

ANALYSIS OF CORPORATE GOVERNANCE PRACTICES AND FINANCIAL PERFORMANCE OF SAVINGS AND CREDIT CORPORATIVE SOCIETIES: A CASE STUDY OF KITE SACCO SOCIETY LIMITED KISUMU CITY, KENYA

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Abstract

The purpose of this study was to analyze the effect of corporate governance practices on financial performance of Saccos; a case of KITE Sacco society in Kisumu city. The specific objectives of the study were to: assess the effects of board composition, establish the effects of number of non-executive directors and determine the influence of SACCO leadership on the financial performance of KITE SACCO society. The study was guided by a self-conceptualized framework with corporate governance practices as independent variables and financial performance of Saccos as the dependent variable. It adopted causal research design with all the 19 targeted staff members of the Sacco forming the sample size. The study used both primary and secondary data. A semi-structured self-administered questionnaire to the Board of the Sacco, and staff members was used to collect primary data. Secondary data was collected through content analysis. Validity and reliability of the instrument was checked using expert reviews. Descriptive statistics such as mean and standard deviation was employed to analyze the data and inferential statistics such as Pearson's correlation. Presentation was done by the use of tables and charts. The study revealed that board composition is the most prevailing factor that affects financial performance at KITE Sacco (0.658, $p < 0.05$) and strongly affects Sacco leadership (0.789, $p < 0.001$). Also realized was that Sacco Leadership strongly affects financial performance at KITE (0.835, $p < 0.01$). Besides, the study evidenced that existence of non-executive directors positively affects financial performance (0.381, $p < 0.05$), weakly affects board composition (0.436, $p > 0.01$) and strongly affects Sacco leadership (0.053, $p < 0.05$). The study concludes that board composition is the most prevailing factor that affects financial performance at KITE Sacco and as well affects the Sacco leadership. Also, the study showed that existence of non-executive directors within the Sacco positively affects financial performance but weakly affects board composition and strongly affects KITE Sacco leadership. These findings may assist KITE Sacco leadership identify how various aspects of corporate governance practices (board composition, existence of non-executive directors) affect their operations as well as ensure that the breakdown of spending across projects is clear, and accounting records properly maintained. Further, the study may provide information to potential and current scholars in regard to the relationship between corporate governance and financial performance of SACCO societies.

Key Words: board composition, non-executive directors, SACCO leadership, financial performance

Introduction

Cooperative financial institutions (CFIs), or credit unions or savings and credit cooperatives or other terms that differ across regions of the world are among the poorly understood entities in most countries that comprise the existing institutional base for financial intermediation (Cuevas and Fisher, 2006). These institutions are member owned whose core business is to encourage thrift and easy access to credit to their members. They are user-owned financial cooperatives that offer savings, credit and other financial services to their members (WOCCU report, 2005). Cooperatives, like other private sector enterprises, have not remained untouched globally by the recent corporate governance scandals (Shaw, 2006). SACCO governance is the system in which SACCOs are led, enabled and its leadership held accountable for the actions taken in a bid to manage the SACCOs in the interests of all members (Ssemwanga, 2009). However, Cuevas and Fisher (2006) and Shaw (2006) while explaining the meaning of Saccos, they only used qualitative research methods which only consist of detailed data but did not use cross-sectional data to obtain others view on the meaning of Saccos which the current study sought to explain and using cross-sectional approach.

Corporate governance has dominated policy agenda in developed market economies for more than a decade and it is gradually warming its way to the top of the policy agenda on the African continent. The global economic crisis and the relatively poor performance of the corporate sector in Sub-Saharan Africa have made corporate governance a catchphrase in the development debate (Brown and Caylor, 2004). Developing countries, of which Kenya is no exception, have increasingly embraced 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. The studies that have been in done in Africa by Brown and Caylor (2014) as stated above indicated that corporate governance relates to growth, but it did not relate the relationship using time series which according to other studies, analysis based on trend enables enough comprehension of facts. The current study therefore intended to investigate if proper corporate governance is related to growth and enhances investor goodwill and confidence.

Cuevas & Fischer (2006) as well observed that SACCOs had a high exposure to credit risk (the risk that borrowers are unable to pay or risk of delayed payments) as well as operational risks (the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events) (Basel Committee report, 2001). In Uganda, there has been massive fraud of funds by SACCO leaders (Mugisa, 2010) and that delinquency in SACCOs had increased (CGAP report, 2006). The mentioned authors in this paragraph researched on credit risk, fraud and corporate governance; however, they did relate the studies on fraud, risk and corporate governance using cross-sectional methodology for listed firms in Uganda but not in

Kenya. The current study thus, sought to investigate the effect of fraud and credit risk on corporate governance of SACCOs in Kenya, Kisumu County.

In Tanzania, various scholars declared that SACCOS face problems of poor corporate governance, embezzlement and lack of skilled staff (Bibi 2006; Hakikazi 2006; Maghimbi 2010). These problems have led to not only poor performance of SACCOS but also to low efficiency which affects their sustainability (Magali and Pastory, 2013). Some scholars also revealed that poor corporate governance and poor management have accelerated the amount of Non-Performing Loans (NPL) in SACCOS (Karumuna and Akyoo 2011; Mwakajumilo 2011; Magali 2014). Moreover, some scholars revealed that because of their structures, most SACCOS especially those operating in the rural areas of Tanzania and in other developing countries are inefficient (Dong and Featherstone 2004; Tesfamariam et al 2013; Nyankomo and Aziakpono, 2013). However, these studies applied cross-sectional method and not panel methodology. Additionally, these studies found different factors to be affecting Sacco performance thus not being consistent in results as to what affects Sacco performance. The current study therefore examined how embezzlement, structure and lack of skilled staff affect profitability of SACCOs in Kenya, Kisumu County.

In the context of Kenyan SACCOS, corporate governance involves a set of processes, customs, policies, Laws and institutions affecting the way a Sacco is directed, administered or controlled. Corporate governance also includes the relationships among the many players involved (the stakeholders) and the goals for which a SACCO is. The principal players are the shareholders, management and the board of Directors. Other stakeholders include employees, customers, bankers and other lenders, regulators, the environment and the community at large. According to Muturi (2002) a well-functioning corporate governance system helps SACCOs to attract investment, raise funds and strengthen the foundation for their performance. It is believed that good governance generates investor goodwill and confidence as well. However, the latter studies only applied content analysis and desk review in interpreting the meaning of corporate governance to consist of the stake holders and did not apply cross-sectional methodology. The current study hence sought to explore the meaning of corporate governance and how it affects financial performance of SACCOs.

The cooperative movement in Kenya is liberalized. The government has opened up the sector to provide the requisite environment that allows for the creation of professionally managed self-controlled and self-reliant ventures. Market forces have triggered a structural transformation that has seen the fading away of inefficient cooperatives, (Owango, 2008). It has also forced the innovation and diversification into activities and ventures that are responsive to member's needs. This has ensured growth in the sector especially in the financial services provision, which has given players in the formal banking industry a run for their money. The study by Owango (2008)

was based on sampling technique implying that the findings were generalized which could not hold to Saccos in the whole country. Sampling is a probabilistic method which promotes accuracy but only to the extent of the population under study. The current study therefore intended to seek clarification as to whether liberalization of corporative movement in Kenya has led to growth in Saccos and how this translates to financial performance.

