CORPORATE GOVERNANCE AND PERFORMANCE OF SAVINGS AND CREDIT COOPERATIVE SOCIETIES IN KILIFI COUNTY, KENYA

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ABSTRACT

The SACCO sector is becoming increasingly important in Kenya. This sector is a key player in the economy, controlling about 43 per cent of Kenya's gross domestic product therefore called for an investigation into the effect of corporate governance on the on performance of SACCOs in Kenya. The total assets in the Kenya's SACCO sector increased to K.sh.248 billion from K.sh. 216 billion in 2010. Cross-cutting issues affecting performance of SACCOs in Kenya include governance, inadequate human resource, weak regulations and supervision, limited products and services, low marketing, innovation and poor image. The other challenges have been low capitalization, poor information technology, and high taxation, lack of financial standards, HIV/AIDS and non-remittance of deductions by employers in addition there are inadequate research findings on how and to what extent these factors influence the performance of the SACCOs in Kenya. The general objective of the study was to establish the influence of corporate governance on performance of SACCOs in Kilifi County. The specific objectives of the study were to establish the influence of board composition, size of the board, board members qualification and gender balance of the board members on the performance of SACCOs in Kilifi county. The study was anchored on two theories which include agency theory and stakeholders' theory. The study used descriptive research design. The target population for the study was 200 respondents from the 40 SACCOs with offices in seven sub-counties of Kilifi County. The study used purposive sampling technique to select only 30 SACCOs which are registered, operational and have their records with the Directorate of Cooperative in Kilifi County with each 5 board members making the sample size of 150 respondents. The researcher used a semi-structured questionnaire administered to each member of the sample population. The researcher carried out a pilot study to pretest and validate the questionnaire. Quantitative data collected was analyzed by the use of descriptive and inferential statistics using SPSS. The analysed data was presented in graphs, frequencies, charts and tables for interpretation and to enable draw conclusions and recommendations thereof. The study established that corporate governance was a significant factor in determining performance of the performance of the SACCOs in Kilifi County. The study concluded that the boards of directors among the SACCOs in Kilifi County were moderately representative, diverse, professional and qualified. The study further concluded that lean or small board size but professional and qualified contributed positively and significantly to the performance of the SACCOs due to their efficiency and effectiveness in decision making, management, communication, coordination, monitoring and in operation cost. The study concluded that the board members among the SACCOs in Kilifi County have the necessary knowledge, skills, experience and ideas to improve the performance of the firms. The study further recommended that SACCOs in Kilifi County didn't have gender balance among their boards with the male gender dominating. The female gender was not fairly represented and delegated leadership roles. However there was at least a female board member among the SACCOs included in the study. The study recommends that the SACCOs need to ensure that the boards are representative, diverse, professional and qualified. The study recommends that lean or small board size but professional and qualified should be embraced among the SACCOs due to their efficiency and effectiveness in decision making, management, communication, coordination, monitoring and in operation cost.

Key Words: *corporate governance, performance, savings and credit cooperative societies, Kilifi County, Kenya*

INTRODUCTION

The modern business environment poses several challenges that require sound decision making and appropriate corporate governance practices. According to Edwards & Clough (2005) recent failures in corporate governance have led to the proliferation of corporate governance codes which emphasize accountability and conformance measures in organizations. The essence of these codes is to determine what entails good corporate governance in an organization. For any organization to succeed in achieving good performance, it must be able to embrace conventional good corporate governance attributes as stipulated in codes such as the Cadbury code in the United Kingdom (UK) (Edwards & Clough, 2005).

Developing countries are now increasingly embracing the concept of good corporate governance, because of its ability to impact positively on sustainable growth. It is believed that, good governance generates investor goodwill and confidence. Firms are now improving their corporate governance practices knowing it increases valuations and boosts the bottom line. Corporate governance is seen as the process and structure used to direct and manage the business affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking into account the interest of other stakeholders. Claessens, Fan, & Wong (2002) maintain that better corporate frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more favorable treatment of all stakeholders.

