and starting with one environment then onto the next. Because of the changing parts of government in agreeable improvement, required by fast globalization and liberalization, it has turned out to be completely vital that nations monitor these progressions for fear that the pace of agreeable improvement turns out to be pitifully conflicting with whatever is left of the divisions. Cooperatives are today broadening just about in each part. As agreeable business gets to be mind boggling and modern, the effectively existing writing and work force are thinking that it's hard to adapt with rising circumstance without fitting corporate administration rehearses. Despite all these advancements, there is no planned push to distribute the accomplishments and relationship between the corporate administration hones and the budgetary execution in a neighborhood connection. A decent agreeable society is a consistent wellspring of training for the individuals for instance; a credit society educates the correct utilization of cash.

### **1.1.3 SACCO Societies in Kenya**

Sacco is a self-ruling relationship of persons joined deliberately to meet their normal monetary social needs and yearnings through a mutually possessed and equitably controlled venture .The key thought behind a co-agent society is to pool the rare assets, kill the mediators and to accomplish a typical objective or premium (Ministry of Cooperative Development and Marketing, 2007). Cooperatives are great vehicles for helping the general population enhances their financial circumstance. They are organizations that determine their quality also, legitimacy from part solidarity participation and sympathy toward each other. Co-agents have been polished by individuals from time immemorial; individuals sorted out them to nibble steers commonly, constructed houses, go chasing and even burrow shambas together. Present day co-agent as a

practice began in the year 1844 in Britain by Rochdale Pioneers and its standards are taken after around the world (KLB, 2003). These standards are intentional and open enrollment, majority rule part control, monetary interest, self-governance and freedom, instruction, preparing and data, co-operation among co-agent individuals and sympathy toward group as a rule. The principal co-agent in Kenya was started by the European pilgrims in the Rift Valley in 1908. The helpful was called Lubwa Farmers Cooperative Society. It was not until 1931 when the helpful society's law got to be law that these social orders could formally be enlisted as cooperatives. The first society to be enlisted under the new Act was the Kenya Farmers Association (KFA) which began as a organization in 1923. A new law was then 4 went in 1945 and a chief of co-agent was selected the next year. By autonomy time, there were more than 600 essential co-agents in Kenya. Kenya National Federation of Cooperatives (KNFC) was framed in 1964, and in 1966 another Act was passed under top 490 of the laws of Kenya (Maina, and Kibanga, 2004). Essential cooperatives contain gatherings of

## **1.2 Statement of Problem**

The number of Cooperative Societies in Kenya have substantially increased and equally spread across both the urban and rural areas due to their substantial contribution to their members' economic lives. However, most of them are plagued by a number of challenges such as; constant wrangles, corruption and mismanagement resulting in poor service delivery and becoming bankrupt. This partly explains why literature on cooperatives is awash with more stories of cooperative failure than stories of cooperative success (Bwisa, 2004).

One of the principle challenges facing SACCOs is the establishment of proper governance systems. Good governance can improve the performance of a SACCO and help it assure its long term survival (Thosen, 2008) Therefore, the issue of corporate governance has become of

increasing interest to SACCOs since it is considered one of the weakest areas in the industry of cooperative societies. Actually, the VAS report (2008) highlighted the governance of cooperative societies as one of main causes of cooperative failure. Some of the challenges that were highlighted by the report were; members receiving less money than the loans approved by authorities, poor management of loan portfolio, appraisal of loan applicants, subsequent loan monitoring among others.

The Sacco Movement in Kenya has faced a number of challenges that need to be addressed in order to enable them improve on; soundness and stability ,effectives and efficiency corporate governance ,product diversity and competition as well as integration to the formal financial system. The major challenges in the cooperative movement in Kenya include; poor governance and limited transparency in the management of cooperatives, lack of capacity in management, market intelligence and market research ,weak capital base and infrastructure weaknesses, high deployment and maintenance costs ,inadequate financing or adoption of financing models among others ( KUSCCO 2010) .

The few studies on corporate governance narrowly focused on a single aspect of governance, such as, the role directors or of stockholders, while omitting other factors and interactions that maybe be important within the governance framework. Feasible among these few studies is the one by (Adams and Mehran, 2003) for a sample of US companies, where they examined the effects of board size and composition on value. Another weakness is that such research is often limited to the largest, actively traded organizations many of which show little variation in their ownership, management and board structure and also measure performance as market value(Adams and Mehran, 2003).

In accordance to (Bairathi, 2009), "Corporate governance is not just management; it is much wide to include a fair, transparent and efficient management to meet well defined objectives. It is a system of structuring ,running and driving a company with a view to achieve long term strategic objectives to satisfy shareholders, creditors, employees, suppliers, and act in accordance with the legal and authorities requirements, aside from meeting corporate social responsibilities. When it is practiced under a well-laid out framework, it creates a legal, commercial and organizational framework creating boundaries at which these roles are performed. "Good corporate governance structures in developing countries are important for all investors (Brownbridge, 2007).

In Africa corporate governance has failed because boards have ignored these practices for reasons including being misguided by top management, involved in acquiring un-secured loans in expense of depositors and not having qualifications to enforce good governance. In addition, the audit process in Sacco's has appeared not to have taken fully the rapid deterioration of the economy and hence the need for forceful aggressive provisioning against risk. The inadequacy of sufficient research on effect of corporate governance on the performance and ignoring the effect of corporate governance practices pushed I to tackle this topic with a specific end goal to discover Effect of corporate governance practices on performance of Sacco's (Allen & Maghimbi,2009).

### **1.3 Objectives of the study**

The general objective of the study was to establish effect of corporate governance practices on financial performance of selected Sacco's in Nairobi County.

#### **1.3.1 Specific objectives of the Study**

- i. To establish the effect of board size on financial performance of Sacco's.
- ii. To determine the effect of board composition on financial performance of Sacco's.
- iii. To establish the effect of CEO duality on financial performance of Sacco's.
- iv. To establish effect of board ownership on financial performance of Sacco's.

#### **1.4 Research questions**

- i. Is there any significant effect of board size on financial performance of Sacco's?
- ii. What extent do board composition affect the financial performance of Sacco's?
- iii. Does CEO duality affect financial performance of Sacco's.?
- iv. To what extent the board ownership affect the financial performance of Sacco's?

### **1.5 Importance of the Study**

Good corporate governance is at the heart of corporate achievement and has huge impact on the financial advancement of a nation. Good corporate governance requires responsibility in the utilization of force, the security of human rights and flexibilities and the support of a sorted out corporate system inside which every national can contribute completely towards finding imaginative answers for basic issues (standards for corporate administration in Kenya, November 1999). This study seeks to find the appropriate mechanisms for governing long term value. It is additionally aimed at establishing whether actual corporate governance reduces conflicts of interests among various stakeholders, creates and implements the internal organization of Sacco's and defines the interest to which management should respond at the goals they should strive.

### **1.6 Significance of the Study**

This study will be of significance to both the microfinance business particularly Sacco's, the stakeholders and the government as a whole. This is because corporate governance involves the relationship between every one of those included in it to guarantee the fruitful development and progression of these associations. It would be more useful to the government as it regulates the exercises of such associations furthermore they could help since it makes work chances to the general population of the nation, along these lines achieving financial development to the economy of Kenya. It will likewise help the stakeholders in the Sacco business to comprehend the significance of corporate governance to their organization and how it achieves the development and accomplishment of objectives.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter summarizes the information from other researchers who have completed their research in the same field of study. The specific covered here are theoretical review, Agency theory, Stakeholders theory and Shareholder theory, empirical theory, Board of Directors and Financial Performance and relationship between corporate governance.

#### **2.1 Theoretical Literature**

##### **2.1.1 Agency Theory**

Corporate governance is based on agency theory, which is the association between agents and principals. Agency theory clarifies how best the relationship between agents and principals can be used for purpose of governing a corporation to realize its goals. Enthusiasm on agency relationship turned out to be more noticeable with the development of the substantial enterprise. There are business visionaries who have a talent for amassing of capital, and chiefs who had an overflow of thoughts to adequately utilize that capital. Since the owners of capital have neither the essential aptitude nor time to adequately run their endeavors, they hand them over to specialists (directors) for control and everyday operations, henceforth, the detachment of proprietorship from control, and the chaperon office issues. In an office relationship, principals and operators have plainly characterized obligations: Principals are select and set up governors

(executives and evaluators to guarantee viable administration framework is executed, while specialists are in charge of the everyday operations of the undertaking.

