Effect of Corporate Governance Practices On Financial Performance of Saccos In Kericho Municipality

Joseph Kimani Mwangi1 Ziporah Obonyo Nyachwaya2 Robert K. Cheruyoit3
1 (Business Department, Maseno University, Kenya)
2 (Business department, Jomo Kenyatta University of Agriculture & Technology, Kenya)
3 (Business Administration Department, Kenyatta University, Kenya)

Abstract: In Kenya, SACCOs contribute 45% of country’s GDP and to date the sector has effectively mobilized deposits and assets totaling to Kshs200 billion and 210 billion respectively. However, the successes and rapid growth of SACCOs has begun to reveal a number of basic flaws in the Products they offer. In particular, the inherent liquidity problems of many SACCOs has led a small subset of them beginning to raise additional voluntary but more liquid savings deposits from members and even some non-members. Front Office Savings Activities (FOSAs). Persistent poor financial performance of SACCOs has caused most Sacco’s not to achieve their desired objectives of corporations and those of stakeholders like payment of good return to shareholders on their investment i.e. dividends. This has also led to scholars, policy maker and all stakeholders in the corporate world to extensively interrogate the practice of corporate governance in SACCOs. The purpose of this study was to establish the effect of corporate governance practices on the financial performance of Savings and Credit Cooperatives in Kericho Municipality. Specifically, the study sought to establish corporate governance principles adopted by Sacco’s, assess the role of board of directors and the financial performance of Savings and Credit Cooperatives in Kericho Municipality and to establish the effect of financial reporting on growth of SACCOs in Kericho Municipality. The study adopted the descriptive research design. The conceptual framework of this study comprises of independent variable; corporate governance and dependent variables financial performance. To undertake this study, a sample of 28 was drawn from a population of 194 employees and 31 BOD among the 4 SACCOs in Kericho municipality and a questionnaire distributed to each of the SACCOs, collected and analyzed the study mainly used the primary and secondary data that was collected by use of self administered questionnaires. The data was analyzed by use of both descriptive and qualitative techniques. The study will be of importance to management on how various aspects of corporate governance practices affect the operations of SACCOs, the study will also identify the impediments that face SACCO societies in approaching various corporate governance practices that affect their financial performance, policy makers will also obtain guidance in designing appropriate practices that would regulate the shareholders participation in affecting the financial performance of the SACCOs in Kenya. The study would provide information to potential and current scholars with regards to the relationship between corporate governance and financial performance. The data was presented in the form of charts, graphs and frequency tables. Corporate governance principles adopted by most Sacco’s included board of directors are elected by their members during AGM by majority. The study indicated that board of directors have great role they play in running of the SACCOs which include proper utilization of funds, proper supervision of management staff and the entire SACCOs and to ensure proper internal controls are in place. According to the study level of reporting do affect level of SACCO’s growth is most high which was indicated by increase in number of members in each year. Corporate governance has been found to be strongly positively correlated with financial performance, implying that poor corporate governance practices are associated with poor financial performance, and vice versa. The result will form a focal point for further research in Implementation of corporate governance principles within the SACCOs in Kenya.

Keywords: corporate governance practice, financial performance, sacco.

I. Introduction

In Kenya, SACCOs contribute 45% of country’s GDP and to date the sector has effectively mobilized deposits and assets totaling to Kshs200 billion and 210 billion respectively. The Savings and Credit Cooperative Societies (Sacco) have continued to play a critical role in Kenya’s financial sector in terms of access, savings mobilization and wealth creation. The successes and rapid growth of SACCOs has begun to reveal a number of basic flaws in the Products they offer. In particular, the inherent liquidity problems of many SACCOs (they Commonly offer loans equal to three times the savings balances of members) has led a small subset of them (179 at the last count) beginning to raise additional voluntary but more liquid savingsdeposits from members and even some non-members through the Front Office Savings Activity (FOSAs). At one level, the growth of FOSA balances can be seen as a considerablesuccess for the industry since
total SACCO deposits have grown rapidly and are now equal to one Quarter of all deposits in the banking system. SACCOs form part of the semi-formal category of financial services sector in Kenya. The category also comprises microfinance institutions, while ROSCAs dominate the informal category. Financial sector access for more Kenyan households and more small and micro businesses was one of the three high level aims for the financial sector as articulated in the ERS – alongside improved stability and greater efficiency. Significant progress has been made in this area with recent survey estimates now suggesting that 62% of Kenyan households enjoy some form of access to financial services (savings, credit, payments services and insurance). SACCOs operate under the Cooperative Societies Act, which encompasses all other co-operatives.

1.1.1 Corporate Governance

Good corporate governance shields a firm from vulnerability to future financial distress (Bhagat and Jefferies, 2002). The argument has been advanced time and time again that the governance structure of any corporate entity affects the firm's ability to respond to external factors that have some bearing on its financial performance (Donaldson, 2003). In this regard, it has been noted that well governed firms largely perform better and that good corporate governance is of essence to firm’s financial performance. According to Demsetz and Villalonga, (2002), a well functioning corporate governance system helps a firm to attract investment, raise funds and strengthen the foundation for firm financial performance.

It is believed that good governance generates investor goodwill and confidence. Again, poorly governed firms are expected to be less profitable. Claessens et al. (2002) also posit that better corporate framework benefits firms through greater access to financing, lower cost of capital, better financial performance and more favorable treatment of all stakeholders. They argue that weak corporate governance does not only lead to poor firm financial performance and risky financing patterns, but are also conducive for macroeconomic crises like the 1997 East Asia crisis. Other researchers contend that good corporate governance is important for increasing investor confidence and market liquidity (Donaldson, 2003). Among the many claimants on firm’s cash flows, equity shareholders have always claimed a special attention may be because of the residual nature of their claims. Parker (2007a) paradigm of the separation of share holder ownership and managements control explained that agency problem occurs when the principal (Shareholders) lacks the necessary power/information to monitor and control the agent (manager) and when the compensation of the principal and the agent is not aligned. The emphasis placed on the role of cooperatives in national development varies from one country to the other and from one environment to another. Due to the changing roles of government in cooperative development, necessitated by rapid globalization and liberalization, it has become absolutely necessary that countries keep track of these changes lest the pace of cooperative development becomes hopelessly inconsistent with the rest of the sectors. Cooperatives are today diversifying almost in every sector. As cooperative business becomes complex and sophisticated, the already existing literature and personnel are finding it difficult to cope with emerging situation without appropriate corporate governance practices. Notwithstanding all these developments, there is no deliberate effort to publish the achievements and relationship between the corporate governance practices and the financial performance in a local context. A good cooperative society is a continuous source of education for the members for example; a credit society teaches the proper use of money.

1.1.2 SACCO Societies in Kenya

Sacco is an autonomous association of persons united voluntarily to meet their common economic cultural needs and aspirations through a jointly owned and democratically controlled enterprise. The key idea behind a co-operative society is to pool the scarce resources, eliminate the middlemen and to achieve a common goal or interest (Ministry of Cooperative Development and Marketing, 2007). Cooperatives are good vehicles for assisting the people improve their socio-economic situation. They are institutions that derive their strength and validity from member solidarity cooperation and concern for each other. Co-operatives have been practiced by people from time immemorial; people organized themselves to graze cattle communally, built houses, go hunting and even dig shambas together. Modern co-operative as a practice started in the year 1844 in Britain by Rochdale Pioneers and its principles are followed worldwide (KLB, 2003). These principles are voluntary and open membership, democratic member control, economic participation, autonomy and independence, education, training and information, co-operation among co-operative members and concern for community in general.