Data from the ministry of cooperatives, development and marketing shows that SACCOS have been growing at a rate of 25% per year for the past six years, (GoK, 2011). This has mainly been driven by the interest rates regime, which has seen the SACCOS charge lower interest than the commercial banks. For instance, when banks were charging 18% in the year 2011, SACCOS charged interest at between 10-12% locking out a substantial borrowing pool from the banks. This has driven many salaried people to the SACCOS and has seen the growth of the sector in leaps and bounds. Since the conclusion from the GoK, (2011) shows that there is growth in SACCOS, however, it has only shown that what resulted into such growth are the interest rates for the loans which attracted people and this was based on time series (trend analysis) and not on cross-sectional methodology. Therefore, the current study sought to find out if corporate governance variables (existence of non-executive directors, proper board composition & leadership structure) could as well lead to such growth apart from the interest rates as per the Government report in 2011.

Further, the SACCO sector has grown and currently we have around 220 deposit taking SACCOS with an estimated membership of five million and assets worth 150 billion. The sector is regulated by statute (the SACCO societies Act), which is enforced by the SACCO societies regulatory authority, (SASRA), (GoK, Min of Cooperatives, 2011). New rules with provisions for the regulation of the sector have been put in place. They require the SACCOS to file monthly reports with the authority to ensure prudent following of the regulations and the adherence to the same. The regulations have strict corporate benchmarks that include the authority's sanctions such as prohibition of dividends, expansion, lending investment or acquisition of property among others when inspections reveal financial mismanagement. The SACCOS are equally required to develop a code of conduct whose violation results in a fine of 100,000- or one-year jail term or both. This is with an intention of safeguarding the member's interests. From the GoK, Min of Cooperatives (2011) conclusion, SACCOS could only develop by following the regulations established by the SACCOs Act. However, the current study sought to establish if corporate governance could also lead to development and performance of SACCOS.

Statement of the Problem

Studies by Muriithi (2005), and Manyuru (2005) concentrated on overall performance among SACCOS in Kenya which could also be influenced by other factors not necessarily corporate governance practices of which they adopted convenience sampling and purposive sampling

which to some extent could have not reflected accurate data. These studies did not use probabilistic methodology which studies shows that reflects accurate data. It implies that these studies only focused on the relationship between corporate governance and general performance. Additionally, the latter studies involved generalized ideas which may not necessarily apply to SACCOs nationally. The current study specifically sought to establish the relationship between corporate governance practices and financial performance and not the overall performance and with reference to KITE SACCO society in Kisumu. Additionally, a study carried on the effectiveness of the governance model shows that most SACCOS in Kenya are governed by use of the democratic or association model which gives the membership a right to question excesses by members of the management committees and board of management. On the other hand, despite the opportunity, most SACCOS go through losses occasioned by mismanagement raising doubts as regards the viability of the governance model and the capacity of the membership to question the excesses of the leadership. However, the studies could have only used time series data and not cross-sectional methodology. Besides, cases of mismanagement are still being reported in governance of our SACCOs in Kenya. The current study hence sought to identify if the democratic or association model is really effective to that extent that it would enable monitoring of mismanagement by those charged with governance with specific reference to KITE SACCO Society Limited, Kisumu city.

Research Questions

The study was therefore guided by the following research questions:

- i. What is the relationship of board composition and financial performance of KITE SACCO Society, Kisumu?
- ii. What is the relationship of number of non-executive directors and financial performance?
- iii. What is the relationship of SACCO leadership and financial performance of KITE SACCO Society, Kisumu?

Research hypotheses

HO₁ Corporate governance practices affect financial performance KITE SACCO Society, Kisumu

A HO₂ Corporate governance practice does not affect financial performance KITE SACCO Society, Kisumu

Theoretical Framework

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 discourse about the nature of corporate governance has come to reflect this body of research.

Stakeholder 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).

Stewardship Theory

The stewardship theory is based on the human relations perspective. It places the burden of stewardship on the managers and has them as effective stewards of the organization's resources. The management is more or less corrupted into ownership of programs to forge a partnership. This ensures that members are selected on the basis of their expertise and previous wealth of experience that they bring to the organization so as to add value and aids grow the profile of the organization. The theory has an emphasis on training and induction which ensures that the managers and board members lead the organization into heights of growth. The cooperatives movement on the other hand is volatile in terms of having long competitive elections processes whereby the leadership is appointed not on the basis of experience and merit but the influence they have over the members. This thus negates the input of the stewardship theory in the cooperative movements.

Conceptual framework

Independent Variables

Dependent Variable

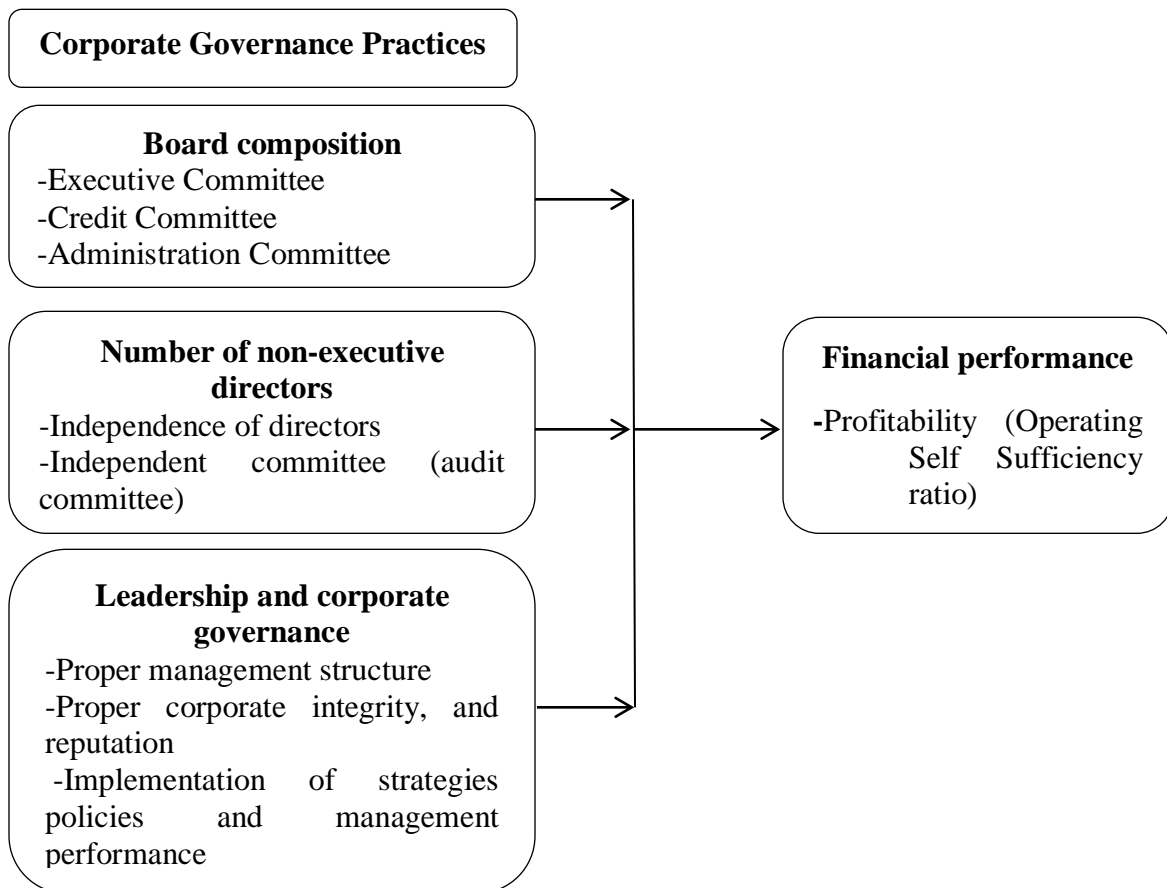


Figure 1: Conceptual framework

Source: Self conceptualization (2018)

Board composition is related to financial performance in that it is those charged with governance to ensure that proper accounting records are prepared and no malpractices to enhance profitability. Independence of directors (non-executive directors) on the other hand is related to corporate governance practices in the sense that they are obliged to consider corporate decisions carefully and challenge management channeling all their efforts towards enhancing financial performance of the SACCO. A director may be compromised not only if he has a financial interest, but also by virtue of the existence of personal or other relationships to the interested party and thus existence of non-executive directors would limit such acts within the SACCO. Further, independence of committees (non-executive directors still) is also related to financial performance in that they consist entirely of independent committees in which at least one financial expert is included in the audit committee to detect and report misappropriations. This is seen to influence the financial performance of an organization. Leadership and corporate governance are related in the sense that is there is proper leadership, this would be reflected by proper management structure, existence of corporate integrity, reputation of the firm through implementation of strategies, policies and general management performance and thus enabling financial performance. From the conceptual framework above it is true to conclude that board composition, Number of non-executive directors, leadership and corporate governance affects financial performance at KITE SACCO Society Limited, Kisumu.