Verifiably, meanings of corporate administration likewise thought about the relationship between the shareholder and the firm, Chief - specialists following up for the benefit of shareholder principles in regulating self-serving practices of administration. Nonetheless, more extensive meanings of corporate administration are presently pulling in more prominent consideration (Solomon and Solomon, 2004). In reality, compelling corporate administration is right now comprehended as including a wide number of members.

The essential members are administration, shareholders and the sheets of executives; however other key players whose interests are influenced by the company are workers, suppliers, clients, accomplices and the general group. In this way, corporate administration, comprehended in these widening social settings, guarantees that the top managerial staff is responsible to shareholders as well as to non-shareholder partners, including the individuals who have a personal stake in seeing that the enterprise is very much represented. Some corporate administration researchers (Carter and Lorsch, 2004; Leblanc and Gillies, 2005) additionally contend that at the heart of good corporate administration is not board structure (which gets a great deal of consideration in the present directions), however rather board process (particularly thought of how board individuals cooperate as a gathering and the skills and practices both at the board level and the level of individual chiefs). Therefore, the current academic examine about the way of corporate administration has come to mirror this assemblage of exploration. This partition is be that as it may, connected and administered through legal relationship at different levels, among others

"amongst stakeholders and group of executives, amongst groups and senior administration, amongst senior and subordinate levels of administration" (ISDA, 2002). In such an essential - specialist relationship, there is constantly potential misunderstanding inside a firm on the grounds that the financial motivating forces confronted by the operators are frequently unique in relation to those experienced by owners of capital (ISDA, 2002). In accordance to (ISDA 2002), all organizations are presented to office issues, and to some degree create activity arrangements to manage them. These incorporate setting up such measures as: controls on the performance of operators, checking the activities of specialists, budgetary impetuses to urge operators to act in light of a legitimate concern for the principals, and division of danger taking capacities from control capacities (ISDA, 2002).

### **2.1.2 Stakeholders Theory**

There are two primary hypothesis of partner administration: the misuse of top managerial power model and the shareholder model. Current Anglo-American corporate administration courses of action vest unreasonable force in the hands of administration who may mishandle it to serve their own enthusiasm to the detriment of shareholders and society as an entire (Hutton, 1995). Supporters of such a perspective contend, to the point that the current institutional restrictions on administrative conduct, for example, non-official executives, the review procedure, the danger of takeover, are just lacking to forestall directors manhandling corporate force. Shareholders ensured by fluid resource markets are uninterested in everything except the most significant of misuse. Motivation instruments, for example, offer alternatives, are means through which supervisors can legitimize their irregular excessive charge (saw by some as a manifestation of the breakdown of administration (Keasey, 1997). The misuse of official force is especially inserted in the issue of official overpay since official compensation has ascended far speedier than normal

income and there is, best case scenario a exceptionally powerless connection amongst remuneration and administration execution (Conyon , 1995; Gregg, 1993).

The main limitation on official pay is by all accounts the unobtrusiveness of administrators themselves, and the production of so called autonomous compensation advisory groups by extensive organizations is not powerful. What is more terrible is that it legitimizes self-serving administrative practices. The freedom is by and large a sham, not for controlling overabundance of pay, however to justify it (Kay and Silberston, 1995). The supporters of this model don't accept that the fundamental lines of corporate administration change, for example, non-official chiefs, shareholder inclusion in real choices and more full data about corporate issues, are appropriate checking instruments (Kay and Silberston, 1995). Rather, they propose statutory changes in corporate administration, under which threatening takeovers are unrealistic to impact, since responsibility for no more conveys the privilege to designate official administration. The essential goal of corporate administration in this pretense is "administrative flexibility with responsibility", to permit official administration the ability to build up the more extended term business, while holding them thoroughly mindful to all partners required in the business.

Maybe the most key test to the universality is the partner model, with its focal suggestion is that a more extensive target capacity of the firm is more impartial and more socially effective than one kept to shareholder riches (Keasey, 1997,). The prosperity of different gatherings, for example, representatives, suppliers, clients and chiefs, who have a long haul relationship with the firm and subsequently a "stake" in its long haul achievement, is perceived. The objective of corporate administration is to augment the riches production of the partnership in general. In particular, a partner is represented as any person who can influence or is influenced by the achievement of the company's goals (Freeman, 1984) and this aims to sum up the thought of

stockholder as the main gathering to whom administration should be responsive" (Freeman, 1984). These definitions were figured structure the base that present day organization is influenced by an expansive arrangement of vested parties, counting at the very least shareholders, banks, clients, representatives, suppliers and administration, which are frequently alluded to as the essential partners, who are indispensable to the survival and achievement of the enterprise. From this point of view, corporate administration banter about frequently continue with an obsession with the relationship between corporate supervisors and shareholders, which presupposes that there is stand out right reply. Truth be told, shareholders are troublesome and hesitant to practice every one of the obligations of possession in freely held partnerships, though different partners, particularly workers, might frequently too effortlessly practice their rights and obligations related as proprietors. This is a convincing case for allowing workers some type of possession.

Groups are occupied with Sacco's society's administration as key partners as they get advantage from being representatives, suppliers, clients of value items and recipients of corporate social obligation arrangements of Sacco's. Representatives might want to get certification that they are working in a Sacco's that will manage itself along these lines securing their business. Suppliers need to make certain of installment after conveyance of products and administrations. Clients are searching for moderate products and administrations (Agumba, 2008).

### **2.1.3 Shareholder Theory**

There are two primary speculations of shareholder-arranged administration: the principal agent or finance model. The principal model begins from an assumption that the social purpose corporation is to maximize shareholders' wealth (Coelho et al., 2003). The principal agent model

respects the focal issue of corporate administration as self-intrigued administrative conduct in a widespread chief operator relationship. Organization issues emerge when the specialist does not share the important destinations. Moreover, the division of proprietorship and control expands the force of expert directors and abandons them allowed to seek after their own points and serve their own advantages to the detriment of shareholders (Berle and Means, 1932).

There are two issues happening in the organization association with which office hypothesis is concerned. The first is that since it is troublesome or costly for the important to check what the specialist is really doing, the primary can't check that the operator has carried on properly. The second issue is that the foremost and the operator may incline toward various activities due to the distinctive mentalities toward danger. Those two issues realize a specific kind of administration expense brought about as principals endeavor to guarantee that specialists demonstration in principals' interests: "organization cost (Jensen and Mechling, 1976).

To take responsibility of those factors, office must decide the most effective contract representing the key operator relationship and an ideal motivator plan to adjust the conduct of the troughs with the enthusiasm of proprietors. While the foremost specialist model concurs upon the disappointment of corporate interior control, it prevents the intrinsic disappointment from securing market instruments, demanding that business sectors are the best controllers of administrative caution, the purported productive business sector model (Blair, 1995).

Myopic market model imparts a typical perspective to the central operator demonstrate that the partnership should serve the shareholders' advantages just, however scrutinizes that the Anglo-American model of corporate administration due to "aggressive astigmatism" (Hayes and

Abernathy,1980) and its ensuing pre-occupation with transient increases consequently, benefit, stock cost and other execution measures incited by business sector weights.

The nearsighted business sector model holds that what isn't right with corporate administration is that the framework energizes supervisors to concentrate on transient execution by yielding long haul worth and intensity of the company. The money related markets frequently compel supervisors to act in a route different from the amplification of long haul riches for shareholders (Blair, 1995). The nearsighted business sector view fights that corporate administration change ought to give a domain in which shareholders and directors are urged to share long haul execution skylines. Shareholders' reliability and voice ought to increment, while the simplicity of shareholders' way out should lessen. Approach recommendations for the change incorporate the support of relationship contributing to bolt budgetary organizations into long haul positions, limitations on the takeover procedure and on voting rights for short-term shareholders, furthermore, the strengthening of other bunches such as representatives furthermore, suppliers that have long-term relationships with the firm (Keasey, 1997).