While there exist numerous approaches to assess the quality of the legal and institutional framework of countries (Kaufmann et al. 2003), investors have shown a growing demand for a global benchmark of good corporate behavior, which can help create shareholder value regardless of the system (Gompers, Ishii & Metrick, 2003). Corporate governance processes matter to workers because they shape: the creation of wealth and its distribution into different pockets; the portfolios of pensioners and retirees, the claims of the rich and the poor rewards to entrepreneurial initiative; the incentives firms must invest in their labour force and social welfare, health, and retirement plans (Gourevitch and Shinn, 2005).

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 posit 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).

Corporate governance is important because it promotes good leadership within the corporate sector. Corporate governance has the following attributes; leadership for accountability and transparency, leadership for efficiency, leadership for integrity and leadership that respect the rights of all stakeholders (Institute of Corporate Governance of Uganda, 2000). Effective corporate governance is critical to firm performance and by extension shareholders' value and especially so after the high profile corporate collapses and scandals such as Enron, Worldcom and others in the US, serving as an impetuous to such recent U.S. regulations as the Sabarnes-Oxley Act of 2002, considering the most sweeping corporate governance regulations in the past 70 years Byrnes et al.(2003), the main object of the Act being to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws and other purposes. Others are Parmalat in Italy, Marcos10b & Fortune and Baby Doc of Haiti. Back in Kenya, the collapse of Kenya United Insurance, Lake Star Insurance, Goldenberg, Kenren and Anglo-Leasing scandal clearly point out on the need of good corporate governance. Corporate governance has succeeded in attracting a good deal of public interest because of its apparent importance for economic health of corporations and society in general. Corporate governance is about exercise of power over corporate entities. It has become one of the central issues in the running and regulation of modern enterprise today. However the underlying ideas and concepts of corporate governance have been surprisingly slow to evolve.

Globalization and liberalization of financial markets, corporate governance scandals and increasing demands from stakeholders for accountability and transparency of organizations, brought the roles and tasks of board of directors (BODs) to the centre of corporate governance debate (Ingley and Van der Walt, 2005). BODs have various and important roles (Finkelstein and Money, 2003). According to Zahra and Pearce (1989), the main roles of BODs are control, service and strategy. Realization of these roles mainly depends on the characteristics of boards, which affect the performance of organizations, (Johnson et al, 1996).

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. (2012) found a negative relationship between the number of outside directors on the board and performance, Bhagat and Black (2011) 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, 2008). 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, 2005).

The number board of directors is assumed to have an influence on financial 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 well. Yermack (2006) suggests that the smaller the board of directors the better the firm's performance. Yermack (2010) 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, 2003). However, there is another school of thought that believes that firms with larger board size can push the managers to pursue lower costs of debt and increase performance. Studies by Wen et al. (2012) 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.

STATEMENT OF THE PROBLEM

The failure of some of the big Saccos in Kenya, has thrown up a myriad of questions about the effectiveness of contemporary accounting, auditing and corporate governance practices within these institutions. The recent scandals of corruption in some of the largest SACCOs are just the latest in a long line of failings and bankruptcies due to bad practices. The lack of proper governance mechanisms have been attributed for the failure of some of these institutions. Not much research has been made on the corporate governance of SACCOs, except general guidelines associated with FOSAs and as in Ademba (2006). This phenomenon may well cripple the effective development and growth of SACCOs in Kenya and eventually the overall economic recovery process. It is important then for proper management of this sector to ensure enhanced performance. Wasike (2012) noted that corporate governance helped Elimu SACCO in defining the relation between the SACCO and its general environment, the social and political systems in which it operated and also linked the way management and control were organized thus affecting the performance of the SACCO and its long run competitiveness. Corporate governance mechanisms may result in greater performance for SACCOs as well, if appropriate measures are mandated by the regulators. It has been observed by the Credit Union Directors Newsletter, (2004), that in most countries, Credit Unions do not strictly comply with the codes of corporate governance, but it has often been argued that such codes should also apply to these institutions.