Critical review of empirical studies

Board Composition and Financial Performance

Mak and Yuanto (2003) in their study on "Board size really matters" in the firms listed in Singapore and Malaysia found that firm valuation is highest when a board has five directors, a number considered relatively small in those markets. Hermalin and Weisbach (1991) studied the effect of board composition on the financial performance of listed companies in the United States. They defined board composition in terms of the percentage of board members who are employees of organizations (internal board members) and of board members who are outsiders. Their sample consisted of 142 companies listed on the New York stock exchange and used pooled data of five years. Their results indicated that there was no strong relationship between board composition and firms' financial performance. The major explanation for this was that board composition simply does not matter. Inside and outside directors are equally bad (or possibly good) at representing shareholders' interests. As per the study by Hermalin and Weisbach (1991) there was no strong relationship between board compositions and financial performance. However, the current study despite the reverse finding, sought to establish if board compositions affects financial performance at KITE Society in Kisumu. Additionally, in their study Hermalin and Weisbach (1991) only considered board composition and financial performance while the current study considered all the variables of corporate governance practices including the number of non-executive directors and the leadership structure.

Effects of Number of Non-Executive Directors on the Financial Performance of SACCOS

Fama & Jensen, (1983; and Baums, (1994) in their study on "The composition of the board of directors and strategic control" in US companies argued that 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. On the other hand, outside directors may act as "professional referees" to ensure that competition among insiders stimulates actions consistent with shareholder value maximization.

John and Senbet (1998), in their study 'Corporate governance and board effectiveness' concurred with the above findings that boards of directors are more independent as the proportion of their outside directors increases. Though it has been argued that the effectiveness of a board depends on the optimal mix of inside and outside directors, there is very little theory on the determinants of an optimal board composition. Since John and Senbet (1998), did not find the correct size to compose the independent board and the determinants of an optimal board composition, the current study therefore determined the determinants of an optimal board composition and how this composition would affect financial performance of Saccos with specific reference to KIE Sacco Society Limited in Kisumu.

Leadership and Corporate Governance

Agumba (2008) in his paper 'effectiveness of the Sacco governance model, examined the responsibility of all the stakeholders in the governance process and why there was a growing interest in the Sacco governance. He found out that the community needed to re-assure itself that: cooperative business enterprises are viable, sustainable and competitive; cooperatives comply with legal framework and remain relevant and legitimate in society. Members want to reassure themselves that: the cooperative business enterprise operates in a transparent manner; member's rights, fairness and equitable treatment of all investors; there is corporate leadership for efficiency and probity and finally, SACCOs are responsible, responsive, accountable, transparent, competitive and sustainable. The directors are interested in SACCO governance because : their roles are becoming increasingly professional and much more demanding ; they need to clearly understand their roles , duties , responsibilities and liabilities within the cooperative movement and finally they need to have adequate knowledge of the business they direct, as well as good cooperative governance principles.

In a study conducted by the CBK, (2001), it was stated that appointments to the board of Directors should, through a managed and effective process, ensure that a balanced mix of proficient individuals made and that each of those appointed is able to add value and bring independent judgment to bear on the decision making process. Further, the board of directors

should determine the purpose and values of the corporation, determine the strategy that purpose and implement its values in order to ensure that the corporations survives and thrives and that procedures and values that protect the assets of the corporation are put in place. The emergence of the investment committee has been necessitated with the growing number of SACCO Societies engaging in various forms of investments. The investments Committee is a sub-committee within the management committee and aims at the betterment of the SACCOs wellbeing. It is imperative that the members of the sub-committee should have sound knowledge of financial management.

Research Methodology

This research problem was studied through the use of a causal research design. Causal research is used to establish cause-and-effect relationships between variables. The study targeted KITE SACCO, that is, according to the information given to the researcher by the receptionist, the SACCO at one moment had undergone corporate governance problems and this made it the right SACCO with the experience on the variables of the study. All the 14 staff members and all the 5 board members at KITE SACCO were targeted of which two among the 14 formed the pilot part of the study. The researcher used a questionnaire to collect primary data. The study applied census sampling technique that is from a total population of 19 respondents the researcher considered all of them which is in accordance with the recommendation by Oso & Onen (2009) that with a small target population, the whole target could be used for the study of which two among the sample formed part of the pilot study. The researcher used assistant to distribute by hand the questionnaires completed by the selected respondents. Upon completion, the research assistant collected the questionnaires and ensured high completion rate and return of the completed questionnaires. According to Mugenda and Mugenda, (2003), a *pilot test* is a method that is used to test the design and/or methods and/or instrument before carrying out the research. It involves conducting an initial test the pretest sample is between 1% and 10 % depending on the sample size. The pretest questionnaires were distributed equitably to the selected two respondents in order to gather a cross-sectional feeling of respondents. They were collected after one day. The results obtained were analyzed to find out if they understood the questionnaire items and if the study could adopt similar questionnaires. It revealed from the pilot that the sample respondent were able of interpreting the questionnaire items and this enabled the questionnaire to be used. This also helped in ascertaining the robustness of the instrument.

Analysis of data was done in order to answer the three research questions of this study. Data collected was sorted, classified and coded then tabulated for ease of analysis. The data was summarized and categorized according to common themes. The SPSS (version 21.0) computer software aided the analysis as it was more users friendly and most appropriate for analysis of Management related attitudinal responses (Martin and Acuna, 2002). Tables and other graphical presentations as appropriate were used to present the data collected for ease of understanding and analysis. Tables were used to summarize responses for further analysis and facilitate comparison. This generated quantitative reports through tabulations, percentages, and measure of central tendency.

Presentation, Discussion and Interpretation of Findings

The relationship of board composition and financial performance of KITE SACCO Society, Kisumu

Board size and composition affect the financial performance at KITE SACCO

Table 3: Board size and composition affect the financial performance

		Frequency	Percent	Valid Percent
Valid	To a moderate extent	4	21.1	23.5
	To a great extent	11	57.9	64.7
	To a little extent	2	10.5	11.8
	Total	17	100.0	100.0

From table 3, 23.5% indicated that board size and composition affect financial performance at Kite Sacco to a moderate extent, 64.7% indicated to a great extent while the remaining 11.8% indicated that it affects financial performance to a little extent. It thus implies that board size and composition affects financial performance at Kite Sacco since majority of the respondents (64.7%) were in support of the same.