The first co-operative in Kenya was initiated by the European settlers in the Rift Valley in 1908. The cooperative was called Luwa Farmers Cooperative Society. It was not until 1931 when the cooperative society’s ordinance became law that these societies could formally be registered as cooperatives. The first society to be registered under the new Act was the Kenya Farmers Association (KFA) which started as a company in 1923. A new ordinance was then 4 passed in 1945 and a commissioner of co-operative was appointed the following year. By independence time, there were over 600 primary co-operatives in Kenya. Kenya National Federation of Cooperatives (KNFC) was formed in 1964, and in 1966 a new Act was passed under cap 490 of the laws of Kenya (Maina, and Kibanga, 2004). Primary cooperatives comprise groups of
individuals who are either actual producers of products such as sugar, milk, tea, coffee or consumers who join up to save and obtain credit most conveniently (Njoroge, 2003). Most primary cooperatives operate at the village level, district level and a few at national levels. Secondary cooperatives societies also referred to as unions are generally composed of primary cooperatives as their members. All cooperative societies are affiliated to a national apex body called the Cooperative Alliance of Kenya (CAK) while individual Saving and Credit Cooperatives (SACCOs) affiliate to the Kenya Union of Saving and Credit Cooperative society (KUSCCO) (Ministry of Cooperative Development and Marketing, 2007). There are 5,122 registered Saccos out of the total 12,000 registered co-operatives, which is about 44% of the total number of co-operatives in Kenya. Out of the 5,122 Saccos 150 are rural Saccos (commodity based) while the rest are Urban Saccos (employee based). All Saccos operate Back Office Service Activities and have been able to mobilize over Kshs 230 billion, which is about 31 percent of the national saving and granted loans to the tune of Kshs 210 billion (Ministry of Cooperative Development and Marketing, 2010).

Saccos have registered tremendous growth since mid 1970s and have currently achieved an average growth rate of 25 percent per year in deposits and assets. Saccos have also created employment for Kenyans thus contributing to the government’s efforts of achieving the goals of Vision 2030. SACCOs have grown tremendously and currently have about 3.7 million members. The 230 Saccos with FOSAs have diversified into specialized bank-like activities which include deposit taking, saving facilities, debit card (ATM) and money transfers both local and international (Ministry of Cooperative Development and Marketing, 2007). SACCOs play an important role of serving the financing requirements need of households, small and medium enterprises (SMEs). They encourage individuals to save thereby creating or accumulating capital which contribute to economic development of the country. Most of the problems bedeviling co-operatives arise from bad governance and poor economic management. While leaders direct and control the organizations, and managers run them, members have authority to demand and enforce good governance in their organizations. Corporate governance principles seek to ensure that leaders act in the best interest of the organization that they lead in order to achieve the objectives for which they were founded. As the world moves towards this governance approach, co-operative societies are no exception. If co-operatives have to remain commercially viable and sustainable enterprises for socio-economic development, they must embrace good corporate governance. Cooperatives are governed and managed by elected committees. These committees are entrusted with the management of societies on behalf of members and employ managers and staff to carry out the day-to-day functions of the societies. In such instances, the leadership provides the guidance and delegates the powers of implementation to the staff, leaving them to act as members’ agents. Since the co-operative agents are custodians, trustees and stewards of the societies, they are accountable and answerable to members, and are expected to be efficient, effective, responsible, responsive, honest, faithful, diligent and prudent. The financial performance of the SACCOs is greatly affected by the corporate governance practices which are attributed to its committees, directors, CEOs and other stakeholders. It is therefore worth studying the relationship that exists between corporate governance practices and the financial performance of SACCOs in Kericho Municipality.

1.2 Statement of the Problem

Corporate governance has received much attention in the accounting literature, with studies focusing on the impact of corporate governance and the financial performance of the firm. Brown and Caylor (2004) provide insights to relationships between good corporate governance and corporate performance. Persistent poor financial performance of SACCOs has caused most Sacco’s not to achieve their desired objectives of corporations and those of stakeholders this has also led to scholars, policy maker and all stakeholders in the corporate world to extensively interrogate the practice of corporate governance in SACCO. Corporations have to reengineer its Corporate governance practice in order to achieve desired objectives of corporations and those of stakeholders like payment of good return to shareholders on their investment i.e. dividends. It is on the above background that the researcher seeks to establish the effect of corporate governance practices on financial performance of SACCOs in Kericho Municipality.

1.3 Objectives of the Study

The general objective of this study was to establish the effect of corporate governance practices on the financial performance of Savings and Credit Cooperatives in Kericho Municipality.

Specifically the study seeks to:

i. Establish the corporate governance principles adopted by Sacco’s in Kericho Municipality.
ii. Assess role of board of directors in the financial performance of Savings and Credit Cooperatives in Kericho Municipality.
iii. Establish the effect of financial reporting on growth of Sacco’s in Kericho Municipality.

DOI: 10.9790/5933-06335775 www.iosrjournals.org 59 | Page
1.4 Research Questions:
This study seeks to answer the following research questions:

i. What are the corporate governance principles adopted by Sacco’s in Kericho Municipality?

ii. What is the role of Directors in the financial performance of Savings and Credit Cooperatives in Kericho Municipality?

iii. What is the effect of financial reporting on growth of Sacco’s in Kericho Municipality?

1.5 Significance of the Study: This research will help to investigate the relationship between corporate governance practices and the financial performance of the Savings Credit Cooperatives in Kericho Municipality. The study would be invaluable to the various stakeholders in cooperative movement in Kericho Municipality. The management will be in position to identify how various aspects of corporate governance practices affect the operations of SACCO societies in Kericho Municipality as well as to determine the extent to which this and other factors affect operations of other SACCOs in Kericho Municipality. They will also identify the impediments that face SACCO societies in approaching various corporate governance practices that affect their financial performance. The policy makers will obtain knowledge of the cooperative movement’s dynamics and the responses that are appropriate; they will therefore obtain guidance from this study in designing appropriate practices that would regulate the shareholders participation in affecting the financial performance of the SACCOs in Kenya. The study will provide information to potential and current scholars with regard to the relationship between corporate governance and financial performance in SACCOs. In addition, researchers will be able to gain additional knowledge from the study given that it is focusing on a several SACCOs.

1.6 Scope of the Study: The study concentrated on effect of corporate governance practices on financial performance of SACCOs. The independent variable which is corporate governance practices which involve role of board of directors and reporting. The dependent variable is financial performance which is operationalized by profitability and growth. The intervening variables are the risk (credit, operational) and board composition. Study will be carried in Kericho municipality Kenya.

Conceptual Framework: Under this conceptual framework, the independent variable which is corporate governance practices which involve role of board of directors and reporting. The dependent variable is financial performance which is operationalized by profitability and growth. The intervening variables are the risk (credit, operational) and board composition.

1.7 Conceptual Framework

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Dependent Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>-Role of Board of Directors</td>
<td>-Profitability</td>
</tr>
<tr>
<td>-Financial Reporting</td>
<td>(Return on capital)</td>
</tr>
<tr>
<td></td>
<td>-Growth</td>
</tr>
<tr>
<td></td>
<td>(Membership)</td>
</tr>
<tr>
<td></td>
<td>Risks (Credit and Operational)</td>
</tr>
<tr>
<td></td>
<td>Board Composition</td>
</tr>
<tr>
<td></td>
<td>Organizational structure</td>
</tr>
</tbody>
</table>

Figure 1: Conceptual framework on the effect of corporate governance practices on financial performance of SACCOs.