Governance problems specific to the SACCOs pose challenges not faced by many other forms of organizations as Mwango (2010) found out. Mudibo (2005) noted that despite the enormous potential of co-operative societies to significantly contribute to Kenya's development, the performance of the sector has been constrained by a number of factors namely poor governance and limited transparency in their management, market intelligence and market research, weak capital leading to low capital volume, low resource base and narrow borrowing base, and infrastructural weakness occasioned by operational and structural flaws. Many researches have been carried out on corporate governance and firms' performance within and without Kenya, but little has been done on SACCO sector. In Kenya, the studies done in financial services sector have focused on other companies other than SACCO sector in Kenya. Jebet (2001) conducted a study of corporate governance practices among the quoted companies in Kenya, Muriithi (2005) did a study on the relationship between corporate governance mechanisms and performance of firms quoted on the NSE, Manyuru (2005) researched on corporate governance and organizational performance the case of companies quoted at the NSE while Matengo (2008) did a study on the relationship between corporate governance practices and performance: the case of financing sector industries in Kenya. This study sought to investigate the influence of corporate governance on performance of all SACCOs in Kilifi County, Kenya.

GENERAL OBJECTIVE

The main objective of this study was to investigate the effect of corporate governance on performance of SACCOs in Kilifi County, Kenya.

SPECIFIC OBJECTIVES

1. To evaluate the effect of board composition on performance of SACCOs in Kilifi County, Kenya.
2. To determine how board size affect the performance of SACCOs in Kilifi County, Kenya.
3. To assess the effect of board members' qualification affects the performance of SACCOs in Kilifi County, Kenya.
4. To establish how gender balance affects the performance of SACCOs in Kilifi County, Kenya.

THEORETICAL REVIEW

Agency Theory

This theory was proposed by Jensen and Meckling (1976), the Agency theory describes the relationship between the principal and the agent in which is a person hires another to carry out a service, to act or make decisions on their behalf. Managers in a firm are agents of shareholders who assume that the principles guiding them are those geared towards maximization of shareholders wealth. In reality, this assumption is affected by following three factors. First, clash of interests of the principal and the agent because the agents may strife to make the most of their own value with no thought for the principal's, secondly, the presence of a great amount of information irregularity between the principal and the agent and the possibility that the agent can take advantage of it to enrich themselves and lastly the inability of the principal to make sure that the agent performs in obedience to the principal's interests that makes it either difficult or too costly for him to observe the agents' efforts (Beasley, 2012).

Agency theory aims at resolving two problems that can occur in agency relationships. These problems arise due to conflict of interests between the principal and the agent, which arise due to separation of ownership and control which has been confirmed by Davis, Schoorman and Donaldson. (1997). Managers tend to develop opportunistic behavior due to legitimacy authority that has been bestowed to them by the shareholders, this behavior leads to conflict of interest causing agency problem.

The principal expects to be compensated if the agent takes action that might harm his investment. For example, if the board of directors who are the agent made decision to invest in riskier project, the shareholders will demand to be compensated thus increasing the cost of capital. It is therefore a challenge to align the interest of principal and the agent due to the following areas of conflict; moral threat, earnings retention, time horizon and risk perception and which can be referred as agency problems (Jensen & Meckling, 1976; Shleifer & Vishny, 1989).The model of an employee portrayed in the agency theory is more of a self-interested, individualistic and are bounded rationality where rewards and punishments seem to take priority (Jensen & Meckling, 1976).

Shareholders normally prefer to earn cash flows through an extensive period of time according to the dividends and increased value of the firm as opposed to the management on the other hand, prefer cash flows that are generated within their term in office. This gives rise to time horizon agency conflict. Dechow and Sloan (2011) found that investment in research and development and investment in fixed assets by a company reduces in the final years of the Chief Executive Officer in office. This might be attributed to the fact that such a CEO will not be around to benefit from future benefits that will accrue from such investments. At the same time, the management of the firm may also engage in creative accounting practices with a view of manipulating earnings prior to their exit from office in an attempt to maximize their performance based bonuses (Ermina & Mariamp, 2010).