## **2.2 Empirical Review**

Past empirical studies have provided the nexus between corporate governance and firm monetary execution (Kilonzi, Benson Kioko, 2012) the effect of Sasra regulations on the monetary execution of Sacco's in Kenya. Discoveries, the study found that higher capital prerequisites and expansion in administration proficiency affected decidedly to Sacco's benefit in the post - capital direction period. The study uncovered that capital direction influences monetary execution in Sacco's. The study presumed that monetary steadiness could be at danger as an aftereffect of stuns impinging on the financial framework and nonappearance of appropriate strategy

conformity to alleviate the impacts of these stuns. For arrangement suggestions, the discoveries demonstrate the significance of resuscitating interest for credit utilizing macroeconomic arrangements. Causal exploration outline was set up the impacts of SASRA controls on the money related execution of Sacco's in Kenya. The study focused on the 98 Sacco's enlisted by SASRA. The inspecting strategy decided for this study was purposive testing which is a type of non-likelihood testing to choose 30 Sacco's situated in Nairobi. The study utilized auxiliary information. The optional information was gathered from the money related articulations of the Sacco's to get data on yearly profit of the Sacco's enrolled under SASRA. A straight relapse model of Sacco's profit for resources versus SASRA controls was connected to analyze the relationship between the variables. From the discoveries, the study found that higher capital necessities and expansion in administration effectiveness affected emphatically to Sacco's gainfulness. (Matama Rogers, 2008) Corporate administration and money related execution of business banks in Uganda.

Findings showed that Corporate Governance predicts 34.5 % of the difference in the general budgetary execution of Commercial banks in Uganda. However the noteworthy supporters to monetary execution incorporate openness and unwavering quality. Openness and dependability are measures of trust. Then again acknowledge hazard as a measure of revelation has a negative association with money related execution. Clearly trust significantly affects monetary execution; given that straightforwardness and revelation helps the dependability of business banks. Banks both neighborhood and universal ought to implement full exposure hones also, straightforwardness rehearses in this manner upgrading trust with a specific end goal to make due in the focused budgetary scene.

According to (Muoria Esther, 2011) to examine how Corporate Governance affects performance of state Corporations in Kenya. Very well managed firms have higher performance. Mismanagement, wastage, incompetency and untrustworthiness by directors and workers are the main problem that have made State organizations (SCs) fail to accomplish their goals. The poor performance of SCs in Kenya by 1990 prompted outflow from government to parastatals identical to 1percent of the Gross domestic product in 1991. The objective of the study is to distinguish the relationship between financial performance, board composition and size. The study utilized distinct review plan. . Information was examined through Descriptive statistics and multi linear relapse system. The discoveries were that the board size mean for the test was observed to be ten while at least three outside chiefs is required on the board. The concentrate in this way unveils that there is a positive relationship amongst ROI and board size and board creations of all Sacco's. However the present study on impact of corporate of governance practices on financial performance of Sacco's in Nairobi region Kenya will utilize an expressive examination study outline, which incorporates overviews also, reality discovering enquiries of various types. Essential information will be gathered utilizing surveys regulated to the respondent by the scientist and optional information will be gotten from the different records of the Sacco's. Information will be gathered utilizing semi-organized surveys that will be controlled to the respondents in the study region.

### **2.2.1 Board composition and Financial Performance**

The structure of the board might be utilized to enhance the foremost specialist issue. The investment of outside executives is intended to improve the capacity of the firm to shield itself against dangers from the environment and adjust the company's assets for more prominent favorable position. Be that as it may, research on the effect of outside executives has become

fundamentally however with blended results. While the study by (Wen 2002) found a negative relationship between the quantity of outside chiefs on the board and execution, (Bhagat and Black, 2002) found no relationship between outside chiefs and Tobin's Q. In another related work, the extent of outside chiefs was found to have a critical positive relationship to firm execution (Weisbach, 1988).

Firms with higher number of outside chiefs are required to seek after exercises that would achieve low monetary influence with a high market estimation of value (Baysinger and Butler, 1985). Sheets ought to be prepared to build gatherings recurrence if the circumstance requires a high supervision and control (Shivdasani and Zenner, 2004). Different studies propose that sheets ought to adjust the expenses and advantages of recurrence. For instance, if the board builds the recurrence of its gatherings, the recuperation from poor execution is speedier (Vafeas, 1999). (Jensen, 1993) contends that isolating CEO and administrator parts is to the shareholders' advantage. Correspondingly, extensive firms that different the two capacities exchange at higher cost to-book products (Yermack, 1996) and have higher return on resources and cost productivity proportions than firms where the same individual holds both titles.

Research on effect of board adequacy, corporate benefit and shareholder esteem have overwhelmed corporate governance research in profit, researchers concentrated on the impact of non-official executives, part of the parts of administrator and CEO, or the presentation of board subcommittees, have improved board adequacy which thus has added to shareholder esteem. For instance, (Dahya, 2002) examined the relationship between top administration turnover (a measure of board adequacy) and money related execution (a measure of administration viability). Others have examined the arrangement of non-official chiefs and their part in checking organization administration, in the interest of shareholders (Bhagat and Black, 2002). Research

has considered if there is a positive relationship between the quantity of non-official chiefs and corporate money related execution, for the most part demonstrating that there is (Ferguson, Lennox and Taylor, 2005). Researchers have additionally explored the relationship between official compensation and monetary execution (Jensen and Murphy, 1990). A large group of corporate administration research has concentrated on takeovers and mergers and their association with execution, coming from a original study which recognized takeover as a training system over organization administration, again inside the money worldview of office hypothesis (Jensen and Ruback, 1993). (Mak and Yuanto, 2003) re-resound the above discoveries in firms recorded in Singapore and Malaysia when they found that firm valuation is most noteworthy when a board has five chiefs, a number considered moderately little in those business sectors.

In a Nigerian study, (Sanda, 2003) found that firm execution is emphatically related with little, instead of extensive sheets. Since the obligations of the Supervisory Committee are to a great extent specialized, it would be suitable if no less than one of the general population chose to it has some experience or preparing in inspecting or accounting. It is from whoever has some learning that alternate individuals from the panel can be guided. Freedom of advisory groups is likewise viewed as critical for a board council to be a powerful screen (Klein, 1998). John and (Senbet, 1998) report experimental proof demonstrating that the nearness of observing boards of trustees (review, designation, and remuneration panels) is emphatically identified with components connected with the advantages of observing. Notwithstanding, the nearness of insiders in the pay boards of trustees expands the likelihood of settling on rulings for the CEO's interests (Newman and Mozes, 1999). Also, when the CEO sits on the assigning board of trustees or when no choosing board of trustees exists, firms delegate less free outside executives and more dark pariahs with irreconcilable circumstances (Shivdasani and Yermack, 1999). What's

more, the business sector's response to arrangements of free outside chiefs is more positive when the executive's determination procedure is seen as moderately autonomous of CEO association (Shivdasani and Yermack, 1999).

(Klein, 2002) demonstrates that autonomous review boards of trustees diminish the probability of profit administration, along these lines enhancing straightforwardness. At last, when the CEO serves on the naming council, the review one is more averse to have a dominant part of autonomous chiefs (Klein, 2002). Corporate administration instruments guarantee financial specialists in companies that they will get satisfactory profits for their ventures (Shleifer and Vishny, 1997). On the off chance that these components did not exist or did not work legitimately, outside financial specialists would not loan to firms or purchase their value securities. In general, financial execution would likely endure in light of the fact that numerous great business opportunities would be missed and makeshift money related issues at singular firms would spread rapidly to different firms, representatives and shoppers. Past confirmation recommends that corporate administration has a positive impact over corporate execution. For instance, in view of industry level perspective, (Rajan and Zingales, 1998) find that organizations in commercial ventures that require a lot of outer financing become speedier in nations with high scores on their measures of money related advancement. In this manner, corporate administration (measured through better bookkeeping benchmarks, more grounded legitimate assurance of speculators, and a more grounded principle of law) seems to matter for budgetary execution. (Moreover, Williams, 2000), (Drobetz, (2003) and (Gemmil and Thomas, 2004) deduced in their particular studies that there is a positive relationship between great corporate administration practices and firm esteem. A broadly acknowledged explanation is that great corporate administration results in a lower expense of capital. One clarification is that great corporate

administration will prompt bring down firm hazard and in this way to a lower expense of capital. The top managerial staff is accepted to have an impact on execution. The board is vested with obligation regarding dealing with the firm and its exercises.