Source: self conceptualization (2013)
II. Literature Review

2.1 Theoretical Literature

2.1.1 Agency Theory

Corporate governance is based on agency theory, which is the relationship between agents and principals. Agency theory explains how best the relationship between agents and principals can be tapped for purposes of governing a corporation to realize its goals. Interest on agency relationships became more prominent with the emergence of the large corporation. There are entrepreneurs who have a knack for accumulation of capital, and managers who had a surplus of ideas to effectively use that capital. Since the owners of capital (principals) have neither the requisite expertise nor time to effectively run their enterprises, they hand them over to agents (managers) for control and day-to-day operations, hence, the separation of ownership from control, and the attendant agency problems. In an agency relationship, principals and agents have clearly defined responsibilities: Principals are select and put in place governors (directors and auditors to ensure effective governance system is implemented, while agents are responsible for the day-to-day operations of the enterprise.

Historically, definitions of corporate governance also took into consideration the relationship between the shareholder and the company, as per “agency theory”, i.e. director-agents acting on behalf of shareholder-principles in overseeing self-serving behaviors of management. However, broader definitions of corporate governance are now attracting greater attention (Solomon and Solomon, 2004). Indeed, effective corporate governance is currently understood as involving a wide number of participants. The primary participants are management, shareholders and the boards of directors, but other key players whose interests are affected by the corporation are employees, suppliers, customers, partners and the general community. Therefore, corporate governance, understood in these broadening social contexts, ensures that the board of directors is accountable not only to shareholders but also to non-shareholder stakeholders, including those who have a vested interest in seeing that the corporation is well governed. Some corporate governance scholars (Carter and Lorsch, 2004; Leblanc and Gillies, 2005) also argue that at the heart of good corporate governance is not board structure (which receives a lot of attention in the current regulations), but instead board process (especially consideration of how board members work together as a group and the competencies and behaviors both at the board level and the level of individual directors). As a result, the current scholarly discuss about the nature of corporate governance has come to reflect this body of research.

This separation is however, linked and governed through proper “agency relationship” at various levels, among others “between shareholders and boards of directors, between boards and senior management, between senior and subordinate levels of management” (ISDA, 2002). In such a principal-agent relationship, there is always “inherent potential for conflicts within a firm because the economic incentives faced by the agents are often different from those faced by the principals” (ISDA, 2002). According to ISDA (2002), all companies are exposed to agency problems, and to some extent develop action plans to deal with them. These include establishing such measures as: “controls on the actions of agents, monitoring the actions of agents, financial incentives to encourage agents to act in the interest of the principals, and separation of risk taking functions from control functions” (ISDA, 2002).

2.1.2 Stakeholders Theory

There are two main theories of stakeholder governance: the abuse of executive power model and the stakeholder model. Current Anglo-American corporate governance arrangements vest excessive power in the hands of management who may abuse it to serve their own interest at the expense of shareholders and society as a whole (Hutton, 1995). Supporters of such a view argue that the current institutional restraints on managerial behavior, such as non-executive directors, the audit process, the threat of takeover, are simply inadequate to prevent managers abusing corporate power. Shareholders protected by liquid asset markets are uninterested in all but the most substantial of abuses. Incentive mechanisms, such as share options, are means through which managers can legitimize their abnormal overpayment (viewed by some as a symptom of the breakdown of governance (Keasey et al., 1997). The abuse of executive power is particularly embedded in the problem of executive overpay since executive remuneration has risen far faster than average earnings and there is at best a very weak link between compensation and management performance (Conyon et al., 1995; Gregg et al., 1993). The only restraint on executive pay seems to be the modesty of executives themselves, and the creation of so-called independent remuneration committees by large companies is not effective. What is worse is that it...
legitimates self-serving managerial behaviors. The independence is generally a sham, not for restraining excess of pay, but for justifying it (Kay and Silberston, 1995, p. 85, 94). The supporters of this model do not believe that the main lines of corporate governance reform, such as non-executive directors, shareholder involvement in major decisions and fuller information about corporate affairs, are suitable monitoring mechanisms (Kay and Silberston, 1995, p. 94). Instead, they propose statutory changes in corporate governance, under which hostile takeovers are not possible to effect, since ownership of shares no longer brings the right to appoint executive management. The basic objective of corporate governance in this guise is “managerial freedom with accountability”, to allow executive management the power to develop the longer term business, while holding them rigorously responsible to all stakeholders involved in the business.

Perhaps the most fundamental challenge to the orthodoxy is the stakeholder model, with its central proposition is that a wider objective function of the firm is more equitable and more socially efficient than one confined to shareholder wealth (Keasey et al., 1997, pp. 8-9). The well-being of other groups such as employees, suppliers, customers and managers, who have a long-term association with the firm and therefore a “stake” in its long-term success, is recognized. The goal of corporate governance is to maximize the wealth creation of the corporation as a whole. Specifically, a stakeholder is defined as “any group or individual who can affect or is affected by the achievement of the firm’s objectives” (Freeman, 1984) and this is “meant to generalize the notion of stockholder as the only group to whom management need to be responsive” (Freeman, 1984). These definition were formulated form the base that modern corporation is affected by a large set of interest groups, including at a minimum shareholders, lenders, customers, employees, suppliers and management, which are often referred to as the primary stakeholders, who are vital to the survival and success of the corporation. From this perspective, corporate governance debates often proceed with a fixation on the relationship between corporate managers and shareholders, which presupposes that there is only one right answer. In fact, shareholders are difficult and reluctant to exercise all the responsibilities of ownership in publicly held corporations, whereas other stakeholders, especially employees, may often too easily exercise their rights and responsibilities associated as owners. This is a compelling case for granting employees some form of ownership. Communities are interested in SACCO society’s governance as key stakeholders as they derive benefit from being employees, suppliers, customers of quality products and beneficiaries of corporate social responsibility policies of SACCOs. Employees would like to get assurance that they are working in a SACCO that will sustain itself thus securing their employment. Suppliers want to be sure of payment after delivery of goods and services. Customers are looking for affordable goods and services. Agumba (2008).

2.1.3 Shareholder Theory

There are two main theories of shareholder-oriented governance: the principal-agent or finance model and the myopic market model. The principal-agent model starts from an assumption that the social purpose of corporations is to maximize shareholders' wealth (Coelho et al., 2003). The principal-agent model regards the central problem of corporate governance as self-interested managerial behaviour in a universal principal-agent relationship. Agency problems arise when the agent does not share the principal's objectives. Furthermore, the separation of ownership and control increases the power of professional managers and leaves them free to pursue their own aims and serve their own interests at the expense of shareholders (Berle and Means, 1932). There are two problems occurring in the agency relationship with which agency theory is concerned. The first is that because it is difficult or expensive for the principal to verify what the agent is actually doing, the principal cannot verify that the agent has behaved appropriately. The second problem is that the principal and the agent may prefer different actions because of the different attitudes toward risk. Those two problems bring about a particular type of management cost incurred as principals attempt to ensure that agents act in principals' interests: “agency cost” (Jensen and Meckling, 1976). To solve those problems, agency theory must determine the most efficient contract governing the principal-agent relationship and an optimal incentive scheme to align the behavior of the managers with the interest of owners. While the principal-agent model agrees upon the failure of corporate internal control, it denies the inherent failure of market mechanisms, insisting that markets are the most effective regulators of managerial discretion, the so-called “efficient market model” (Blair, 1995).