In the SACCO sector firms, agency problem takes a different dimension because the area of conflict involves more than two parties at any given time (shareholders, management and the government/regulator). The SACCOs shareholders may invest more or less capital contrary to the stipulated requirements by the regulator with a view of exploiting other suppliers of funds who mainly constitute of institutional investors and minority shareholders who may be holding a substantial number of shares (Beasley, 2012). Institutional investors have enough powers to monitor and control managers to the extent that the management can reveal some secretive information to them that they can use to exploit minority shareholders. Based on these state of affairs the government is forced to take up the role of the regulator through SASRA with the intention of protecting the minority shareholders' and other stakeholders' interests.

Stakeholder Theory

It was originally detailed by Ian Mitroff in 1983 in San Francisco. One argument against the strict agency theory is its narrowness, by identifying shareholders as the only interest group of a corporate entity necessitating further exploration. Stakeholder theory has become more prominent because many researchers have recognized that the activities of a corporate entity impact on the external environment requiring accountability of the organization to a wider audience than simply its shareholders. For instance, McDonald and Puxty (1979) proposed that companies are no longer the instrument of shareholders alone but exist within society and, therefore, has responsibilities to that society. One must however point out that large recognition of this fact has rather been a recent phenomenon. Indeed, it has been realized that economic value is created by people who voluntarily come together and cooperate to improve everyone's position (Freeman & McVea, 2004).

Jenson (2001) critique the Stakeholders theory for assuming a single-valued objective (gains that accrue to a firm's constituencies). The argument of Jensen (2001) suggests that the performance of a firm is not and should not be measured only by gains to its stakeholders. Other key issues such as flow of information from senior management to lower ranks, inter-personal relations, working environment, etc are all critical issues that should be considered. Some of these other issues provided a platform for other arguments as discussed later. An extension of the theory called an enlightened stakeholder theory was proposed. However, problems relating to empirical testing of the extension have limited its relevance (Sanda et al., 2005).

Wheeler et al (2002) argued that stakeholder theory was derived from a combination of the sociological and organizational disciplines. The theory is concerned with value and beliefs about the appropriate relationships between the individual, the enterprise, and the state. It involves a discourse on the balance of responsibilities, accountability, and power throughout the society. It is not a predictive theory that can be researched. Consequently, this societal view of corporate governance is probably better thought as a philosophy rather than a theory. Blair (1995) defined stakeholders to be those actors who have contributed firm specific assets. Donaldson & Preston (1995) provided the following definition. Stakeholders are identified through the actual or potential harms and benefits that they experience or anticipate experiencing as a result of the firm's actions or inactions'. Stakeholders are described by Turnbull (1997) as 'strategic stakeholders' as strategic issues concern the ability of a firm to exist.

According to the stakeholder theory, corporate governance is primarily concerned with how effective different governance systems are in promoting long term investment and commitment amongst the various stakeholders, (Williamson, 1985). Kester (1992), for example, states that "the central problem of governance is to devise specialized systems of incentives, safeguards, and dispute resolution processes that will promote the continuity of business relationships that are efficient in the presence of self-interested opportunism". Blair (1995) also argued that corporate governance should be regarded as the set of institutional arrangements for governing the relationships among all of the stakeholders that contribute firm specific assets. Companies stakeholders argue that, companies owe a duty to all those affected by their behavior. This calls for even directors to be accountable and responsible to a wide range of stakeholders far beyond companies' current company law responsibility to shareholders. Such responsible behaviour, the stakeholder advocate argue, should be the price society demands from companies for the privilege of incorporation, granting shareholders limited liability for the company's debts.