Board faces challenges in monitoring financial performance at Kite Sacco

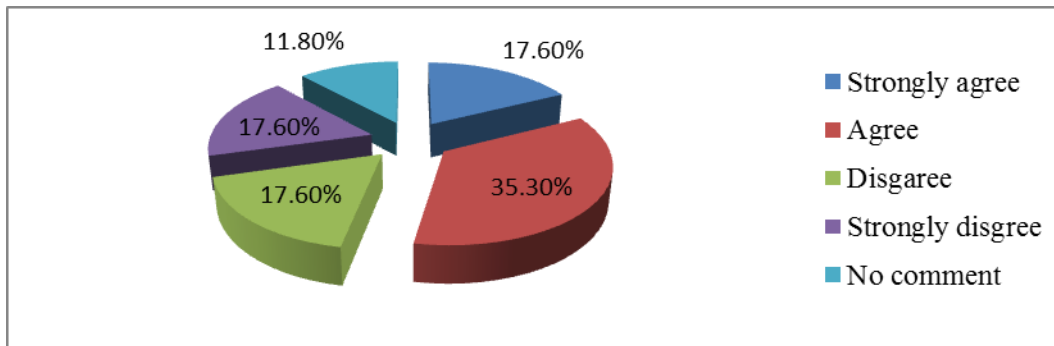


Figure 4: Board faces challenges in monitoring financial performance

From figure 3, 17.6% of the respondents strongly agreed that the board faces challenges in monitoring financial performance at Kite Sacco, 35.3% agreed, 17.6% disagreed, and 17.6% strongly disagreed while the remaining 11.8% did not comment. It hence implies that monitoring challenges are faced by the board at Kite Sacco society in Kisumu as majority agreed, that is, 52.9% of the respondents.

Board faces Communication and coordination problems at Kite Sacco

From table 4, 5.9% of the respondents strongly agreed that the board at Kite faces communication and coordination problems, 17.6% agreed, 17.6% disagreed, 35.3% strongly disagreed and 23.5% did not comment. This therefore implied that communication and

coordination is not a problem at Kite SACCO as majority of the respondents, that is, 52.9% did not agree, and did not supported that communication is a problem.

Table 4: Board faces Communication and coordination problems

		Frequency	Percent	Valid Percent
Valid	Strongly agree	1	5.3	5.9
	Agree	3	15.8	17.6
	Disagree	3	15.8	17.6
	Strongly disagree	6	31.6	35.3
	No comment	4	21.1	23.5
Total		17	100.0	100.0

The number of non-executive directors affects the performance of the SACCO

In figure 4, 29.4% of the respondents strongly agreed that the number of non-executive directors affect the performance of the SACCO, 35.3% agreed, 17.6% disagreed, 11.8% strongly disagreed and the remaining 5.9% did not comment. This therefore implied that depending on the number of non-executive directors, the financial performance will be affected. This is to mean that with non-executive directors are independent and thus chances of being compromised are limited thus how many they are in the leadership of the Sacco would influence financial performance.

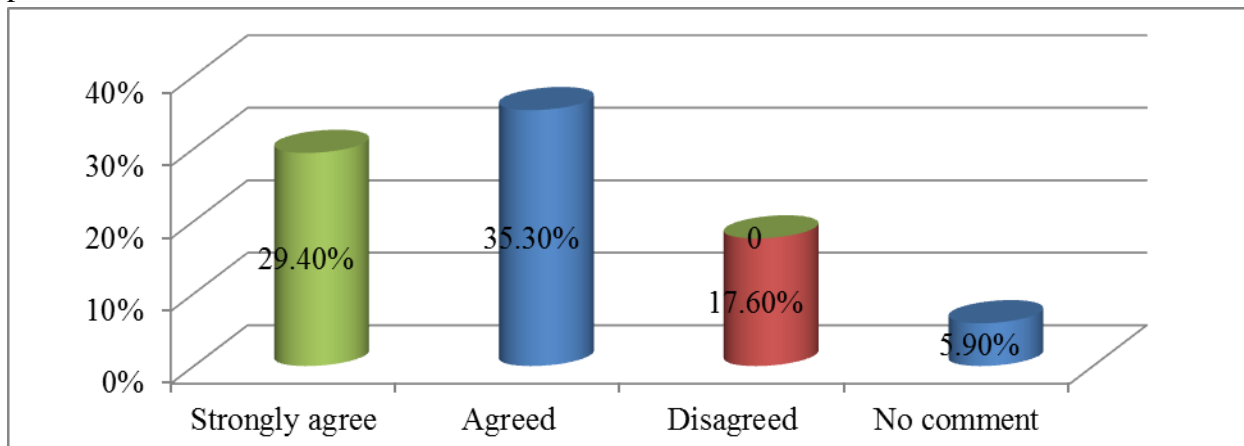


Figure 5: Number of non-executive directors affects the performance

Financial statements are prepared by top management and reviewed by the board at Kite

As indicated in table 5, 23.5% strongly agreed that the top management prepares financial statement and then the statements are reviewed by the board, 52.9% agreed with same opinion, 11.8% disagreed, 5.9% strongly disagreed, and 5.9% were not sure. It implied that the financial

statements are usually prepared by the top management and reviewed by the board at Kite Sacco thus limiting chances of misappropriations.

Table 5: Financial statements are prepared by top management and reviewed by the board

		Frequency	Percent	Valid Percent
Valid	Strongly agree	4	21.1	23.5
	Agree	9	47.4	52.9
	Disagree	2	10.5	11.8
	Strongly disagree	1	5.3	5.9
	Not sure	1	5.3	5.9
Total		17	100.00	100.0

Cash flows are regularly reviewed by the board

In figure 5, 23.5% strongly agreed that cash flow is always reviewed by the board, 41.2% agreed, 11.8% disagreed, 11.8% strongly disagreed, and 11.8% not sure. Based on majority, it is therefore true that cash flows are reviewed by the board at Kite Sacco, Kisumu. This is illustrated in figure 5.

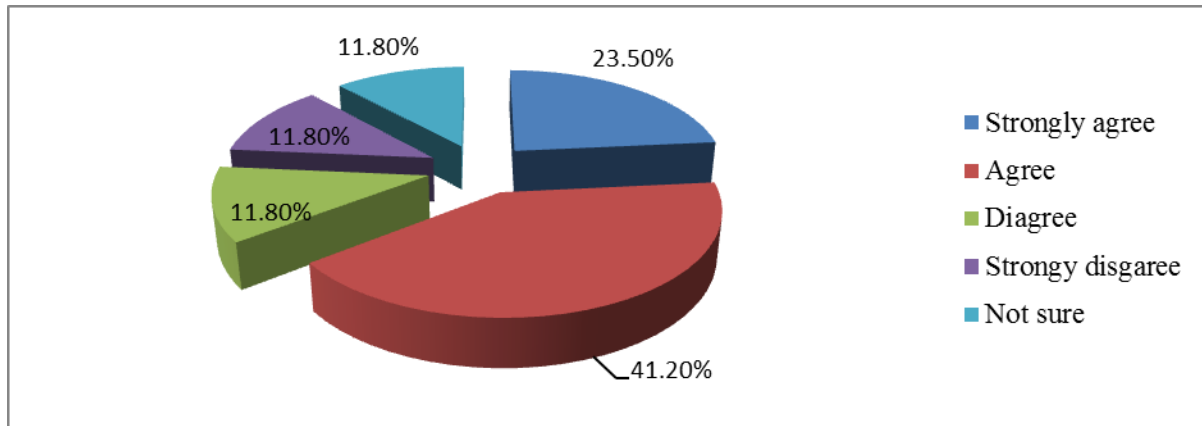


Figure 6: Cash flows are regularly reviewed by the board at Kite Sacco

The Board closely monitors top management at Kite Sacco

From table 6, 11.8% strongly agreed that the board closely monitors the top management of the Sacco, 64.7% agreed, 11.8% disagreed. 5.9% strongly disagreed, and 5.9% did not comment. This therefore implies that the board usually monitors the top management at Kite Sacco since majority of the respondents indicated this.