The myopic market model shares a common view with the principal-agent model that the corporation should serve the shareholders' interests only, but criticizes that the Anglo-American model of corporate governance because of “competitive myopia” (Hayes and Abernathy, 1980) and its consequent pre-occupation with short-term gains in return, profit, stock price and other performance measures induced by market pressures. The myopic market model holds that what is wrong with corporate governance is that the system encourages managers to focus on short-term performance by sacrificing long-term value and competitiveness of the corporation. The financial markets often force managers to behave in a way divergent from the maximization of long-term wealth for shareholders (Blair, 1995). The myopic market view contends that corporate governance reform should provide an environment in which shareholders and managers are encouraged to share long-term performance horizons. Shareholders' loyalty and voice should increase, whereas the ease of shareholders' exit...
should reduce. Policy proposals for the reform include the encouragement of relationship investing to lock financial institutions into long-term positions, restrictions on the takeover process and on voting rights for short-term shareholders, and the empowerment of other groups such as employees and suppliers that have long-term relationships with the firm (Keasey et al., 1997).

2.1.4 The concept of Corporate Governance

Corporate governance has, in more recent years, become one of the most commonly used terms in the modern corporation. The empirical research and literature has burgeoned and the field is highly interdisciplinary. Stakeholders in the corporate governance arena are many and wide ranging and their participation in this field has spawned a rich and varied range of information resources pertaining to distinct disciplinary fields and practitioner interests. The corporate governance researcher thus needs to have an in-depth understanding of the diverse roles various stakeholders play and how they fit together in the complex arena of corporate governance as it exists today. Corporate governance has come to underpin systematically the work of many business academics and practitioners alike, and their information and research needs present challenges not only for them, but also for the information professionals who assist them. Governance refers to the manner in which power is exercised in the management of economic and social resources for sustainable human development initiative (McCord, 2002). According to McCord corporate governance refers to the manner in which the power of a corporation is exercised in the stewardship of the corporation total portfolio and resources with an objective of obtaining increasing stakeholders value with a satisfaction of other stakeholders within the context of individual organizations corporate mission and vision as spelt out in the strategic plan of an institution. In today’s world governance has assumed critical importance in the socio-economic and political systems.

The definition of corporate governance may vary in different contexts or different countries (Solomon and Solomon, 2004). In very simple terms, corporate governance refers to how a corporation is governed (National Association of Corporate Directors, 2006). Laws, regulations or formal policy play a significant role in determining this, of course. For example, legally, a board of directors is vested with the authority to manage or supervise the management of the business and affairs of a corporation. Each director and officer, in exercising their powers and discharging their duties, is required by law to: act honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. While these duties are deliberately broad in their scope, what has occurred in the last several years is that specific duties and responsibilities have been imposed on and expected of directors by regulations, shareholder guidelines and otherwise, in a broad variety of areas (e.g., board structure and composition, director qualifications and financial, risk and compensation oversight by the board) in order to ensure that boards of directors adequately oversee the management of the organization and act in the best interests of the company and all of its shareholders at all times.

Corporate governance systems may be therefore thought of as mechanisms for establishing the nature of ownership and control of organizations within an economy. In this context, corporate governance mechanisms are economic and legal institutions that can be altered through the political process – sometimes for the better (Shleifer and Vishny, 1997). Company law, along with other forms of regulation (including stock exchange listing rules and accounting standards), both shape and is shaped by prevailing systems of corporate governance. The impact of regulation on corporate governance occurs through its effect on the way in which companies are owned, the form in which they are controlled and the process by which changes in ownership and control take place (Jenkinson and Mayer, 1992). Ownership is established by company law, which defines property rights and income streams of those with interests in or against the business enterprise (Deakin and Slinger, 1997). The definition of “ownership” is problematic in this context (Njoya, 1999). At the bottom, differences in conceptions of ownership lead to differences in forms of control and, therefore, differences in the formulation and implementation of corporate strategy (Deakin and Hughes, 1997).

The main corporate governance themes that are currently receiving attention are adequately separating management from the board to ensure that the board is directing and supervising management, including separating the chairperson and chief executive roles; ensuring that the board has an effective mix of independent and non-independent directors; and establishing the independence of the auditor and therefore the integrity of financial reporting, including establishing an audit committee of the board. In designing a corporate governance system, it is important to include all the stakeholders. It should involve the company and all interested parties. The system of governance could thus help or hinder internal corporate ventures. It is in the best interests of owners to resort to control mechanisms that move the operations of the firm to full efficiency by aligning the interest of managers and all stakeholders. The stakeholder theory argues about the importance of a firm paying special attention to the various stakeholder groups in addition to the traditional attention given to investors (Freeman, 1984; Gibson, 2000). These various groups of stakeholders which include customers, suppliers, employees, the local community and shareholders are deemed to also have a stake in the business of a firm.
Proponents of stakeholder theory thus argue for representation of all stakeholder groups on boards for effective corporate governance. The stakeholder theory also emphasizes the role of non-market mechanism, such as the need to determine an optimal board size, the need to design a committee structure that allows for the setting up of specialized committees. Such a structure would allow, for example, the setting up of productivity-oriented committees and monitoring-oriented ones (John and Senbet, 1998).

There is recognition of the issue of multiplicity of stakeholders under the stakeholder theory. John and Senbet (1998) argue that certain actions of management might have conflicting effects on various classes of stakeholders. This implies that managers have a multiplicity of objective functions to optimize. Jensen (1993) sees this as an important weakness of the stakeholder theory because it violates the proposition that a single-valued objective is a prerequisite for purposeful or rational behavior by any organization. He suggests a refinement of the stakeholder theory – the enlightened stakeholder theory. The modified form of the stakeholder theory proposes one objective that managers should pursue: the maximization of long-run value of the firm. If the interest of any major stakeholder were not protected, the long-run value maximization would not be achieved.

To explain primary impediments of good governance, the International Swaps and Derivatives Association (ISDA) (2002) reminds us that modern economic theory has established an approach to the construct of corporate governance through the separation of two main functions in firms, which are: principals, the owners of the companies who hold claims over the net income of the company's business; and agents, who execute duties and responsibilities in the companies on behalf of the principals. Good Corporate Governance aims at increasing profitability and efficiency of organizations and their enhanced ability to create wealth for shareholders, increased employment opportunities with better terms for workers and benefits to stakeholders. The transparency, accountability and probity of organizations make them acceptable as caring, responsible and legitimate wealth creating organs of society. The enhanced legitimacy, responsibility and responsiveness of business enterprises within the economy and improved relationships with their various stakeholders comprising shareholders, managers, employees, customers, suppliers, host communities, providers of finance and the environment enhance their market standing, image and reputation. Good corporate governance is necessary in order to attract investors both local and foreign and assure them that their investment will be secure and efficiently managed and in a transparent and accountable process, create competitive and efficient companies and business enterprises, enhance the accountability and performance of those entrusted to manage corporations and promote efficient and effective use of limited resources (Ledgerwoods, 1981). Without efficient companies or business enterprises the country will not create wealth or employment. Without investment, companies will stagnate and collapse. If businesses enterprises do not prosper there will no economic growth, no employment, no taxes, paid and invariably the country will not develop. The country needs well-governed and managed business enterprise that can attract investment, create jobs and wealth and remain viable, sustainable and competitive in the global market place. Good corporate governance therefore becomes a prerequisite for national economic development (Ledgerwoods, 1981).