EMPIRICAL REVIEW

Board Composition and Performance

Board composition refers to the proportion of representation of non-executive directors on the Board. The composition of the Board reflects the unique characteristics of the organization, so it needs directors whose skills and backgrounds are diverse and complement one another. They should include lawyers, Accountants, Management Specialists, Bankers and Economists as well as networking skills. The Board through its composition should collectively possess the necessary knowledge and experience to address the strategic and challenging demands facing the organisation. The key desirable characteristic of a board member is the commitment and loyalty to the ideals and vision of the institution. In addition to that the board is responsible to oversee the conduct of the company's business, with a view to evaluating on an on-going basis, whether the companies are being managed in a manner consistent with enhancing shareholder value and stakeholder value (Yermack, (2010).

Eisenberg et al. (2008) also found negative correlation between board size and profitability when using sample of small and midsize Finnish firms. Mak and Yuanto (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.

Ongore and K'Obonyo (2011) conducted a study to examine the interrelations among ownership, board and manager characteristics and firm performance in a sample of 54 firms listed at the Nairobi Securities Exchange. His study showed a positive relationship between managerial discretion and performance. However, the relationship between ownership concentration and government on firm performance was significantly negative.

Size of the Board and Performance

Belkhir (2006) carried out a study on the significant of board size on the performance of SACCOs in Kenya. The study realized that the Board of directors of an organization is a key mechanism to monitor manager's behavior and to advise them. The largely shared wisdom regarding the optimal board size is that the higher the number of directors sitting on the board the less is performance. This leans on the idea that communication, coordination of tasks, and decision –making effectiveness among a large group of people is harder and costlier than it is in smaller groups. The study therefore indicated that a lean and smaller board is bound to be efficient and effective on performance than a large one. This study seeks to establish how board size influences performance of SACCOs in Kenya.

Lipton and Lorsch (2012) carried out a study on rationale behind board size limitation among organizations. They realized that limiting board size to a particular level is widely believed to improve the performance of the firm at all levels. Benefits arising from increased monitoring by larger boards are outweighed by poorer communication and cumbersome decision –making. Empirical studies on board size seem to provide the same conclusion: A big board is likely to be less effective in substantive discussions of major issues among themselves in monitoring management. Large boards are less effective and are easier for CEO to control. In this case, Board size plays a major role on the performance of every prospering organization.

Moreover, Hermalin and Weisbach (2003) carried out a study on the effect of board size on corporate governance. The size of the board has been shown to have a material impact on the quality of corporate governance. The study supports the idea that large boards can be dysfunctional. The researchers believe that board size proxies for the board's activity, explaining why smaller board sizes are better than larger ones that may be plagued with free rider and monitoring problems. For example, Yermack (2006) and Eisenberg et al. (2008) found a negative relation between board size and firm value, indicating that smaller boards are more effective since they experience fewer communication and coordination problems.

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, 2009). Jensen (2003) 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, 2006) and have higher return on assets and cost efficiency ratios than firms where the same person holds both titles.

Board Members Educational Qualification and Performance

Carpenter and Westphal (2011) conducted a study on the relationship between board members' knowledge and skills on the performance of an organization. It was realized that Board of directors combines a mix of competencies and capabilities that collectively represent a pool of social capital, and adds value in executing the board's governance function. Qualifications of individual board members are important for decision making. For example, the monitoring role can be effectively implemented if the board members are qualified and experienced. From the resource dependency perspective, qualified and skilful board members can be considered as a strategic resource to provide a strategic linkage to different external resources (Ingley & van der Walt, 2011). Board members with higher qualifications would ensure an effective board, which requires high levels of intellectual ability, experience, soundness of judgment and integrity (Hilmer, 2008).

Several studies have found a positive relationship between competencies and firm performance (Boyatzis, 1982; Dunphy, Turner & Crawford, 2007; Hunt, 2000; Ljungquist, 2007). Boards members with higher qualifications benefit the firms through a mix of competencies and capabilities (Carpenter & Westphal, 2011; Carver, 2012), which helps in creating a diverse perspective to decision making (Milliken & Martins, 2006; Biggins, 2009) Presence of more qualified members would extend knowledge base, stimulate board members to consider other alternatives and enhance a more thoughtful processing of problems (Cox & Blake, 2011). Members with higher educational qualifications in general and research and analysis intensive qualification like PhDs will provide a rich source of innovative ideas to develop policy initiatives with analytical depth and rigour that will provide for unique perspectives on strategic issues (Westphal and Milton, 2000).