### **2.2.2 Board size and Financial Performance**

There is no understanding about whether a huge or little board does this well. (Yermack, 1996) recommends that the littler the top managerial staff the better the association's execution. (Yermack, 1996) further contended that bigger sheets are observed to be moderate in basic leadership. The checking costs and poor correspondence in a bigger board has likewise been seen as a purpose behind the backing of little board size (Jensen, 1993). Be that as it may, there is another school of imagined that trusts that organizations with bigger board size can push the directors to seek after lower expenses of obligation and expansion execution. Think about by (Wen, 2002) and (Abor, 2007) both reported proof in backing of a positive relationship between board size and influence. They contended that extensive sheets with unrivaled observing capacity seek after higher influence to raise the estimation of the firm.

Research has demonstrated that organizations with a higher corporate administration (taking into account created lists) were performing better and had higher business sector quality or Tobin's q (Bauer and Guenster, 2003; Beiner., 2004; Schmidt and Zimmermann, 2004). More to that, an array of organizations with better corporate administration conveyed a 2.1 for every penny higher return as contrasted and organizations of poor corporate administration (Bauer and Guenster, 2003). (Schilling, 2003) directed on the specimen of 242 of Europe's biggest enterprises recorded in the FTSE Eurotop 300 record demonstrates that organizations with more grounded corporate administration execution (measured by more than 300 corporate

administration rating variables) are all things considered additionally esteemed higher as far as Tobin's q. These results showing positive relationship between great corporate administration and firm execution were upheld by universal exploration directed on an example of 526 Korean organizations (Black, 2003).

Also, inquire about led on firm-level information of corporate administration appraisals crosswise over 14 developing markets (not covering more nations) uncovers that better corporate administration is corresponded with better working execution and business sector valuation (Klapper and Love, 2002). Corporate administration components guarantee financial specialists in organizations that they will get satisfactory returns on their ventures (Shleifer and Vishny, 1997). On the off chance that these systems did not exist or did not work legitimately, outside financial specialists would not loan to firms or purchase their value securities. Generally speaking, financial execution would likely endure in light of the fact that numerous great business opportunities would be missed and brief money related issues at individual firms would spread rapidly to different firms, workers and shoppers. Past proof recommends that corporate administration has a positive impact over corporate execution. For instance, in light of industry-level perspective, (Rajan and Zingales, 1998) find that organizations in commercial enterprises that require vast sums of outside financing become quicker in nations with high scores on their measures of monetary advancement.

In this way, corporate administration (measured through better bookkeeping models, more grounded lawful security of speculators, and a more grounded standard of law) seems to matter for budgetary execution. Likewise, (Williams, 2000), (Drobetz, 2003) and (Gemmill and Thomas, 2004) deduced in their individual studies that there is a positive relationship between great corporate administration practices and firm esteem. A generally acknowledged articulation

is that great corporate administration results in a lower expense of capital. One clarification is that great corporate administration will prompt lower firm hazard and hence to a lower expense of capital. Another exploration stream depends on the speculation that more prominent revelation upgrades securities exchange liquidity, in this way decreasing the expense of capital (Coombs and Watson, 2001). The dedication of administration groups to expand the level of revelation ought to bring down the data asymmetry amongst directors and shareholders and lower the expense of capital. As an aftereffect of a lessened expense of capital, firm valuation will increment. On the off chance that these connections hold, more noteworthy divulgence of money related data and corporate administration points will lessen data asymmetry and along these lines bringing down instability and lessening the expense of capital. The principle thought behind revelation of corporate data and corporate administration is that it decreases data asymmetries amongst chiefs and shareholders and brings down its danger. Tried and true way of thinking on corporate administration predicts that great corporate administration expands firm valuation and firm execution and diminishes the expense of capital what's more, money related extortion. Be that as it may, there might be imperative exact and hypothetical reasons why these connections try not to hold.

### **2.2.3 CEO duality and financial performance**

A firm is said to have a dual CEO when the CEO functions simultaneously as the chairman of the board (Alibrandi, 1985). Much of this attention arises from the belief that CEO duality would make a difference to firm performance and corporate governance. There is controversy surrounding how CEO duality affects the firm. Interest groups that oppose CEO duality such as shareholder activist groups, and corporate governance watchdogs suggest that CEO duality may

adversely affect firm performance because the duality structure would reduce the board's ability to govern, which is its primary function (Geneen, 1984).

In principle, great corporate administration ought to be identified with high-corporate valuation. Various experimental studies have found that financial specialists will pay a premium averaging 10-12 percent for good corporate administration (Monks and Minow, 2004). The connection of the administration file with execution could be clarified in a few diverse ways. One explanation, put for consideration by the after effects of different studies, is that wasteful administration specifically causes extra office costs. On the off chance that the business sector assesses these extra expenses, at that point stock returns will drop (Faccio and Lasfer, 2000). An option clarification is that great administration is a sign or side effect of lower office costs – a sign not legitimately consolidated in business sector costs (Baysinger and Head servant, 1985). Each of these clarifications has distinctive monetary ramifications for the wellspring of office issues also, diverse arrangement suggestions for the control of administration. It is intriguing to see whether higher corporate valuations are connected with better-administered US organizations, measured by our measure of corporate administration list (Baysinger and Hoskinsson, 1990).

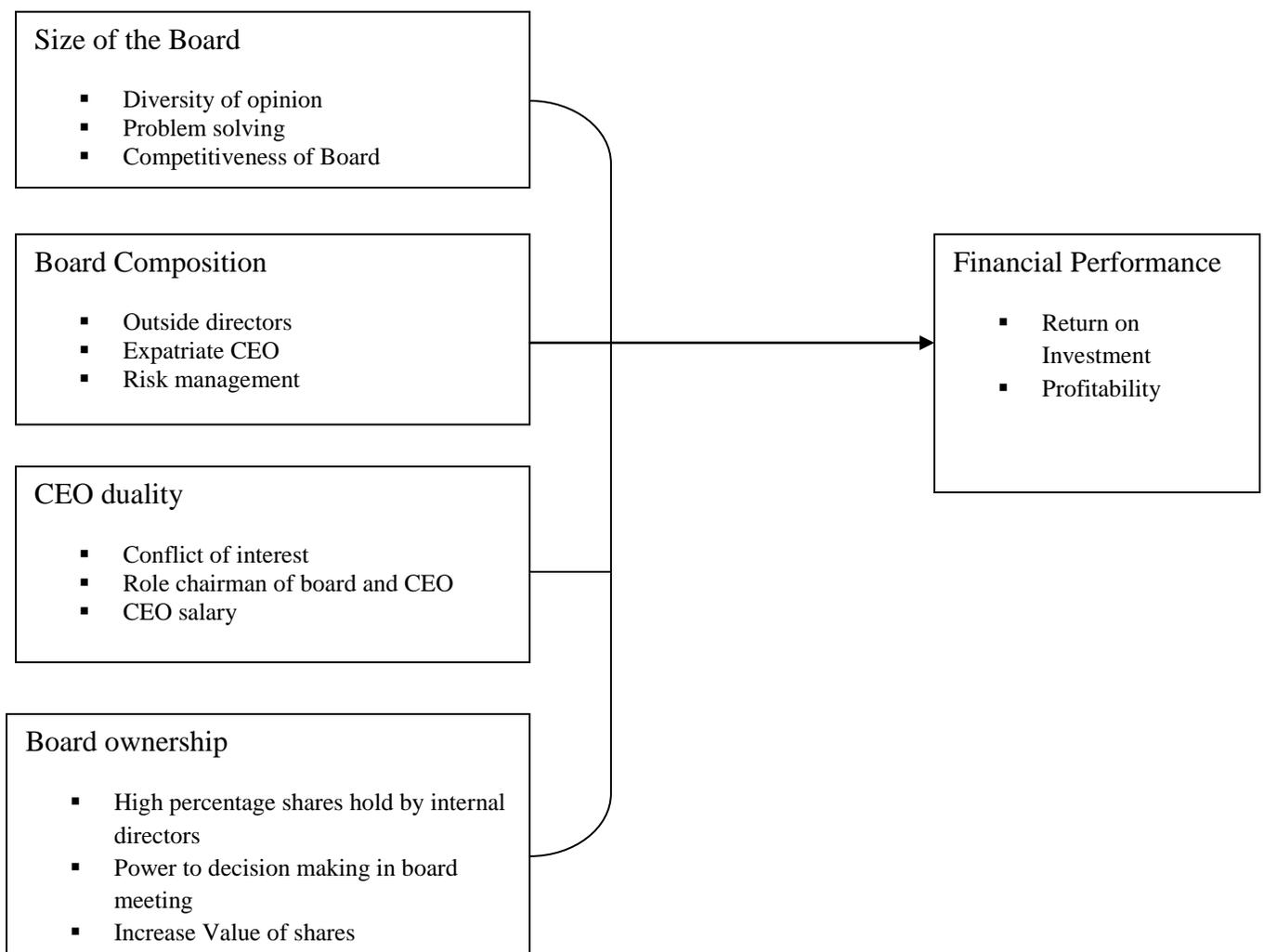
Taking notice of the fact that the factor of whether chiefs ought to be workers of or subsidiary with the firm (inside chiefs) or pariahs has been all around looked into, no reasonable conclusion is come to. From one perspective, inside chiefs are more acquainted with the association's exercises and they can go about as screens to top administration particularly in the event that they see the chance to progress into positions held by uncouth officials.