ISDA (2002) notes in its mission statement that corporate governance has become an issue of worldwide importance. The Corporation has a vital role 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 private and public interest and governance has thereby come to the head of the international agenda (ISDA, 2002). Since cooperatives are custodians, trustees and stewards of the cooperative, they are accountable, answerable and expected to be effective, efficient, responsible, responsive, honest, faithful, diligent and capable. These virtues/attributes are preconditions of a successful steward of any organization and forms the basis on which successful corporate governance, practice may be built. For successful corporate governance, the role of members, committees and employees should be clearly defined. The cooperatives’ management and employees must account to somebody. The cooperatives must be managed efficiently and effectively to ensure their survival and prosperity. In addition, the management must be transparent. They must disclose to both the stakeholders and the general public sufficiently and relevant/appropriate information to enable them make informed decision in any transaction that they might have with the cooperative. The cooperative development in Kenya has enjoyed a great deal of government support both in terms of policy and legislation. Sessional Paper No. 10 of African Socialism and its application to planning in Kenya has clearly identified the main task facing independent Kenya. It stated the need to grow rapidly, to transform the economy from the substance to a market economy, to develop land and introduce modern agricultural methods and to provide more employment opportunities. Co-operatives are based on the values of self-help, self responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, Co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.
Given the existing problem inherent in the corporate firm, financial performance will be function of the quality of the corporate governance structures of the company (McKinsey and Co. 2005). In an efficient capital market, investors will discount the price they are willing to pay for a company’s shares by the expected level of managerial agency costs. It is therefore assumed that for a company to prosper it will choose a corporate governance that is efficient in minimizing agency costs. It has also been argued that in the end it is a country's political framework which determines the quality of its corporate governance practices (Roe, 2003). An important theme of corporate governance deals with issues of accountability and fiduciary duty, essentially advocating the implementation of guidelines and mechanisms to ensure good behavior and protect shareholders (Otero 1998). Another key focus is the economic efficiency view, through which the corporate governance system should aim to optimize economic results, with a strong emphasis on shareholders welfare. There are yet other sides to the corporate governance subject, such as the stake holders view, which calls for more attention and accountability to players other than the shareholders (e.g.: the employees or the environment) (Singh 2005). Recently there has been considerable interest in the corporate governance practices of modern corporations, particularly since the high-profile collapses of large U.S. firms such as Enron Corporation and Worldcom (Knell 2006). The argument has been advanced time and time again that the governance structure of any corporate entity affects the firm’s ability to respond to external factors that have some bearing on its performance. In this regard, it has been noted that well governed firms largely perform better and that good corporate governance is of essence to firms. The subject matter of corporate governance has dominated the policy agenda in developed market economies for sometime especially among very large firms. Subsequently, the concept is gradually warming itself to the top of policy agenda in the Africa continent. Indeed, it is believed that the Asian crisis and the seemingly poor performance of the corporate sector in Africa have made the concept of corporate governance a catchphrase in the development debate (Berglof and von Thadden, 1999).

It is believed that good governance generates investor goodwill and confidence. Again, poorly governed firms are expected to be less profitable. Claessens et al. (2003) also points that better corporate framework benefits firms through greater access to financing, lower cost of capital, better performance and more favourable treatment of all stakeholders. They argue that weak corporate governance does not only lead to poor firm performance and risky financing patterns, but are also conducive for macroeconomic crises like the 1997 East Asia crisis. Other researchers contend that good corporate governance is important for increasing investor confidence and market liquidity (Donaldson, 2003). Becht et al. (2002) identifies a number of reasons for the growing relevance of corporate governance, which includes the world-wide wave of privatization of the past two decades, the pension fund reform and the growth of private savings, the takeover wave of the 1980s, the deregulation and integration of capital markets, the 1997 East Asia Crisis, and the series of recent corporate scandals involving firms such, as Enron and WorldCom in the USA and elsewhere. Developing countries are now increasingly embracing the concept knowing it leads to sustainable growth. Indeed/ corporate governance in Kenya is now gaining some level of recognition with very little work in the area even in the well-regulated institutions and sectors.

Several studies have been done to the effect of corporate governance structure and firm's performance. One argument is that a strong corporate governance structure, could lead to a high performance (Sanda et al, 2005). It will help to promote a firm’s performance and protect stake holder's interests. Nam et al (2002) found that corporate governance should lead to better performance since managers are better supervised and agency costs are decreased. Poor corporate governance on the other hand is a fertile ground for corruption and poor financial performance. Brown et al (2003) found that firms with weaker corporate governance perform poorly compared to those with stronger corporate governance in terms of stock returns, profitability, riskiness and dividend payments.

2.2 Empirical Review

Previous empirical studies have provided the nexus between corporate governance and firm financial performance Kilonzi, Benson Kioko (2012) The impact of Sasra regulations on the financial performance of SACCOs in Kenya. Findings, the study found that higher capital requirements, and increase in management efficiency impacted positively to SACCO’s profitability in the post- capital regulation period. The study revealed that capital regulation affects financial performance in SACCOs. The study concluded that financial stability could be at risk as a result of shocks impinging on the economic system and absence of proper policy adjustments to mitigate the effects of these shocks. For policy implications, the findings indicate the importance of reviving demand for credit using macroeconomic policies. Causal research design was chosen to establish the effects of SASRA regulations on the financial performance of SACCOs in Kenya. The study targeted the 98 SACCOs registered by SASRA. The sampling method chosen for this study was purposive sampling which is a form of non-probability sampling to select 30 SACCO based in Nairobi. The study used secondary data. The secondary data was collected from the financial statements of the SACCOs to obtain information on annual earnings of the SACCOs registered under SASRA. A linear regression model of SACCOs return on assets
versus SASRA regulations was applied to examine the relationship between the variables. From the findings, the study found that higher capital requirements, and increase in management efficiency impacted positively to SACCO’s profitability. Matama Rogers (2008) Corporate governance and financial performance of commercial banks in Uganda. Findings indicated that Corporate Governance predicts 34.5% of the variance in the general financial performance of Commercial banks in Uganda. However the significant contributors to financial performance include openness and reliability. Openness and reliability are measures of trust. On the other hand credit risk as a measure of disclosure has a negative relationship with financial performance. It is obvious that trust has a significant impact on financial performance; given that transparency and disclosure boosts the trustworthiness of commercial banks. Banks both local and international should enforce full disclosure practices and transparency practices thereby enhancing trust in order to survive in the competitive financial landscape. Data was analyzed using descriptive analysis options of Spss 11.0 while multiple regression analysis was used to test the potential predictors of the dependent variable. The study targeted the 4 banks that deal with both retail and corporate customers. The sampling method chosen for this study was Proportionate Stratified Random Sampling with sample size of 388. The study used secondary data. The secondary data was collected from the financial statements of the banks to obtain information on annual earnings of the banks. Multi regression was applied to examine the relationship between the variables. A.N. Ondiek1, et al (2011) an assessment of the effect of external financing on financial performance of savings and credit cooperatives in Kisii Central District, Kenya. Findings were made in line with the objectives of the study. The factors influencing the need for external financing on performance of Sacco’s were studied. The reasons for the need for external financing included: increase of capital for on-lending; to increase membership size; maintenance of operational expenses; to enhance cooperative income; to benefit from competitive lending rates to Sacco’s; and influence of apex organizations. Majority of the respondents held that the funds were meant for on-lending to members while the least number of them said the external funds were as a result of the influence of apex organizations. Descriptive survey design was used for the study. Proportionate random sampling was used to obtain a sample of 100 respondents. A semi-structured questionnaire was used to collect quantitative data from the sampled SACCOs. Both qualitative and quantitative techniques were used to analyze data. Quantitative data were analyzed using descriptive statistics such as the mean, percentage, tabulation, frequency distribution and Likert scale. The results were presented in narrative form, tables, and charts.