Empirical research linking educational qualifications of directors to firm performance is scanty (Bilimoria & Piderit, 1994a; Yermack, 2006). Bilimoria and Piderit (2004) examined the qualifications of corporate board members in terms of general characteristics such as tenure, age, director type rather than specific educational qualifications. Haniffa and Cooke (2002) found positive relationship between general business and accounting education of board directors and disclosure of information that demonstrates accountability and credibility of the top management team. Ferris, Jagannathan and Pritchard (2003) examined the professional background of directors in the case of multiple directorships and found venture capitalists stand out among bankers, consultants, venture capitalists and former executives. In a study on women directors, Smith et al. (2006) found that the positive effect of women on firm performance depends on their qualifications. These results can be easily generalised for all members.

Educational qualifications are included in evaluating corporations' adherence to corporate governance (Institutional Shareholder Service, 2006). Yermack's study (2006) found that share price reactions are sensitive, among others, to director's professional qualifications, particularly in the area of accounting and finance. It is clear that directors' qualifications and their specializations are related to firm performance. However, the effect of level of educational qualifications of board members on firm performance has not received sufficient attention in literature. This study attempted to examine the impact of highest level of educational qualification, namely on performance of Commercial SACCOs in Kenya.

Gender Balance and Performance of SACCOs

Milliken and Martins (1996) in their study on gender balance and board diversity, they realized that boards should reflect the structure of the society and appropriately represent the gender, ethnicity and professional backgrounds. Boards are concerned with having right composition to provide diverse perspectives. A gender balanced board is more likely to performance better given the diverse views and background of either gender in decision making and perception on various corporate issues.

Carver (2002) conducted a study on the influence of board diversity and institutional development. It was realized that board diversity is supported on the ground of moral obligation to shareholders, corporate philanthropy and for commercial reasons as quoted by Martins (2000). It was indicated that board gender diversity brings on board diverse skills, knowledge, exposure, socialization and civilization levels which is well tapped will lead to better performance and decision making.

Daily & Dalton, (2003) also conducted a study on how gender influences decision making of the board. Gender equity element is not well embraced among boards of directors is likely to lead to poor decision making given the male chauvinism paradigm among the male members against their female counterparts. However, if either gender is incorporated in the board and their ability or skills appreciated in equal measure, decision making will be effective and efficient and hence performance. However, diversity should not only be equitable representation but also provide for an expression of broadening the principle of merit (Burton, 1991). It can be argued that the presence of a mixed board i.e. (women and men) leads to better board dynamics and improved institutional performance and that boards that are comprised of women show improved corporate governance attributes compared to boards dominated by men.

RESEARCH METHODOLOGY

Research Design

The research design used is a descriptive research design where all members of the population were included. Descriptive research design defines a subject, often by creating a profile of a group of problems, people or events through collection of data and tabulation of frequencies on research variables or their interaction (Cooper and Schindler, 2003). The design was used because it allows analysis of qualitative data which cannot be quantified on figures. The design involves systematic collection of data from members of a given population through questionnaires.

Target Population

The target population for this study was all Saccos that are in Kilifi County. Currently the county has 40 Saccos that meet such criteria, from which each of them has 5 members of the board and 5 none board members who deal with board affairs of the board will be considered. Thus, the total expected respondent for the study was 400 (10 per for each of the 40 SACCOs). Sample Design. The sampling plan describes how the sampling unit, sampling frame, sampling procedures and the sample size for the study. The sampling frame describes the list of all population units from which the sample is selected (Cooper & Schindler, 2003). Purposive sampling technique was used to select only registered, active SACCOs and whose data on their performance are available with directorate of co-operatives in Kilifi County and have their offices in main towns. Out of the 40 SACCOs only 30 meet the above criteria and each had 5 members of the board who were considered. This formed 7.5 % of deposit taking and 92.5 % of the non-deposit taking Saccos in the County.