## 2.2.4 Conceptual Framework

This section shows the relationship between the independent and the dependent variables of the study. The dependent variable of this study is performance of Sacco's in Nairobi County. The independent variables of this study are corporate governance practices which are composed of; board size, board composition, CEO duality and board ownership.

### Independent variables

### Dependent variable



**Figure 1: conceptual framework**

## **2.3 Interpretation of Key Variables**

### **Board size**

In relation to a relationship between the size of the board and firms performance, there are two distinct school thoughts. The first school of thought argues that a smaller board size will contribute more to success of a firm (Lipton and Lorsch, 1992; Jensen, 1993; Yermack, 1996). However, the second school of thought considers that a large board size will improve a firm's performance (P Feffer, 1972; Klein, 1998; Coles, 2008). These studies indicate that a large board will support and advise firm management more effectively because of a complex business environment and an organization culture (Klein, 1998). Moreover, large board size will gather much more information. As a result, a large board size appears to better for a firm performance (Dalton, 1999).

### **Board composition**

To be effective a board needs the right group of people, with an appropriate mix of skills, knowledge and experience (e.g. professional backgrounds, industry experience, philanthropic support) that fits with the organization's objectives and strategic goals. This should be considered not only when new appointments are being contemplated or made, but in the context of regular board evaluations (Australian Institute of Company Directors (AICD), 2016)

### **CEO duality**

A firm is said to have a dual CEO when the CEO functions simultaneously as the chairman of the board (Alibrandi, 1985). Much of this attention arises from the belief that CEO duality would make a difference to firm performance and corporate governance. There is controversy

surrounding how CEO duality affects the firm. Interest groups that oppose CEO duality such as shareholder activist groups, and corporate governance watchdogs suggest that CEO duality may adversely affect firm performance because the duality structure would reduce the board's ability to govern, which is its primary function (Geneen, 1984).

### **Board's ownership**

(Brickley et al, 1988) concluded that the board's ownership is an encouragement for board members. This encouragement will help board members supervise management in a more efficient way. Consistent with this view, (Jensen and Murphy, 1990), (Chung and Pruitt, 1996) considered that, board's ownership will improve firm's performance.

### **2.4 Hypothesis**

- i. There is no significant difference between size of the board and financial performance
- ii. There is no significant difference between board composition and financial performance
- iii. There is no significant difference between CEO duality and financial performance
- iv. There is no significant difference between board ownership and financial performance

**Table 1.0 Operationalization of Variables**

<b>Objective</b>	<b>Variable</b>	<b>Indicators(s)</b>	<b>Data collection method</b>	<b>Measurement Scale</b>	<b>Data Analysis</b>
Board size	independent	Opinion diversity Competitiveness Problem solving	Questionnaire	Nominal	Descriptive inferential
Board composition	independent	Outside directors Expatriate CEO Risk management	Questionnaire	Nominal	Descriptive inferential
CEO duality	independent	Conflict of interest Role as chair of board and as CEO Salary	Questionnaire	Nominal	Descriptive inferential
Board Ownership	independent	Shares hold by internal directors Power in decision making Value of shares	Questionnaire	Nominal	Descriptive inferential

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 INTRODUCTION**

This chapter describes the methodology that was used to conduct the study. This constitutes, research design, target population, data collection, sampling procedure, instrumentation, validity and the reliability of instruments. The section also covers data collection methods, data analysis techniques and operational definition of factors.

#### **3.1 Research Design**

The research was done through descriptive survey method, which involves collection of data through interview or giving of questionnaires to sample individuals (Orodho, 2003). According to (Gay, 1999), a descriptive research is a procedure of collecting data so as to answer questions concerning the current status of the subjects in the study.

#### **3.2 Target Population**

Target population refers to the entire group of people, events, or factors of interest that the researcher wishes to research on (Sekaran, 2003). It is the entire finite or infinite combination of individuals or items from which samples are drawn. The target population for the study was the 38 Sacco's (according to SASRA, Sacco Societies Regulatory Authority of Kenya Website) which are duly licensed by the Sacco societies Regulatory Authority of Kenya.

### **3.3 Sample Design**

A sample is a subset of the population (Sekran, 2003). It consists of some members selected from it. Sampling is the act, process, or technique of selecting a suitable sample, or a example part of a population for determinative parameters or characteristics of the whole population (Kalton, 1983). The purpose of sampling is to enable the researcher draw conclusions about population from a sample. Simple random sampling technique was applied to select the sample. A minimum sample of 20 Sacco's was picked to facilitate getting a fair reflection of entire population. The respondents of this study included three members of the Board and three members from the top management. This gave a sample size of a hundred and twenty (120).

### **3.4 Instrumentation**

Data was collected mainly from primary sources got by the use of questionnaires that were distributed to the respondents. This is a significant approach of data collection. (Judd, 1991) asserts that a questionnaire is tenable in data collection because it enables the researcher to compile significant amount of information within a short period, it also provides opportunity for respondents to give frank, anonymous answers. The questionnaires were written in a simple and clear language for the respondent to be at ease in answering. In addition use of questionnaire was considered vital to the research since it provided accurate information regarding the study.

### **3.4.1 Validity and Reliability of research instrument**

Data validity refers to the degree to which results received from analysis of data really represents phenomenon under study (Mugenda and Mugenda, 1999). The study made use of University supervisor as the team of experts to enhance content validity. The researcher consulted with the supervisor and make adjustments in the content of the study that was raised and advised by the supervisor.

Reliability of data is the consistency of measures in a study. It is the degree to which research instruments yields consistent results of data after trials (Bryman and Bell, 2003). In this study reliability of data was tested by using test-retest method on the questionnaire. A pre-test comprising of ten individuals was selected randomly accessible population and used to carry out the test-retest of the questionnaire.

### **3.5 Data collection**

In order to establish the relationship linking corporate governance and financial performance of Sacco's, self administered drop and pick questionnaires were distributed to the targeted respondents of the twenty Sacco's. The researcher used structured questionnaires as the major data collecting instrument. Questionnaires consisted open and close-ended questions. Close ended questions are aimed at providing more structured responses to assist tangible ad vocation. Open-ended questions are to provide additional information that may have not been got in the close ended questions.

The Secondary data a source was also be employed through the use of previous files or materials to enhance the data got from questionnaires. Secondary data was collected from the Sacco's reports, books, internet, and journals.