Miring’u Alice N.1, Muoria Esther T.2 (2011) to examine how Corporate Governance affects performance in commercial state Corporations in Kenya. Well-governed firms have higher firm performance. Mismanagement, bureaucracy, wastage, incompetence and irresponsibility by directors and employees are the main problems that have made State corporations (SCs) fail to achieve their performance. The poor performance of SCs in Kenya by 1990 led to outflow from central government to parastatals equivalent to 1 percent of the GDP in 1991. The objective of the study is to identify the relationship between financial performance, board composition and size. The study used descriptive survey design. Data were analyzed through descriptive statistics and multilinear regression technique. The findings were that he board size mean for the sample was found to be ten while a minimum of three outside directors is required on the board. The study thus discloses that there is a positive relationship between ROE and board size and board compositions of all SCs. However the present study on effect of corporate governance practices on financial performance of saccos in kericho municipality Kenya will use a descriptive research survey design, which includes surveys and fact-finding enquiries of different kinds. Primary data will be collected using questionnaires administered to the respondent by the researcher and secondary data will be obtained from the various records of the SACCOs. Data will be collected using semi-structured questionnaires that will be administered to the respondents in the study area.

2.2.1 Relationship between Corporate Governance and Financial Performance

Research has shown that companies with a higher corporate governance (based on developed indices) were performing better and had higher market value or Tobin’s q (Bauer and Guenster, 2003; Beiner et al., 2004; Schmidt and Zimmermann, 2004). Moreover, a portfolio of companies with better corporate governance delivered a 2.1 per cent higher return as compared with companies of poor corporate governance (Bauer and Guenster, 2003). Schilling (2003) conducted on the sample of 242 of Europe’s largest corporations listed in the FTSE Eurotop 300 index shows that companies with stronger corporate governance performance (measured by over 300 corporate governance rating variables) are on average also valued higher in terms of Tobin’s q. These results indicating positive relationship between good corporate governance and firm performance were supported by international research conducted on a sample of 526 Korean companies (Black et al., 2003). Additionally, research conducted on firm-level data of corporate governance ratings across 14 emerging markets (not covering transition countries) reveals that better corporate governance is correlated with better operating performance and market valuation (Klapper and Love, 2002).
Corporate governance mechanisms assure investors in corporations that they will receive adequate returns on their investments (Shleifer and Vishny, 1997). If these mechanisms did not exist or did not function properly, outside investors would not lend to firms or buy their equity securities. Overall, economic performance would likely suffer because many good business opportunities would be missed and temporary financial problems at individual firms would spread quickly to other firms, employees and consumers. Previous evidence suggests that corporate governance has a positive influence over corporate performance. For example, based on industry-level view, Rajan and Zingales (1998) find that firms in industries that require large amounts of external financing grow faster in countries with high scores on their measures of financial development. Thus, corporate governance (measured through better accounting standards, stronger legal protection of investors, and a stronger rule of law) appears to matter for financial performance. In addition, Williams (2000), Drobetz et al. (2003) and Gemmill and Thomas (2004) concluded in their respective studies that there is a positive relationship between good corporate governance practices and firm value. A widely accepted statement is that good corporate governance results in a lower cost of capital. One explanation is that good corporate governance will lead to lower firm risk and subsequently to a lower cost of capital.

Another research stream relies on the hypothesis that greater disclosure enhances stock market liquidity, thereby reducing the cost of capital (Coombs and Watson, 2001). The commitment of management teams to increase the level of disclosure should lower the information asymmetry between managers and shareholders and lower the cost of capital. As a result of a reduced cost of capital, firm valuation will increase. If these relationships hold, greater disclosure of financial information and corporate governance topics will reduce information asymmetry and thereby lowering uncertainty and reducing the cost of capital. The main idea behind disclosure of corporate information and corporate governance is that it reduces information asymmetries between managers and shareholders and lowers its risk. Conventional wisdom on corporate governance predicts that good corporate governance increases firm valuation and firm performance and reduces the cost of capital and financial fraud. However, there may be important empirical and theoretical reasons why these relationships do not hold.

In theory, good corporate governance should be related to high-corporate valuation. A number of empirical studies have found that investors are willing to pay a premium averaging 10-12 percent for good corporate governance (Monks and Minow, 2004). The correlation of the governance index with performance could be explained in several different ways. One explanation, suggested by the results of other studies, is that inefficient governance directly causes additional agency costs. If the market estimates these additional costs, then stock returns will drop (Faccio and Lasfer, 2000). An alternative explanation is that good governance is a signal or symptom of lower agency costs – a signal not properly incorporated in market prices (Baysinger and Butler, 1985). Each of these explanations has different economic implications for the source of agency problems and different policy implications for the regulation of governance. It would be interesting to see whether higher corporate valuations are associated with better-governed US companies, measured by our measure of corporate governance index (Baysinger and Hoskinson, 1990).

Though the issue of whether directors should be employees of or affiliated with the firm (inside directors) or outsiders has been well researched, no clear conclusion is reached. On the one hand, inside directors are more familiar with the firm's activities and they can act as monitors to top management especially if they perceive the opportunity to advance into positions held by incompetent executives.

### 2.2.2 Board of directors and Financial Performance

The composition of the board may be used to ameliorate the principal-agent problem. The participation of outside directors is designed to enhance the ability of the firm to protect itself against threats from the environment and align the firm's resources for greater advantage. However, research on the impact of outside directors has grown significantly but with mixed results. While the study by Wen et al.(2002) found a negative relationship between the number of outside directors on the board and performance, Bhagat and Black (2002) found no relationship between outside directors and Tobin's Q. In another related work, the proportion of outside directors was found to have a significant positive relationship to firm performance (Weisbach, 1988). Firms with higher number of outside directors are expected to pursue activities that would bring about low financial leverage with a high market value of equity (Baysinger and Butler, 1985). Boards should be ready to increase meetings frequency if the situation requires a high supervision and control (Shivdasani and Zenner, 2004). Other studies suggest that boards should balance the costs and benefits of frequency. For example, if the board increases the frequency of its meetings, the recovery from poor performance is faster (Vafeas, 1999). Jensen (1993) argues that separating CEO and chairman roles is in the shareholders' interest. Similarly, large firms that separate the two functions trade at higher price-to-book multiples (Yermack, 1996) and have higher return on assets and cost efficiency ratios than firms where the same person holds both titles. Studies of the impact of boards/board effectiveness on corporate profitability and shareholder value have dominated corporate governance research in finance. These researchers focused on the influence of non-
executive directors, splitting of the roles of chairman and chief executive, or the introduction of board sub-committees, have enhanced board effectiveness which in turn has added to shareholder value. For example, Dahya et al. (2002) investigated the relationship between top management turnover (a measure of board effectiveness) and financial performance (a measure of management effectiveness). Others have studied the appointment of non-executive directors and their role in monitoring company management, on behalf of shareholders (Bhagat and Black, 2002). Research has considered whether there is a positive relationship between the number of non-executive directors and corporate financial performance, generally showing that there is (Ferguson, Lennox and Taylor, 2005). Researchers have also investigated the relationship between executive remuneration and financial performance (Jensen and Murphy, 1990). A host of corporate governance research has focused on takeovers and mergers and their relationship with performance, stemming from a seminal study which identified takeover as a disciplining mechanism over company management, again within the finance paradigm of agency theory (Jensen and Ruback, 1993). Mak and Yuanbo (2003) re-echo the above findings in firms listed in Singapore and Malaysia when they found that firm valuation is highest when a board has five directors, a number considered relatively small in those markets. In a Nigerian study, Sanda et al. (2003) found that firm performance is positively related with small, as opposed to large boards. Since the duties of the Supervisory Committee are largely technical, it would be appropriate if at least one of the people elected to it has some experience or training in auditing or book-keeping. It is from whoever has some knowledge that the other members of the committee can be guided. Independence of committees is also considered important for a board committee to be an effective monitor (Klein, 1998). John and Senbet (1998) report empirical evidence showing that the presence of monitoring committees (audit, nomination, and compensation committees) is positively related to factors associated with the benefits of monitoring. However, the presence of insiders in the compensation committees increases the probability of making decisions in favor of the CEO's interests (Newman and Mozes, 1999). Moreover, when the CEO sits on the nominating committee or when no nominating committee exists, firms appoint fewer independent outside directors and more gray outsiders with conflicts of interest (Shivdasani and Yermack, 1999). In addition, the market's reaction to appointments of independent outside directors is more positive when the director's selection process is viewed as relatively independent of CEO involvement (Shivdasani and Yermack, 1999). Klein (2002) shows that independent audit committees reduce the likelihood of earnings management, thus improving transparency. Finally, when the CEO serves on the nominating committee, the audit one is less likely to have a majority of independent directors (Klein, 2002).