Table 6: The Board closely monitors top management

		Frequency	Percent	Valid Percent
Valid	Strongly agree	2	10.5	11.8
	Agree	11	57.9	64.7
	Disagree	2	10.5	11.8
	Strongly disagree	1	5.3	5.9
	No comment	1	5.3	5.9
Total		17	100.0	100.0

The board actively involves in shaping the Sacco strategies

In figure 7, 11.8% of the respondent strongly agreed that the board are actively involved in shaping the strategies of the Sacco, 64.7% agreed, 11.8% disagreed, 5.9% strongly disagreed while the remaining 5.9% did not comment. This therefore portrayed that to a great extent, the board of the Sacco is actively involved in the strategy formulation and shaping of these formulated strategies at Kite Sacco, Kisumu.

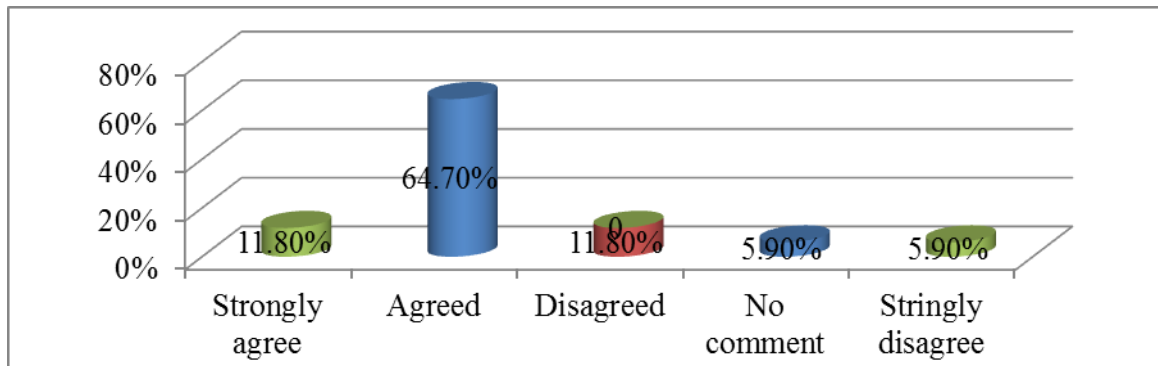


Figure 7: The Board is actively involved in shaping the strategies of the Sacco

Board gives top management sufficient counsel on SACCO strategy to embrace

In table 7, 29.4% strongly agreed that top management receive counsel from the board regarding the various strategies to embrace, 52.9% agreed with the same opinion, 5.9% disagreed, 5.9% strongly disagreed and the remaining 5.9% did not comment. It therefore indicated that the board is charged with the duty of offering counsel the top management regarding what strategy to be embraced.

Table 7: Board gives top management sufficient counsel on SACCO strategy

	Frequency	Percent	Valid Percent
Valid Strongly agree	5	26.3	29.4
Agree	9	47.4	52.9
Disagree	1	5.3	5.9
Strongly disagree	1	5.3	5.9
No comment	1	5.3	5.9
Total	17	100.0	100.0

The second objective was;

The relationship between the number of non-executive directors and financial performance of KITE SACCO Society, Kisumu

In table 8, 17.6% of the respondents indicated that there is a relationship between the number of non-executive directors forming the board and financial performance of the Sacco, 64.7% indicated that they are related to a moderate extent, 5.9% indicated to a little extent and 5.9% indicated that they are not related. This therefore implies that to some extent, there is relationship between non-execute directors and financial performance.

Table 8: Relationship between the number of non-executive directors and financial performance

	Frequency	Percent	Valid Percent
Valid To a great extent	3	15.8	17.6
To a moderate extent	11	57.9	64.7
To a little extent	1	5.3	5.9
To no extent	1	5.3	5.9
5.00	1	5.3	5.9
Total	17	100.0	100.0

The directors make internal corporate governance mechanisms work better at Kite Sacco

In figure 8, 23.5% indicated that the directors to a very great extent make internal corporate governance mechanisms to work better, 17.6% indicated to a great extent, 52.9% indicted to a moderate extent and 5.9% indicated to no extent. This therefore implies that directors participate in ensuring proper internal corporate governance but only to a moderate extent.

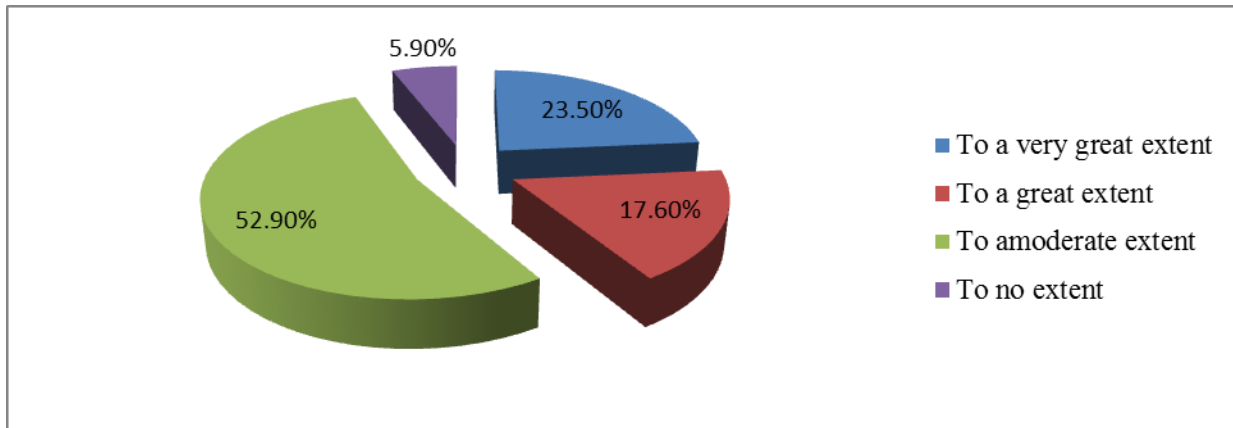


Figure 8: The directors make internal corporate governance mechanisms work better

Directors enhances the standards of accounting, audit and disclosure

In table 9, 29.4% of the respondents indicated that directors enhances the standards of accounting, audit and disclosure of information at Kite Sacco Kisumu, 17.6% indicated to a great extent, 29.4% indicated to a moderate extent, 17.6% indicated to a little extent and 5.9% indicated to no extent. This confirmed that the directors ensure the standards of accounting, audit and disclosure of information of the Sacco. Majority of the respondents supported this opinion.

Table 9: Directors enhances the standards of accounting, audit and disclosure at Kite Sacco

	Frequency	Percent	Valid Percent
Valid To a very great extent	5	26.3	29.4
To a great extent	3	15.8	17.6
To a moderate extent	5	26.3	29.4
To a little extent	3	15.8	17.6
To no extent	1	5.3	5.9
Total	17	100.0	100.0

Directors conduct and publicize corporate governance ratings at Kite Sacco

In figure 9, 17.6% indicated that the directors to a very great extent ensures publicity and ratings of corporate governance of Kite Sacco, 17.6% indicated to a great extent, 23.5% to a moderate extent, 23.5% to a little extent, an 17.6% to no extent. This therefore implies that the directors conduct and publicize corporate governance ratings.