### 3.6 Data Analysis

The data was first edited for completeness and consistency. Data was analyzed using both descriptive and inferential statistics. Appropriate for descriptive statistics frequency distributions and percentages were used while for inferential statistics regression analysis was applied. Statistical package for social sciences (SPSS) was also used to aid in the analysis of study data. To test the relationship between the dependent variable and the independent variables a multiple regression model was used. The regression equation was of the form

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Where;

Y is the performance represented by the return on investment (ROI).

X<sub>1</sub> - Board Size

X<sub>2</sub> - Board composition

X<sub>3</sub> - CEO duality

X<sub>4</sub> - Board Ownership

$$Y = \beta_0 + \beta_1\text{Board size} + \beta_2\text{board composition} + \beta_3\text{CEO duality} + \beta_4\text{board ownership}.$$

Where,  $\beta_0$  is a constant representing performance which is explained by other factors other than board size, board composition, CEO duality and board ownership.

$\beta_1$ ,  $\beta_2$ ,  $\beta_3$  and  $\beta_4$  are the coefficients of board size, board composition, CEO duality and board ownership.

## **CHAPTER FOUR**

### **DATA ANALYSIS, PRESENTATION AND INTERPRETATION**

#### **4.1 INTRODUCTION**

This chapter presents the research findings and interpretation of the study data. It commences with an analysis of the general characteristics of the respondents. The chapter then goes in to detail on the main subject of the study in accordance with the research objectives.

#### **4.2 Characteristics of the Respondents**

This part presents the results obtained on economic and demographic characteristics.

##### **4.2.1 Response Summary**

The study targeted 120 respondents and questionnaires were distributed out of which only 108 were reimbursed fully completed. This constitutes a response rate of 90 percent. The number is sufficient according to (Dilliman 2000) who stated that researchers should seek to achieve at least a 60% return rate of research instrument.

#### **4.3 Demographic information of Respondents**

##### **4.3.1 Gender of the Respondents**

The study was to establish the gender distribution of the respondents who participated in this study. This was to ensure a fair distribution between the two genders. Out of the respondents who participated in the study, 49.1% were male while 50.9% were female. The gender composition is represented in Table 4.1

**Table 4.1**

<b>Gender</b>			
	Frequency	Percent	
Male	53	49.1	
Female	55	50.9	
Total	108	100	

#### **4.3.2 Highest level of Education**

The respondents were asked to specify their highest level of education. Table 4.2 shows the study findings.

**Table 4.2**

<b>Education level</b>			
	Frequency	Percent	
Diploma/certificate	46	42.6	
Graduate	62	57.4	
Total	108	100	

From Table 4.2, majority of the respondents 62% had undergraduate degree. This was followed by 46% who had attained either diploma level or a certificate. Hence they were in a good position to respond and give rich information to the study.

**Table 4.3**

**How long have you served in that position**

	Frequency	Percent
Less than one year	34	31.5
1-5 years	48	44.4
More than 5 years	26	24.1
Total	108	100

From the findings on Table 4.3 majority of the respondents have served their positions for a period of not more than 5years at 44.4% followed by respondents who had served for more than 5 years at 24% and less than a year at 31%.

### 4.3 Board Size

The respondents were asked to rate the statement provided about Board size financial performance. Table 4.4 shows the study finding.

**Table 4.4 Board Size**

#### **Descriptive Statistics**

	N	Mean	Std. Deviation
Size of the board increase efficiency of Sacco's	108	3.5926	1.02344
Big size of board increases diversity of opinion affect performance	108	3.3056	0.99961
Big size of board increases competitiveness of board affecting performance of Sacco's	108	3.3704	1.01016
Big size of the board enhances problem solving which affects performance	108	3.75	0.99649

The findings in the table 4.4 above shows that majority of the respondents strongly agreed that big size of the board enhances problem solving which affects performance and that the size enhances efficiency of Sacco's as supported by means 3.7500 and 3,5926 respectively. The respondents agreed that the size of the board increases competitiveness of board in decision making with a mean of 3.3704 and that the size of the board increases diversity of opinion and thus affect performance at a mean of 3.3056

#### 4.4 Board Composition

The respondents were asked to rate the statement provided about Board composition on financial performance. Table 4.5 shows the study finding.

**Table 4.5 Board Composition**

##### **Descriptive Statistics**

	N	Mean	Std. Deviation
Board composition increases efficiency of Sacco's	108	3.5556	1.17873
Outside directors are better to challenge and discipline the CEO and management which affecting financial position and profitability	108	4.4537	0.83593
An expatriate CEO has superior knowledge and is likely to improve the performance of a Sacco	108	3.5093	1.1479
Board composition affect risk management and financial performance	108	4.2037	0.96441

The findings indicate that the respondents strongly agreed that Outside directors are better to challenge and discipline the CEO and management which affecting financial position and profitability at a mean of 4.4537. They also strongly agreed that Board composition affect risk management and financial performance with a mean of 4.2037. They agreed Board composition increases efficiency of Sacco's in performance at a mean of 3.5556. The respondents discreetly

agreed that an expatriate CEO has superior knowledge and is likely to improve the performance of a Sacco with a mean of 3.5093

#### 4.5 CEO duality

The respondents were asked to rate the statement provided about CEO Duality on financial performance. Table 4.6 shows the study finding.

**Table 4.6 CEO duality**

#### Descriptive Statistics

	N	Mean	Std. Deviation
Roles of Chairman of Board and CEO should be clearly defined and not vested in the same person	108	3.6667	1.18401
The monitoring role of board is weaker when the CEO is also Chair and affects financial Sacco's	108	3.3148	1.14914
CEO duality create conflict of interest and it's not good for performance of Sacco's	108	3.3981	1.33213
CEO salary affect financial performance of Sacco's	108	3.0463	1.18703

The findings indicate that that the respondents strongly agreed that Roles of Chairman of Board and CEO should be clearly defined and not vested in the same person with a mean of 3.6667. They also strongly agreed that the CEO duality create conflict of interest and it's not good for

performance of Sacco's with a mean of 3.3981. They agreed that the monitoring role of board is weaker when the CEO is also Chair and affects financial Sacco's at a mean of 3.3148. The respondents discreetly agreed that CEO salary affect financial performance of Sacco's with a mean of 3.0463.

#### 4.6 Board Ownership

The respondents were asked to rate the statement provided about Board ownership on financial performance. Table 4.7 shows the study finding.

**Table 4.7 Board Ownership**

##### Descriptive Statistics

	N	Mean	Std. Deviation
High percentage of shares hold by internal directors affect the financial performance of Sacco's	108	3.2778	1.15065
having high shares hold by internal directors gives power to the decision making in the board meeting	108	3.287	1.24593
Increase the Value of a share affect the finances of Sacco's	108	4.3519	0.70133

Financial performance is related to the shares sold	108	4.0741	0.8829
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the company every year

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The findings indicate that that the respondents strongly agreed that having high shares hold by internal directors Increase the Value of a share affecting the finances of Sacco's at a mean of 4.3519. They also strongly agreed that financial performance is related to the shares sold the company every year with a mean of 4.0741. They agreed that having high shares hold by internal directors gives power to the decision making in the board meeting with a mean of 3.2870. The respondents discreetly agreed that High percentage of shares hold by internal directors affect the financial performance of Sacco's with a mean of 3.2778.

## 4.7 REGRESSION RESULTS

### 4.7.1 Effect of Board composition on Financial Performance

**Table 4.8**

#### **Model Summary of Board Composition**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.662 <sup>a</sup>	0.438	0.433	0.57275

In Table 4.8, the model had a coefficient of determination ( $R^2$ ) = 0.438, indicating that 43.8% of financial performance was explained by the model leaving 56.2% of the variations unexplained.

This meant that model one provided a moderately weak fit.

**Table 4.9**

#### **ANOVA of Board Composition**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	27.155	1	27.155	82.778	.000 <sup>b</sup>
Residual	34.773	106	0.328		
Total	61.928	107			

Predictors: (Constant), board composition

Following a simple linear regression analysis an ANOVA output presented in Table 4.9 shows model one was significant (p-value = 0.000) at 0.05 level in explaining the linear relationship between board composition and financial performance.