Corporate governance mechanisms assure investors in corporations that they will receive adequate returns on their investments (Shleifer and Vishny, 1997). If these mechanisms did not exist or did not function properly, outside investors would not lend to firms or buy their equity securities. Overall, economic performance would likely suffer because many good business opportunities would be missed and temporary financial problems at individual firms would spread quickly to other firms, employees and consumers. Previous evidence suggests that corporate governance has a positive influence over corporate performance. For example, based on industry-level view, Rajan and Zingales (1998) find that firms in industries that require large amounts of external financing grow faster in countries with high scores on their measures of financial development. Thus, corporate governance (measured through better accounting standards, stronger legal protection of investors, and a stronger rule of law) appears to matter for financial performance. In addition, Williams (2000), Droebetz et al. (2003) and Gemmill and Thomas (2004) concluded in their respective studies that there is a positive relationship between good corporate governance practices and firm value. A widely accepted statement is that good corporate governance results in a lower cost of capital. One explanation is that good corporate governance will lead to lower firm risk and subsequently to a lower cost of capital. The board of directors is assumed to have an influence on performance. The board is vested with responsibility for managing the firm and its activities. There is no agreement over whether a large or small board does this better. Yermack (1996) suggests that the smaller the board of directors the better the firm's performance. Yermack (1996) further argued that larger boards are found to be slow in decision making. The monitoring expenses and poor communication in a larger board has also been seen as a reason for the support of small board size (Jensen, 1993). However, there is another school of thought that believes that firms with larger board size have the ability to push the managers to pursue lower costs of debt and increase performance. Studies by Wen et al. (2002) and Abor (2007) both reported evidence in support of a positive relationship between board size and leverage. They argued that large boards with superior monitoring ability pursue higher leverage to raise the value of the firm.

Summary of Gap in the Literature Review

Good Corporate Governance is of paramount importance in all organizations regardless of their industry, size or level of growth. Even the best run organizations it further observed to need good Corporate Governance as it sets the Tone at the Top which in turn influences what transpires at the lower levels.

DOI: 10.9790/5933-06335775  www.iosrjournals.org  68 | Page
Research has been extensively carried out on Kilonzi, Benson Kioko (2012) The impact of Sasra regulations on the financial performance of SACCOs in Kenya. population size used 98 saccos with sample size of 30 saccos, methodology used casual research design and purposive sampling. Data was analysed using linear regression model, to examine how Corporate Governance affects performance in commercial state Corporations in Kenya. by Miring’u Alice N.1, Muoria Esther T.2 (2011), A.N. Ondieki1, C. Okioa1, D. K. Okwena2 and A. Onsase3 (2011) an assessment of the effect of external financing on financial performance perfomance of savings and credit cooperatives in Kisii Central District Kenyathe study targeted a population 243 members in 12 Saccos with sample size of 100 respondents , data collected by use semi-structured questionnaire ,proportionate random sampling was employed, data analysed by use of qualitative and quantitative analysis. Data presented in form of tables and charts. Matma Rogers(2008) Corporate governance and financial performance of commercial banks in Uganda. Used population size of 4 banks with sample size of 388 account holders. Data used both primary and secondary .Current research done to investigate the effects of corporate governance on financial performance of the Savings and Credit Cooperatives in Kericho Municipality Kenya. The study use 4 Saccos with sample size of 28 respondents a descriptive research survey design was used, Self-administered Questionnaires were sent to each SACCOS. Data was analyzed mainly by use of qualitative methods .The data was presented in the form of charts, graphs and frequency tables. seeks to fill this gap by investigating the relationship between corporate governance practices and financial performance of Savings and Credit Cooperatives in Kericho municipality .

III. Research Methodology

a. Research Design
The study used a descriptive research survey design, which includes surveys and fact-finding enquiries of different kinds. According to Gall and Borg (2006), descriptive research designs portray accurately the characteristics of a particular individual situation or group. The major purpose of description of the state of affairs as it exists at present (Kothari, 2003). The data was collected in an attempt to describe accurately as possible the current situation of the effect corporate governance practices on financial performance of SACCOs in Kericho Municipality. The design used a primary research method that is the collection of primary data.

3.2 Study area
The study was conducted in Kericho Municipality. The geographical area of Kericho covered in the study was as defined by local authority.

3.3 Target population
A target population is that group of SACCOs from which the study is designed and generalizations of the findings are to be made from, (Kothari 2004).The target population of the study were 4 SACCOs in Kericho Municipality.These were
1. Ndege chai sacco
2. Kipsigs sacco
3. Kenya highland Sacco
4. Simba chai Sacco

3.3.1 Sample Size
A survey was conducted on all the 4 SACCOs in Kericho Municipality. A sample size of 28 respondents targeting top 5 managers from each sacco and 2 board members. Self-administered Questionnaires were sent to each SACCOs. The study mainly utilized the primary data collected by use of self-administered questionnaire to minimize non-response. Secondary data from relevant publications was used to supplement the primary data.

3.3.2 Sampling Technique
Stratified random sampling was used which involved dividing the population into strata’s then taking a simple random sample in each group. Sample was drawn from each subgroup which comprised all the four SACCOs. The sample distribution of saccos in kericho municipality is as shown below.

<table>
<thead>
<tr>
<th>NAME OF SACCO</th>
<th>TOP 5 MANAGERS</th>
<th>BOARD MEMBERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ndege chai sacco</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Kenya highlands</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Imilisha</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Simba chai</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>TOTALS</td>
<td>20</td>
<td>8</td>
</tr>
</tbody>
</table>
3.4. Data collection method
Self-Administered questionnaires were used. Perceptions and Beliefs will sought to a five-point Likert Scale, five being the highest (Tull and Hawkins, 1993).

3.4.1. Sources of Data.
Primary data was collected using questionnaires administered to the respondent by the researcher and secondary data was obtained from the various records of the SACCOs.

3.4.2 Data Collection Procedure
Data was collected from the manager of the SACCOs through self-administered questionnaires at the respective places of operations. The research also administered interviews to the key informants.

3.4.3 Instrument for data collection
Data was collected using questionnaires that were administered to the respondents in the study area. The selection of this tool was guided by the nature of data collected and time available. The questionnaires were distributed to 28 respondents and were collected after two weeks for analysis.

3.4.4. Reliability test for Data collection Instrument
Reliability of measurement concerns the degree to which a particular measuring procedure gives similar results over a number of repeated trials (Orodho, 2003). Reliability is an extent to which a questionnaire or any measurement procedures produces the same result on repeated trials (Oso and Onen, 2001). A pilot survey was undertaken to obtain the effectiveness of corporate governance practices in SACCOs in Kericho Municipality using the pre-test questionnaire.

3.4.5. Validity Test for Data Collection Instrument
The validity for data collection instrument shows the extent at which the content of the questionnaire actually measures the concept. Content validity was adopted in the study.

3.5. Data Analysis Techniques
Both qualitative and quantitative techniques were used to analyze data. Quantitative data were analyzed using descriptive statistics such as the mean, percentage, tabulation, frequency distribution and likert scale methods. The research results were presented in narrative form, tables and charts.