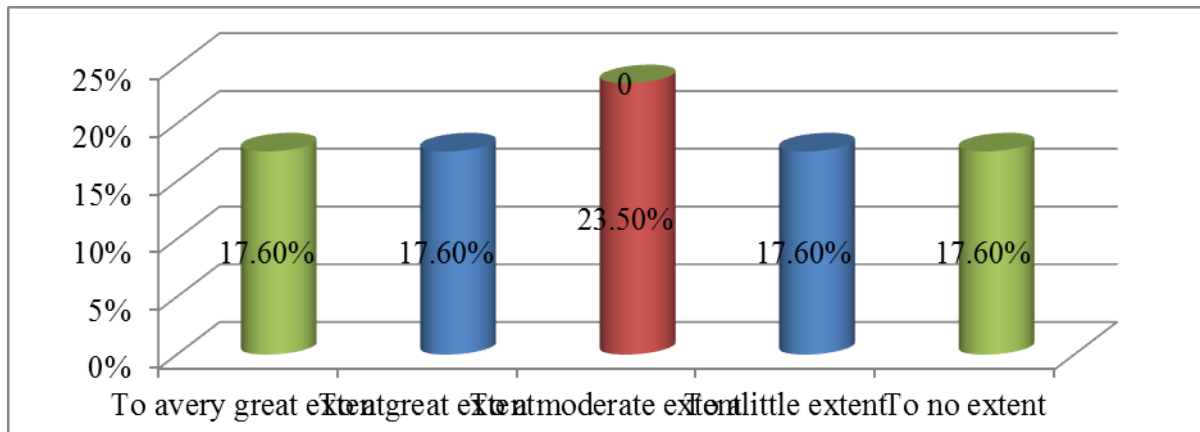


Figure 9: Directors conduct and publicize corporate governance ratings

Directors reduces ownership concentration at Kite Sacco

In table 10, 35.3% indicated that the directors always ensure that there is a balance between the company owners and the management to a very great extent, 35.3% indicated to a great extent, 11.8% indicated to a moderate extent, 11.8% to a little extent and 5.9% to no extent. This therefore implies that directors always ensure that there is a balance between the company owners and the management at Kite Sacco.

Table 10: Directors reduces ownership concentration at Kite Sacco

		Frequency	Percent	Valid Percent
Valid	To a very great extent	6	31.6	35.3
	To a great extent	6	31.6	35.3
	To a moderate extent	2	10.5	11.8
	To a little extent	2	10.5	11.8
	To no extent	1	5.3	5.9
	Total	17	100.0	100.0

The final objective was;

The relationship of SACCO leadership and financial performance of KITE SACCO Society, Kisumu

In figure 10, 17.6% indicted that Sacco leadership affects financial performance to a very great extent, 64.7% indicated to a great extent, 5.9% indicated to a moderate extent and 5.9% also indicated to no extent. This therefore implies that at Kite Saco, leadership affects financial performance since majority of the respondents,

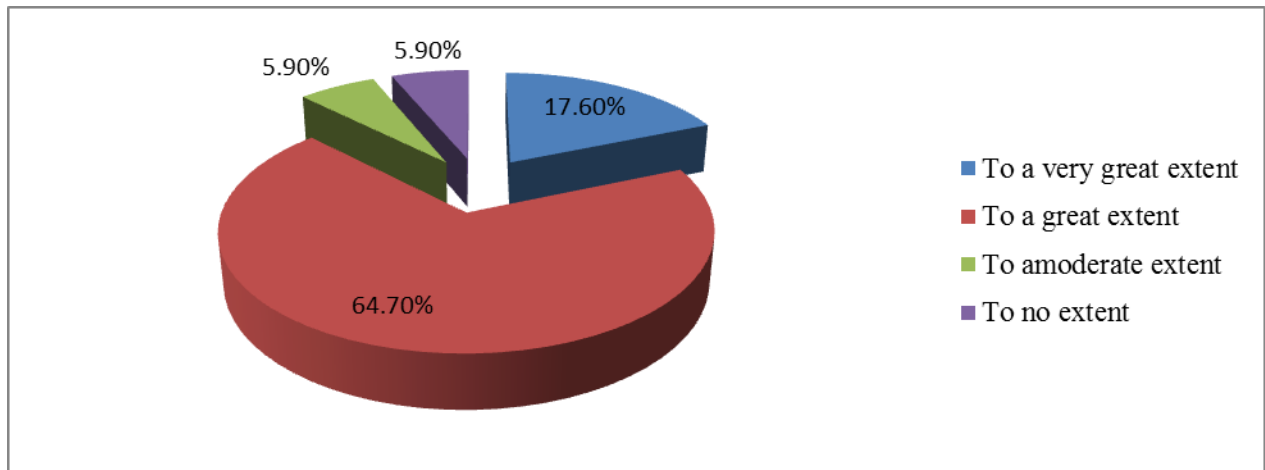


Figure 10: Sacco leadership affects financial performance at Kite Sacco

Number of independent committees affects financial performance at Kite

In table 11, 29.4% of the respondents indicated that number of independent committees affects financial performance of Kite Sacco, 47.1% indicated to a greater extent, 11.8% indicated to moderate extent, 5.9% indicated to a little extent and 5.9% indicated that it does not affect financial performance. It therefore implies that number of independent committee members affects financial performance at Kite Sacco, Kisumu.

Table 11: Number of independent committees affects financial performance

		Frequency	Percent	Valid Percent
Valid	To a very great extent	5	26.3	29.4
	To a great extent	8	42.1	47.1
	To a moderate extent	2	10.5	11.8
	To a little extent	1	5.3	5.9
	To no extent	1	5.3	5.9
Total		17	100.0	100.0

Number of meetings held by committee affects financial performance

In table 11, 41.2% indicated that number of meetings held by the committee to a very great extent affects financial performance, 41.2% indicated to a great extent, 5.9% indicated to a moderate extent, 5.9% to little extent and the remaining 5.9% to no extent. It implies that number of meetings held by the committee members to a greater extent affects financial performance since it is in those meetings where the financial reports are reviewed independently, and internal controls monitored.

Table 12: Number of meetings held by committee affects financial performance

		Frequency	Percent	Valid Percent
Valid	To a very great extent	7	36.8	41.2
	To a great extent	7	36.8	41.2
	To a moderate extent	1	5.3	5.9
	To little extent	1	5.3	5.9
	To no extent	1	5.3	5.9
Total		17	100.0	100.0

Monitoring of financial activities by the committee affects financial performance

From figure 11, 64% of the respondents indicated to a great extent, 11.8% indicated to a moderate extent, 11.8% to little extent and the remaining 11.8% did not comment. This implies that if the finances plus financial records are positively monitored, it translates to effective financial performance in the long run.

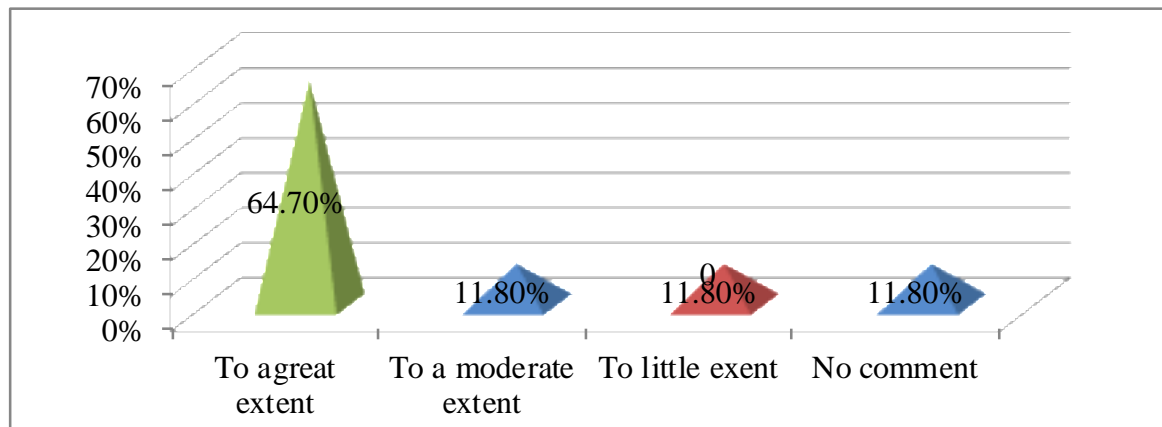


Figure 11: Financial monitoring by committee affects financial performance

Audit committee nomination affects financial performance

Table 13: Audit committee nomination affects financial performance

		Frequency	Percent
Valid	To a very great extent	5	26.3
	To a great extent	7	36.8
	To a moderate extent	2	10.5
	To a little extent	2	10.5
	To no extent	1	5.3
Total		17	100.0

In able 12 above, it implies that the number of nominated members to the audit committee affects financial performance as the committee is charged with various responsibilities of ensuring that the corporate governance practices are up held.