**Table 4.10**

**Coefficients of Board Composition**

Model	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	1.112	0.31		3.593	0
boardcomposition	0.705	0.078	0.662	9.098	0

Table 4.10 presents the coefficients of board composition in reference to model one, board composition had a p value of 0.000. The study therefore rejected the research hypothesis  $H_{01}$  at 5% level and observed that board composition had a significant effect on financial performance.

## 4.7.2 Effect of Board size on Financial Performance

**Table 4.11**

### Model Summary of Board size

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.636 <sup>a</sup>	0.404	0.398	0.59005

In the table 4.11 model had a coefficient of determination ( $R^2$ ) = 0.404, indicating that 40.4% of financial performance was explained by the model leaving 59.6% of the variations unexplained. This meant that model one provided a weak fit.

**Table 4.12**

### ANOVA of Board size

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	25.023	1	25.023	71.871	.000 <sup>b</sup>
Residual	36.905	106	0.348		
Total	61.928	107			

Following a simple linear regression analysis an ANOVA output presented in Table 4.12 shows model one was significant (p-value = 0.000) at 0.05 level in explaining the linear relationship between board size and financial performance.

**Table 4.13**

**Coefficients of Board size**

Model	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	1.653	0.269		6.141	0
boardsize	0.637	0.075	0.636	8.478	0

Table 4.13 presents the coefficient of board size in reference to model one, board size had a p value of 0.000. The study therefore rejected the research hypothesis  $H_{02}$  at 5% level and observed that board size had a significant effect on financial performance.

### 4.7.3 Effect of CEO Duality on Financial Performance

**Table 4.14**

#### **Model Summary of CEO Duality**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.632 <sup>a</sup>	0.399	0.394	0.5924

a. Predictors: (Constant), ceoduality

In Table 4.14 model one had a coefficient of determination ( $R^2$ ) = 0.399, indicating that 39.9% of financial performance was explained by the model leaving 60.1% of the variations unexplained.

This meant that model one provided a weak fit.

**Table 4.15**

#### **ANOVA of CEO Duality**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	24.728	1	24.728	70.463	.000 <sup>b</sup>
Residual	37.2	106	0.351		
Total	61.928	107			

Following a simple linear regression analysis an ANOVA output presented in Table 4.15 shows model one was significant (p-value = 0.000) at 0.05 level in explaining the linear relationship between CEO duality and financial performance.

**Table 4.16**

**Coefficients of CEO Duality**

Model	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	2.147	0.215		9.999	0
ceoduality	0.518	0.062	0.632	8.394	0

a. Dependent Variable: financial performance

Table 4.16 presents the coefficient of board size in reference to model one, CEO duality had a p value of 0.000. The study therefore rejected the research hypothesis  $H_{03}$  at 5% level and observed that CEO duality had a significant effect on financial performance.

#### 4.7.4 Effect of Board Ownership on Financial Performance

**Table 4.17**

##### **Model Summary of Board Ownership**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.716 <sup>a</sup>	0.513	0.509	0.5333

In the table, model one had a coefficient of determination ( $R^2$ ) = 0.513, indicating that 51.3% of financial performance was explained by the model leaving 48.7% of the variations unexplained. This meant that model one provided a moderately weak fit.

**Table 4.18**

##### **ANOVA of Board Ownership**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	31.781	1	31.781	111.746	.000 <sup>b</sup>
Residual	30.147	106	0.284		
Total	61.928	107			

Following a simple linear regression analysis an ANOVA output presented in table 4.18 shows model one was significant (p-value = 0.000) at 0.05 level in explaining the linear relationship between board composition and financial performance.

**Table 4.19**

**Coefficients of Board Ownership**

Model	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	1.239	0.255		4.853	0
boardownership	0.706	0.067	0.716	10.571	0

Table 4.19 presents the coefficient of board ownership in reference to the model. Board ownership had a p value of 0.000. The study therefore rejected the research hypothesis  $H_{04}$  at 5% level and observed that board ownership had a significant effect on financial performance.

#### 4.7.5 Effect of corporate Governance Practices on Financial Performance

**Table 4.20**

##### **Model Summary of corporate Governance Practices**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.775 <sup>a</sup>	0.601	0.585	0.48999

a. Predictors: (Constant), board composition, board size, coequality, board ownership

In Table 4.20 the model had a coefficient of determination ( $R^2$ ) = 0.601, indicating that 60.1% of financial performance was explained by the model leaving 39.9% of the variations unexplained. This meant that the model provided a moderate fit.

**Table 4.21**

**ANOVA of corporate Governance Practices**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	37.199	4	9.3	38.735	.000 <sup>b</sup>
Residual	24.729	103	0.24		
Total	61.928	107			

a. Dependent Variable: financial performance

b. Predictors: (Constant), board composition, board size, coequality, board ownership

Following a simple linear regression analysis an ANOVA output presented in Table 4.21 shows model one was significant (p-value = 0.000) at 0.05 level in explaining the linear relationship between board composition, board size, CEO duality, board ownership and financial performance.

**Table 4.22****Coefficients of Corporate Governance Practices**

Model	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	0.574	0.286		2.008	0.047
boardsize	0.18	0.092	0.18	1.948	0.054
boardcomposition	0.296	0.092	0.278	3.211	0.002
ceoduality	0.069	0.082	0.084	0.845	0.4
boardownership	0.342	0.103	0.348	3.316	0.001

a. Dependent Variable: financial performance

$$Y = a + \beta_1(\text{Board size}) + \beta_2(\text{Board Composition}) + \beta_3(\text{CEO Duality}) + \beta_4(\text{Board Ownership}) + \varepsilon$$

$$\text{ROI} = a + 0.18X_1 + 0.296X_2 + 0.069X_3 + 0.342X_4 + \varepsilon$$

Where;

Y is the performance represented by the return on investment (ROI).

X<sub>1</sub> - Board Size

X<sub>2</sub> .Board composition

X<sub>3</sub> - CEO duality

X<sub>4</sub> - Board Ownership

The findings of Table 4.22 above indicate that two of the four variables were found to be significant at 95% level of confidence. They include board ownership and board composition. This indicates that the extent of financial performance of Sacco's is influenced by the board ownership and board composition. However CEO duality and board size were found to be insignificant at the 95% level of significance. This indicates that CEO duality and board size have no influence on firm performance.

## **CHAPTER FIVE**

### **SUMMARY, FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents the discussion of findings, conclusions and recommendations derived from the findings of the study. The chapter also presents the limitations that were encountered in the process of gathering findings.

#### **5.2 Summary of Findings**

The objective of the study was to examine the relationship between corporate governance practices and financial performance of selected Sacco's in Nairobi County. In order to achieve this objective, statistical analysis was done for 20 Sacco's. Corporate governance is set of relationships between a company's management, its board, its shareholders and other stakeholders which provide the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance. The study has been based on the four independent variables which are CEO duality, board composition, board size as well as institutional ownership. Financial Performance was measured by the Return on Investment of each commercial Sacco.

##### **5.2.1 Effect of board size on financial performance of Sacco's**

The first objective was to establish how board size had an effect with profitability of financial performance of Sacco's in Nairobi County. The study finds a non-effect of board size and profitability of Sacco's as the variable was found to be insignificant at the 95% level of significance having a p value greater than 0.005 of 0.054. These findings corroborate the results of a study done by (Yermack, 1996), (Eisenberg, 1998), and (Loderer 2002). They have reported a significant negative relationship between board size and the performance of a firm.

### **5.2.2 Effect of board composition on financial performance of Sacco's**

The second objective was to establish whether the board composition affect the profitability of commercial banks in Rwanda. Board composition had a positive effect as the variable was found to be significant at the 95% level of significance having a p value below 0.005 of 0.002. Hence board composition have a significant positive influence on firm performance under accounting based performance measure of ROI, implying that a firm benefits from a pool of human resources and expertise. Therefore, it is supportive that outside independent directors of Sacco's are able to ensure the checks and balances of accountability and management activities.

These findings agree with (Loderer, 2002) where he found a positive relation between firms board composition and financial performance

### **5.2.3 Effect of CEO duality on financial performance of Sacco's**

The third objective of the study was to test how CEO duality affects financial performance of Sacco's , it was found that CEO duality has no effect on financial performance of commercial banks in Rwanda since the variable was found to be insignificant at the 95% level of significance having a p value greater than 0.005 of 0.4. These findings are consistent with the study done by (Dalton, 1992) find no relationship between CEO duality and financial performance.