3.6. Data Presentation
The data was presented in the form of charts, graphs and frequency tables.

3.7 Limitations faced during the study.
Some SACCOs denied the researcher information as they failed to believe that the Research was purely academic. As a result, the researcher was unable to get information From such SACCO. Some SACCO offices hardly opened doors daily for operations. This resulted into the researcher bouncing on number of occasions. Few respondents never returned the questionnaire administered to them.

IV. Research Findings And Discussions

4.1. Profile of the respondents
Out of 28 questionnaires sent to different Sacco in Kericho Municipality, 22 responses were received. This represents a response rate of 79%, which was considered reasonable for providing data for the study. The respondents were classified according to the Name of your Sacco as shown in Table 4.1 below.

<table>
<thead>
<tr>
<th>Name of your Sacco</th>
<th>Frequency (N)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>KENYA HIGHLAND</td>
<td>5</td>
<td>23</td>
</tr>
<tr>
<td>KIPGIES SACCO</td>
<td>6</td>
<td>27</td>
</tr>
<tr>
<td>NDEGE CHAI SACCO</td>
<td>7</td>
<td>32</td>
</tr>
<tr>
<td>SIMBA CHAI</td>
<td>4</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>22</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 4.2 Sacco’s year of establishment.
Table 4.2 below, findings indicated that 2 of the Sacco were establishing between 1977 and 1978. This is an indication that the Sacco have operated for more than 30 years since the year establishment.
Table 4.3

<table>
<thead>
<tr>
<th>Position held by the respondent</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board member</td>
<td>3</td>
<td>75.0</td>
</tr>
<tr>
<td>Fosa Manager</td>
<td>1</td>
<td>25.0</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The findings of the study were analyzed as per the research objectives.

A. 4.2.1 Establish the corporate governance principles adopted by Sacco’s in Kericho Municipality.

In order to establish the corporate governance principles adopted by Sacco’s in Kericho Municipality, the respondents were asked to what level does your Sacco adopt corporate governance practices. The responses were agreement measured on a Likert scale of 1 to 5, with 1 being to a most High and 5 being Very low.

Table 4.4: Sacco adopt corporate governance practices

<table>
<thead>
<tr>
<th>What level does your Sacco adopt corporate governance practices</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most High</td>
<td>3</td>
<td>75.0</td>
</tr>
<tr>
<td>Very low</td>
<td>1</td>
<td>25.0</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>100.0</td>
</tr>
</tbody>
</table>

According to table 4.4, 75 percent of the respondents are in agreement that the level of their adoption to corporate governance practices is most high.

Table 4.5: How is the board of directors elected in your Sacco

<table>
<thead>
<tr>
<th>How is the board of directors elected in your Sacco</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elected during AGM by majority</td>
<td>4</td>
<td>100.0</td>
</tr>
<tr>
<td>Nominated</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Inherited</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>100</td>
</tr>
</tbody>
</table>

All the four Sacco respondents who were interviewed agree that they elected their members during AGM by majority this therefore implies that board of directors are elected based on their performance and services they offer.

Objective 2 Assess role of board of directors in the financial performance of Savings and Credit Cooperatives in Kericho Municipality.

How the Sacco disclose financial statement to the members and entire public

Table 4.6

<table>
<thead>
<tr>
<th>How the Sacco disclose</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>During AGM only</td>
<td>3</td>
<td>75.0</td>
</tr>
<tr>
<td>During AGM and publish through media</td>
<td>1</td>
<td>25.0</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Table 4.6

<table>
<thead>
<tr>
<th>To what level does your reporting affect growth of your Sacco</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most High</td>
<td>4</td>
<td>100.0</td>
</tr>
<tr>
<td>High</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Medium</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Low</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Very Low</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>100</td>
</tr>
</tbody>
</table>
According to table 4.6, 100 percent of the respondents are in agreement that level of their reporting affect level of Sacco growth is most high. All of the respondents felt that their level of reporting affect the growth in the Sacco.

![Figure 1](image_url)

**Figure 1**

Number of members in the Sacco

<table>
<thead>
<tr>
<th>Year</th>
<th>Sacco 1</th>
<th>Sacco 2</th>
<th>Sacco 3</th>
<th>Sacco 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>4500</td>
<td>14567</td>
<td>17000</td>
<td>3750</td>
</tr>
<tr>
<td>2008</td>
<td>5000</td>
<td>16240</td>
<td>15640</td>
<td>5000</td>
</tr>
<tr>
<td>2009</td>
<td>5500</td>
<td>15928</td>
<td>13110</td>
<td>6180</td>
</tr>
<tr>
<td>2010</td>
<td>7000</td>
<td>19645</td>
<td>11990</td>
<td>7500</td>
</tr>
<tr>
<td>2011</td>
<td>9000</td>
<td>24924</td>
<td>9600</td>
<td>9400</td>
</tr>
<tr>
<td>2012</td>
<td>10000</td>
<td>21840</td>
<td>16540</td>
<td>11800</td>
</tr>
</tbody>
</table>

The figure 1 above presents the number of members joining Sacco from the year 2007-2012.

![Figure 2](image_url)

The figure 1 above presents profits attained by Saccos from the year 2004-2012. Study reveals upward trends in terms of profits which is partly explained by role of board of directors.

### V. Summary Of Findings, Conclusion And Recommendation

#### 5.1 Summaries of the findings

The summary of the findings were made in line with objectives of the study.

The corporate governance principles adopted by most Sacco’s included board of directors are elected by their members during AGM by majority implying that board of directors are elected based on their performance and services they offer. This is according to Sasra and co-operative act, Financial statements are disclosed to members and entire public through AGM and publication through media clear indication that members are able to access books of accounts hence financial transparency, disclosure and trust displayed by directors running those institutions. Other practices included board term runs for three years which is according to SASRA and co-operative Act Majority of the Sacco’s have their board tenures strictly followed this represents compliance with corporate governance guidelines as set by the WOCCU report(2005).
Effect of corporate governance practices on financial performance of SACCOs in...

The effect of financial reporting on growth of SACCOs was also investigated by the study. The research sought to find out if the financial reporting has effect on growth of the SACCOs which was measured in terms membership. According to the study level of reporting do affect level of SACCOs growth is most high which was indicated by increase in number of members in each year.

The study also sought to find out role of directors in the financial performance. The study indicated that boards of directors have great role they play in running of the SACCOs which include proper utilization of funds, proper supervision of management staff and the entire SACCOs.

5.2 Conclusion

Corporate governance has been found to be strongly positively correlated with financial performance, implying that poor corporate governance practices are associated with poor financial performance and vice versa. This agrees with the statement of the research; Coleman & Osei, (2007), Dittmar & Mahrt-Smith, (2007) that corporate governance has been identified to have a significant impact on the performance. Good corporate governance partly explain level of profits achieved by most SACCOs some SACCOs e.g. Kipsigis and Kenya highlands which has showed upward trend in most of the years.

5.3 Recommendations

SACCOs should ensure that the principles of corporate governance as advocated by the various institutions like WOCCU, SASRA and co-operative act are enforced at all times. The board members of these SACCOs should ensure they get copies of these documents or that they are availed to them for the purpose of supervision and monitoring of the SACCO activities.

The SACCO should undertake awareness campaign in order to create awareness among their members on their rights and the institution structure, as well as encourage active members’ participation in activities of the SACCO for instance voting in the Annual General Meeting. This will enable the members to critically assess the way their institutions are being managed.

References


DOI: 10.9790/5933-06335775 www.iosrjournals.org 73 | Page
Effect of corporate governance practices on financial performance of SACCOs in...
Effect of corporate governance practices on financial performance of SACCOs in...