Committee compensation affects financial performance at Kite Sacco Kisumu

Table 13, portrays that the type and magnitude of compensation received by the committee charged with the duty of ensuring governance practices also affects financial performance of the Sacco as majority of the respondents, that is, 53.2% supported this idea.

Table 14: Committee compensation affects financial performance

		Frequency	Percent
Valid	To aver great extent	4	21.1
	To a great extent	8	42.1
	To a moderate extent	2	10.5
	To a little extent	1	5.3
	To no extent	2	10.5
Total		17	100.0

Leadership is actively involved in formulating long term strategies at Kite Sacco

In figure 12, it is true to conclude that the leadership is involved in strategy formulation at Kite Sacco as majority of the respondents, 70% indicated this.

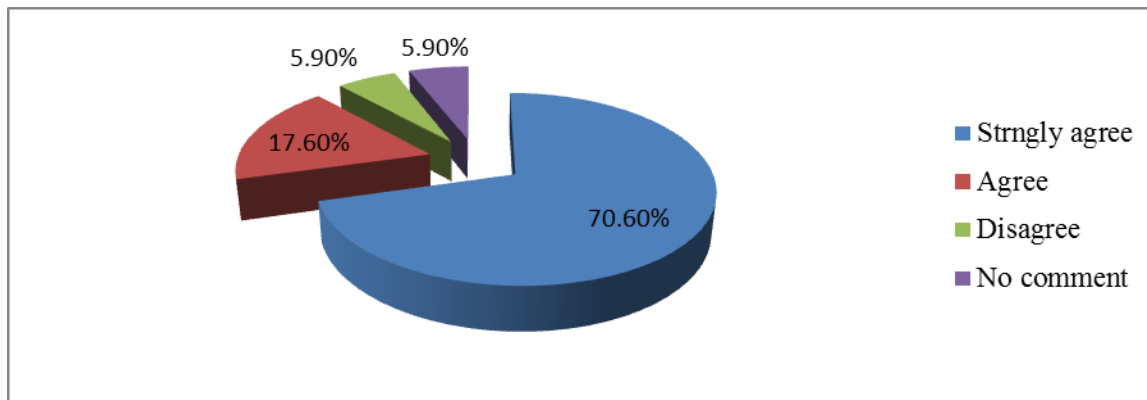


Figure 12: Leadership is involved in strategy formulation

Leadership helps in selecting, monitoring and replacing CEOs at Kite Sacco

In table 14, 29.4% strongly agreed that leadership aid in selecting, monitoring and replacing the nonperforming CEOs in the Saco, 41.2% agreed, 11.8% disagreed, 5.9% strongly disagreed and 11.8% did not comment. It is hence true to conclude that the leadership of the Sacco plays a role in ensuring performance and replacing those non-performing CEOs.

Table 15: Leadership helps in selecting, monitoring and replacing CEOs

		Frequency	Percent	Valid Percent
Valid	Strongly agree	5	26.3	29.4
	Agree	7	36.8	41.2
	Disagree	2	10.5	11.8
	Strongly disagree	1	5.3	5.9
	No comment	2	10.5	11.8
Total		17	89.5	100.0

Leadership reviews key executive remuneration at Kite Sacco

In figure 13, it is true to conclude that leadership at Kite Sacco always reviews key executive remuneration as majority of the respondents, 70% indicated this. Remuneration to some extent affects performance of the key executives which in the long run translates to the organization’s financial performance and thus this should be reviewed.

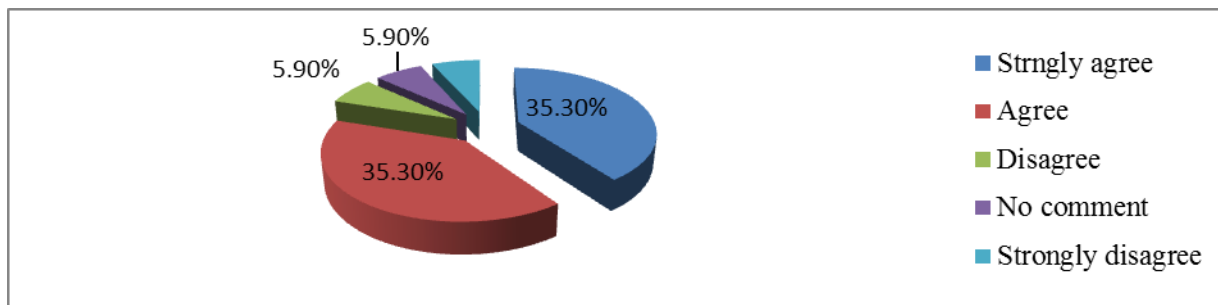


Figure 13: Leadership reviews executive remuneration

Leadership ensures proper financial reporting

In table 16, it can be concluded that the leadership of the Sacco ensures proper financial reporting which is an aspect of proper corporate governance and thus translates to organizational financial performance in the long run.

Table 16: Leadership ensures proper financial reporting

		Frequency	Percent	Valid Percent
Valid	Strongly agree	2	10.5	11.8
	Agree	8	52.6	58.8
	Disagree	2	10.5	11.8
	Strongly disagree	1	5.3	5.9
	No comment	2	10.5	11.8
Total		17	100.0	

Leadership effectively over-see conflict of interest amongst the leaders in the Sacco

In table 16, it is true to conclude that the leadership at Kite Sacco effectively oversees conflict of interest amongst the leaders in the Sacco, that is, majority of the respondents indicated this, 82.4%.

Table 17: Leadership effectively over-see conflict of interest amongst the leaders in the Sacco

		Frequency	Percent	Valid Percent
Valid	Strongly agree	6	31.6	35.3
	Agree	8	42.1	47.1
	Strongly disagree	1	5.3	5.9
	No comment	1	5.3	5.9
	5.00	1	5.3	5.9
	Total	17	100.0	100.0

Leadership actively communicates with shareholders at Kite Sacco

It was also revealed in the study that leadership actively communicates with the shareholders to update them on the status. Majority of the respondents supported this as illustrated in figure 14.

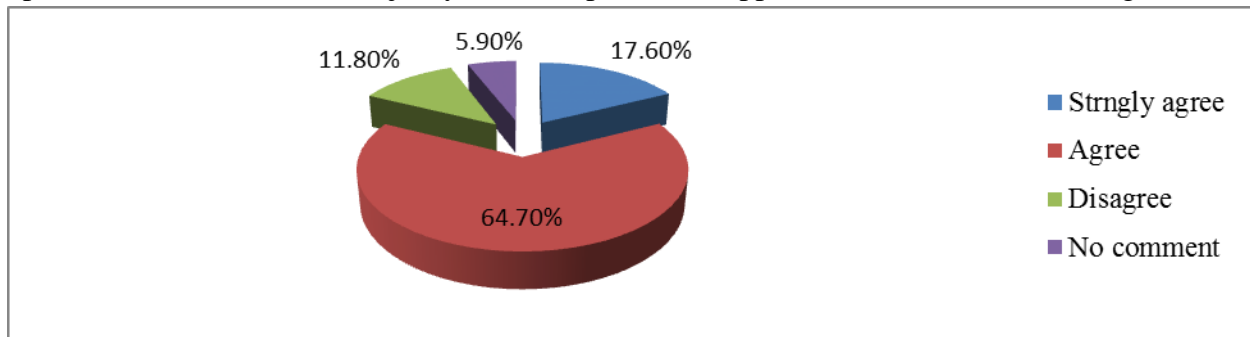


Figure 14: Leadership actively communicates with shareholders at Kite Sacco

Leadership ensures effectiveness of corporate governance practices at Kite Sacco

In table 17, it is right to conclude that leadership ensures effectiveness of corporate governance practices at Kite Sacco as 57.9% agreed with this opinion.