Data Collection Instruments and Procedure

The study used primary data which was obtained through administration of questionnaires. Structured questionnaires, comprising of open ended and closed questions were used. Questionnaires were used because of the large number of respondents. They collect information that is not observable thus the respondents can express their feelings, motivations and attitudes.

Data Analysis and Presentation

Descriptive statistics such as means, standard deviation frequencies, and tables were used to analyse the data. Descriptive statistics provide an efficient summary to the data collected making it easier to draw meaningful conclusions. The completed questionnaires were edited for completeness and consistency. The data was coded to enable the responses to be grouped into various categories. The SPSS software was used to analyse the coded data from questionnaires. In addition, the researcher carried out a multiple regression analysis so as to determine the relationship between corporate governance and performance of SACCOs in Kenya. The regression equation $\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$:

Where: Y = Performance of Saccos; X_1 = Board composition; X_2 = Size of the Board; X_3 = Board member qualification; X_4 = Gender Balance; β_1, β_2, β_3, β_4 = Regression Coefficients; ε = Error term

RESEARCH RESULTS

The main objective of the study was to establish the influence of corporate governance on the performance of SACCOs in Kilifi County, Kenya. The study specific objectives were to establish the influence of board composition, board size, board member education qualification and board gender diversity on the performance of SACCOs in Kilifi County, Kenya. The study had a coefficient of correlation R of 0.861 an indication of strong positive correlation between the variables and coefficient of adjusted determination R2 was 0.851 which changes to 85.1%.

Board Composition and SACCO Performance

The study established that board composition had a positive influence on the performance of SACCOs in Kilifi County. It was established that the SACCO boards had sufficient number of non-executive boards of directors however not all the directors were experienced, had necessary professional skills and experience to conduct their mandate and that the boards had strong networking skills which have improved company linkages. The SACCOs directors to a moderate extent had diverse skills from finance, accounting, leadership, strategic management and administration, the board sources directors from performing organizations and excellence role models and the board represents the interest of shareholders. The boards didn’t sufficiently have diverse background from ethnic, professional to civilization.

Board Size and SACCO Performance

The study established that board size positively influenced the performance of SACCOs in Kilifi County. It was established that lean or small board size was found to be cost effective and efficient, large board sizes faced communication and logistical challenges, a small board was found to be easily controlled by the company CEO and top management and that small boards had fewer communication and coordination problems. To moderate extent large boards have an enhanced monitoring capacity however to a very great extent small boards made decision making easier and in time and that large board sizes are less effective in discharging their mandate.

Board Members’ Educational Qualification and SACCO Performance

The study pointed out those board member qualifications as a corporate governance aspect positively influenced performance of SACCOs in Kilifi County. This shows that an improvement in board member academic and professional qualifications lead to an improvement in performance of the firms. Most of directors were graduates, had diverse skill and knowledge backgrounds, the vast experience of directors had steered performance of the SACCO to greater heights and directors were of high integrity. It was further indicated that a few directors of the boards of management among the SACCOs were professionals, had a high level of intellectual ability and that the directors have come up with innovative ideas which have contributed to high performance of the SACCOs.

Board Gender Diversity and SACCO Performance

The study established that board gender balance positively influenced performance of SACCOs in Kilifi County. The study established that an increase in board gender balance influenced an increase in SACCO performance. The study indicated that to a small extent the SACCO board gender distribution reflects the structure of the society, the organizations promote gender equity, the board leadership rotates based on gender, the board gives roles fairly without discrimination based on gender and the board entrusts women with leadership. To a moderate extent the study indicated that the boards had exposure to diverse levels and that the boards were dominated by male chauvinism paradigm.

INFERENTIAL STATISTICS

The study conducted inferential statistics to establish the extent of correlation between corporate governance and performance of SACCOs in Kilifi County, Kenya. The findings of coefficient of determination and coefficient of adjusted determination are as shown in Table 1.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.861[a]	.872	.851	1.86471

The findings found out that coefficient of correlation R was 0.861 an indication of strong positive correlation between the variables. Coefficient of adjusted determination R2 was 0.851 which changes to 85.1% an indication of changes of dependent variable can be explained by (board composition, size of the board, board member educational qualification and board gender diversity). The residual of 14.9% can be explained by other factors beyond the scope of the current study.