### **5.2.4 Effect of board ownership on financial performance of Sacco's**

The fourth objective of the study was to test how the institutional ownership affects financial performance of the Sacco's. In terms of my findings, it was found that institutional ownership was a significant factor in financial performance of Sacco's. Board ownership had a positive effect as the variable was found to be significant at the 95% level of significance having a p value below 0.005 of 0.001. These findings are inconsistent with a study that was done by

(Loderer, 2002) on institutional ownership effect on firm performance where he found a positive relation between director equity interest and firm performance.

### **5.3 Conclusion of the Study**

We therefore conclude that there is a negative effect of board size and CEO duality and a positive effect of board composition, institutional ownership on financial performance of deposit taking Sacco's. Board size does not explain the profitability due to the fact that the Sacco's are dominated by a large number of members; this implies that most of board membership is there to search for their own interest instead of searching for the interest of Sacco's which is supported by the agency theory. Board composition has shown that it does explain profitability. This may explained by the fact that the Sacco's in Kenya has a number of outside directors who are considered as board members who are at a better position to monitor and control managers .Board composition also comprise of Expatriate CEO and thus both outside directors and Expatriate CEO would want to protect their reputation as effective, independent decision makers. Effect of institutional ownership and Financial Performance of Sacco's may partly be due to the fact that shares are considered by board members as wealth by which everyone is looking for it. Holding a lot of shares by internal directors will maximize individual profit but as well as company profit maximization. CEO duality do not have effect on the performance of Sacco's in Kenya this may be explained by the fact that most of the time in our deposit taking Sacco's you find that there is a clear separation of duties but still this statement does not guarantee the financial performance of Sacco's.

#### **5.4 Recommendations**

Based on this, the paper recommends that regulatory body of the Sacco's should set up policies which shows clearly how corporate practices may be applied to the Sacco's in order to achieve profitability. The study results also found a positively correlation relationship between board ownership, board composition and performance. The study therefore recommends a majority of board members be of different expertise to provide some additional skills and perspectives that may not be possible with all boards' members. The study also recommends the separation of the positions of chairperson of the board and the CEO. Additionally, the study recommends the executive directors should have regular, frequent meetings with the CEO or other non-executive members of management present.

The study result indicates a negative correlation but significantly positive relationship between outside directors and firm financial performance. Clearly, the presence of outside independent directors alone will not solve the deficiencies exposed in corporate boardrooms and in extension, firm performance. What needs to be done is strengthen corporate boards beyond increasing the presence of outside independent directors. The environment in which corporate boards operate needs to be changed.

#### **5.5 Suggestions for further research**

The study recommends that a similar study to be conducted on the influence of corporate governance on general performance of SACCOs. This will help to identify whether the effects observed on financial performance are the same as those observed on general performance. In addition a similar study can be constructed in a different County to find out whether the findings observed in Nairobi County are replicable in other areas.

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**APPENDIX 1:**

**QUESTIONNAIRE ON EFFECT OF CORPORATE GOVERNANCE PRACTICES  
ON FINANCIAL PERFORMANCE OF SELECTED SACCOS IN NAIROBI COUNTY**

(Please tick where appropriate in the boxes provided and give explanations in the spaces provided where need be.)

**PART A: RESPONDENTS PROFILE**

1) What is your Gender?      Male          Female   

2) What is your education level?

Diploma/certificate  Graduate

3) Which level of management in are you in?

Senior management  Middle management  junior management

4) How long have you served in that position?

Less than one year  1-5 years  More than 5 years

**PART B: Board size**

Various aspects of good corporate governance are said to enhance financial performance of a firm. To what extent do you agree with the following statements that **Board size** relate to corporate governance and the performance of a Sacco?

	SD	D	U	A	SA
	1	2	3	4	5
Size of the board increase efficiency of Sacco's					
Big size of board increases diversity of opinion affect performance					
Big size of board increases competitiveness of board affecting performance of Sacco's					
Big size of the board enhances problem solving which affects performance					

**PART C: Board Composition:** To what extent do you agree board composition affect the financial performance of Sacco's?

	SD	D	U	A	SA
	1	2	3	4	5
Board composition increases efficiency of Sacco's					
Outside directors are better to challenge and discipline the CEO and management which affecting financial position and profitability					
An expatriate CEO has superior knowledge and is likely to improve the performance of a Sacco					
Board composition affect risk management and financial performance					

**PART C: CEO DUALITY;** Do you agree with the following statements that CEO duality affect performance of Sacco's?

	SD	D	U	A	SA
	1	2	3	4	5
Roles of Chairman of Board and CEO should be clearly defined and not vested in the same person					
The monitoring role of board is weaker when the CEO is also Chair and affects financial Sacco's					
CEO duality create conflict of interest and it's not good for performance of Sacco's					
CEO salary affect financial performance of Sacco's					

**PART D: Board Ownership:** What extent do you agree board ownership affect the performance of Sacco's?

	SD	D	U	A	SA
	1	2	3	4	5
High percentage of shares hold by internal directors affect the financial performance of Sacco's					
having high shares hold by internal directors gives power to the decision making in the board meeting					
Increase the Value of a share affect the finances of Sacco's					
Financial performance is related to the shares sold the company every year					

**PART E: Financial Performance:**

What extent do you agree board ownership affect the performance of Sacco's?	SD 1	D 2	U 3	A 4	SA 5
Board Size					
Board Composition					
CEO duality					
Board Ownership					

**APPENDIX 2:  
LIST OF SACCO SOCIETIES LICENSED TO UNDERTAKE DEPOSIT-TAKING  
SACCO  
NAIROBI COUNTY**

<b>No</b>	<b>Name of the Society</b>
1.	AFYA SACCO SOCIETY LTD
2.	ARDHI SACCO SOCIETY LTD
3.	ASILI SACCO SOCIETY LTD
4.	CHAI SACCO SOCIETY LTD
5.	CHUNA SACCO SOCIETY LTD
6.	ELIMU SACCO SOCIETY LTD
7.	FUNDILIMA SACCO SOCIETY LTD
8.	HARAMBEE SACCO SOCIETY LTD
9.	HAZINA SACCO SOCIETY LTD
10.	JAMII SACCO SOCIETY LTD
11.	KENPIPE SACCO SOCIETY LTD
12.	KENVERSITY SACCO SOCIETY LTD
13.	KENYA BANKERS SACCO SOCIETY LTD
14.	KENYA POLICE SACCO SOCIETY LTD
15.	KINGDOM SACCO SOCIETY LTD
16.	MAGEREZA SACCO SOCIETY LTD
17.	MAISHA BORA SACCO SOCIETY LTD
18.	MILIKI SACCO SOCIETY LTD
19.	MWALIMU NATIONAL SACCO SOCIETY LTD
20.	MWITO SACCO SOCIETY LTD
21.	NACICO SACCO SOCIETY LTD
22.	NAFAKA SACCO SOCIETY LTD
23.	NASSEFU SACCO SOCIETY LTD
24.	NATION SACCO SOCIETY LTD
25.	NYATI SACCO SOCIETY LTD
26.	SAFARICOM SACCO SOCIETY LTD

27.	SHERIA SACCO SOCIETY LTD
28.	SHIRIKA SACCO SOCIETY LTD
29.	SHOPPERS SACCO SOCIETY LTD
30.	STIMA SACCO SOCIETY LTD
31.	UFANISI SACCO SOCIETY LTD
32.	UKRISTO NA UFANISI WA ANGALICAN SACCOSOCIETY LTD
33.	UKULIMA SACO SOCIETY LTD
34.	UNAITAS SACCO SOCIETY LTD
35.	UNITED NATIONS SACCO SOCIETY LTD
36.	WANAANGA SACCO SOCIETY LTD
37.	WANANDEGE SACCO SOCIETY LTD
38.	WAUMINI SACCO SOCIETY LTD

**Source:** The Sacco Societies Regulatory Authority, Schedule 1: Licensed Sacco Societies for  
Period Ending December 2016