Table 18: Leadership ensures effectiveness of corporate governance practices

		Frequency	Percent	Valid Percent
Valid	Strongly agree	3	15.8	17.6
	Agree	11	57.9	64.7
	Disagree	1	5.3	5.9
	Strongly disagree	1	5.3	5.9
	Total	17	100.0	100.0

Inferential statistics

ANOVA

Table 19: ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.130	2	1.065	16.059	.000 ^a
	Residual	.929	14	.066		
	Total	3.059	16			

a. Predictors: (Constant), Number of non-executive directors Sacco leadership, Board composition

b. Dependent Variable: Financial performance

Using the hypotheses;

H₁₀: $\mu_1 = \mu_2 = \mu_3$

H_{1A}: $\mu_1 \neq \mu_2 \neq \mu_3$

The results of the ANOVA shows that the F-value (F= 16.059) is significant (P= 0.000) at the 5% level of significance. This implies that hypothesis is substantiated. That is, there is a significance difference in the corporate governance practices and financial performance and the null hypotheses can be rejected.

Multiple Regression Analysis

This is explained using the following hypotheses;

H₂₀: The three Independent Variables (I.V) will not significantly explain the variance in financial performance

H_{2A}: The three Independent Variables (I.V) will significantly explain the variance in financial performance

Regression for the model Summary

Table 20: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.835 ^a	.696	.653	.25754

Regression for the model Summary table above shows that the correlation of the three independent variables (number of non-executive directors, board composition, and Sacco leadership) with the dependent variable (financial performance) after inter-correlation to be (R= 0.835) implying that there is a high degree of positive correlation. In the model summary the R-Square (R²= 0.696) is the explained variance so that the three independent variables explain the dependent variable to the tune of 69.6% other factors (ε) being (100-69.6) % is unexplained, that is, 69.6% of financial performance is significantly explained by the three independent variables.

Table 21: Coefficient

Model	Unstandardized Coefficients		Standardized Coefficients		95.0% Confidence Interval for B		
	B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound
1 (Constant)	.200	.250		.801	.437	-.339	.739
Board composition	-.156	.322	.000	.000	1.000	-.696	.696
Number of non-executive directors	-.100	.156	-.116	-.642	.532	-.436	.236
Sacco leadership	1.000	.294	.899	3.399	.005	.364	1.636

a. Dependent Variable: Financial performance

The model $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$ is used. Where by:

Y= dependent variable (Financial performance)

β_0 = Population's regression constant

β_i (i= 0,1,2,3,.....n) = are the population's regression coefficients for each independent variable x_i

ε = the model error variable

Assumption; - the multiple regression model is based on the assumption that for any specific value of the independent variable, the value of the dependent variable are normally distributed and that the variances for the dependent variable are the same for each of the independent variable.

Substituting into the equation;

Financial performance= 0.200 – 0.156*Board composition – 0.100*Number of non-executive directors + 1.000*Sacco leadership

Rearranged beta values gives;

Modified table

1. 1.000 Best predictor
2. 0.156
3. 0.100

Rearranging the values according to the absolute magnitude (ignoring signs) using the Beta values under the unstandardized coefficients in the coefficient table 21 gives the best predictor for financial performance among other predictors, that is, rearranged beginning with the highest value. It is hence true to conclude from the table that the best predictor for enhancing financial performance of Sacco is the Sacco leadership (B= 1.000).

To determine which of the predictors is highly significantly related, the significance figures are re-arranged beginning with the smallest; 0.005, 0.532, 0.004 and 1.000. Financial performance is hence highly significantly related to number of non-executive directors (Sig=0.005).

Table 22: Correlations

		Board composition	Number of non-executive directors	Sacco leadership	Financial performance
Board composition	Pearson Correlation	1	.436	.789**	.658**
	Sig. (2-tailed)		.080	.000	.004
	N	17	17	17	17
Number of non-executive directors	Pearson Correlation	.436	1	.553*	.381
	Sig. (2-tailed)	.080		.021	.131
	N	17	17	17	17
Sacco leadership	Pearson Correlation	.789**	.553*	1	.835**
	Sig. (2-tailed)	.000	.021		.000
	N	17	17	17	17
Financial performance	Pearson Correlation	.658**	.381	.835**	1
	Sig. (2-tailed)	.004	.131	.000	
	N	17	17	17	17

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

From the Pearson correlation table 22, it shows that there is a moderately weak and positive correlation between board composition and number of non-executive directors (0.436, $P > 0.01$). Table 22 also shows that board composition is strongly and positively correlated to Sacco leadership and is also significant (0.789, $p = 0.000$, $p < 0.01$). Board composition is strongly and positively related to financial performance and is significant (0.658, $P < 0.004$). Further, the table indicates that there is a positive relationship between number of non-executive directors and Sacco leadership which is also significant (0.553, $p = 0.021$, $p < 0.05$) implying that number of non-executive directors is related to Sacco leadership, and vice versa. The analysis as well reveals that there is a weak but positive relationship between number of executive non-directors and financial performance which is not significant (0.381, $p = 0.131$, $P > 0.01$). Additionally, the table indicates that there is a strong positive relationship between Sacco leadership and financial performance which is also significant (0.835, $p = 0.000 < 0.01$).

Conclusions

The findings of this study support previous theoretical and qualitative studies on corporate governance and financial performance. From the findings on the effects of corporate governance and financial performance of Kite Sacco, the study found that various aspects of corporate governance practices affect the financial performance to a great extent. From the correlation analysis, board composition was found to strongly and positively affect financial performance of Kite Sacco. On the effects of non-executive directors on financial performance, the study established that the existence of non-executive directors affects financial performance positively. The study thus concludes that existence of non-executive directors positively influence the financial performance of Kite Sacco and to a great extent. From the findings on effects of Sacco leadership on financial performance, the study found that there is a strong positive relationship between Sacco leadership and financial performance which is also significant. The study thus concludes that Sacco leadership positively influences the financial performance of at Kite Sacco.

Recommendations

- I. Is recommended that the Sacco leadership at Kite Sacco should ensure that corporate governance practices implemented always ensures financial performance – that the breakdown of spending across projects is clear, accounting records properly maintained, independency of non-executive directors upheld so as to enable independent examination of books of accounts, and the board is composed of a recommended number of directors

- II. Finally, the researcher recommends that Kite Sacco should take into consideration the findings of this study on how corporate governance practices affect financial performance which in the long run affects organizational success. Specifically, the corporate leaders should consider; board composition, number of non-executive directors and the Sacco leadership.

Areas for Further Study

This study provides quantitative evidence for the relevance of proper corporate governance practices. The application of adequate governance practices positively influences board composition, number of non-executive directors, and Sacco leadership, which in turn affects financial performance. Thus, there is a need to insist on application of adequate governance practices. Besides, this study was only carried out in Kisumu specifically at Kite Sacco and thus implying that the findings are only limited to this Sacco. Further study needs to be done on the same topic but in other institutions both nationally and in the international arena. The study as well suggests that other findings could be done specifically on corporate governance and board size.

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