The study carried out an ANOVA at 95% level of significance. The findings of F Calculated and F Critical are as shown in Table 2.

Table 2: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	869.023	5	237.012	86.017	.000[b]
Residual	238.122	100	4.314		
Total	1107.145	105			

The findings show that $F_{Calculated}$ was 86.017 and $F_{Critical}$ was 5.8871, this show that $F_{Calculated} > F_{Critical}$ (86.017>5.8871) an indication that the overall regression mode was significant for the study. The p value was 0.000<0.05 an indication that at least one variable significantly influenced performance of the SACCOs.

The study used coefficient of regression to establish the individual influence of the variables to firm performance. The findings are indicated in Table 3.

Table 3: Coefficients of Regression

	Unstandardized Coefficients		Standardized Coefficients		
Model	**B**	**Std. Error**	**Beta**	**T**	**Sig.**
(Constant)	5.621	0.749		2.741	.000
Board Composition	0.679	.160	.107	9.167	.000
Board Size	0.814	.159	.066	14.019	.000
Board Member Qualification	0.967	.172	.361	10.519	.000
Board Gender diversity	0.578	.155	.282	13.645	.000

The resultant equation was:

$$\mathbf{Y = 5.621 + 0.679X_1 + 0.814X_2 + 0.967X_3 + 0.578X_4}$$

Where: X_1 = Board Composition; X_2 = Board Size; X_3 = Board member educational qualification; X_4 = Board gender diversity

The study found out that by holding all the variables constant, performance of the SACCOs in Kilifi County will be at 5.621. A unit increase in board composition to incorporate relevant stakeholders, skills, professions and experience when holding all the other variables constant, SACCO performance would be at 0.679. A unit increase in board size to be leaner while holding other factors constant, SACCO performance would be at 0.814. A unit increase in board member educational qualification while holding other factors constant, SACCO performance would be at 0.967. A unit increase in board gender balance while other factors are held constant, SACCO performance would be at 0.578.

The findings pointed out that board composition, board size, board member education qualification and board gender balance had a p value of 0.000<0.05 an indication that the selected corporate governance practices significantly influenced performance of SACCOs in Kilifi County. This is supported by Wasike (2012) who noted that the selected corporate governance indicators helped in defining the relation between the SACCO and its general environment, the social and political systems in which it operated and also linked the way management and control were organized thus affecting the performance of the SACCO and its long run competitiveness.

CONCLUSIONS

The study concluded that corporate governance was a significant factor in determining performance of the performance of the SACCOs in Kilifi County. The study concluded that the boards of directors among the SACCOs in Kilifi County were moderately representative, diverse, professional and qualified.

The study further concluded that lean or small board size but professional and qualified contributed positively and significantly to the performance of the SACCOs due to their efficiency and effectiveness in decision making, management, communication, coordination, monitoring and in operation cost. The study concluded that the board members among the SACCOs in Kilifi County have the necessary knowledge, skills, experience and ideas to improve the performance of the firms.

The study further recommended that SACCOs in Kilifi County didn’t have gender balance among their boards with the male gender dominating. The female gender was not fairly represented and delegated leadership roles. However there was at least a female board member among the SACCOs included in the study.

RECOMMENDATIONS

The study recommends that the SACCOs need to ensure that the boards are representative, diverse, professional and qualified.

The study recommends that lean or small board size but professional and qualified should be embraced among the SACCOs due to their efficiency and effectiveness in decision making, management, communication, coordination, monitoring and in operation cost.

The study recommends further that the board members among the SACCOs in Kilifi County should have the necessary knowledge, skills, experience and ideas to improve the performance of the firms.

The study further recommended that SACCOs in Kilifi County should have gender balance among their boards. The female gender should be fairly represented and delegated leadership roles.

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