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

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ABSTRACT

Saving and Credit Cooperative Societies 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 (GDP). The general objective of the study was to establish the influence of corporate governance on performance of SACCOs in Kenya. The specific objectives of the study was 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 Kenya. The study was anchored on two theories which included agency theory and stakeholders' theory. The study made use of a descriptive research design. The target population for the study were 30 respondents from the 3 SACCOs offices in Kisii. A census was taken since the population was small. The researcher used a semi-structured questionnaires 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 Board composition (β=0.348, p=0.000; M=3.71) had a positive and significant effect on performance of selected SACCOs. Board size (β=0.520, p=0.017; M=3.60) had a positive and significant effect on performance of selected SACCOs. Board members' educational qualifications (β=0.444, p=0.002; M=3.69) had positive and significant effect on performance of selected SACCOs. Gender balance (β=0.419, p=0.001; M=3.55) had positive and significant effect on performance of selected SACCOs. The study concludes that board composition had a positive and significance influence on performance of the selected SACCOs. The board size had a positive and significant influence on performance of the selected SACCOs. The board members educational qualification had positive and significant effect on performance of selected SACCOs. The gender balance had a positive and significant influence on performance of selected SACCOs. The study recommends that the shareholders and members of all selected SACCOs should critically evaluate their board composition by ensuring sufficient number of non-executive directors. The shareholders and members of all the selected SACCOs should establish sizeable boards so that cannot easily be manipulated by the management team. The members who are owners of the selected SACCOs need to hire directors with higher levels of intellectual abilities for better performance. All members and shareholders of the studied selected SACCOs need to significantly improve on gender diversity in the boards by ensuring that they are gender balanced.

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

INTRODUCTION

The modern business environment poses a number of 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, in particular, 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 behaviour, which can help create shareholder value regardless of the particular 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 have to invest in their labour force and social welfare, health, and retirement plans (Gourevitch & 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 of 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 & 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 & Butler, 2005).

The board number 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 have the ability to 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.

Performance of SACCOs

The total assets in the Kenya's SACCO sector increased to Ksh.248 billion from Ksh. 216 billion in 2010. Currently, the sector is the largest in Africa and accounts for 60, 64, and 63 per cent of the continent's savings, loan and assets respectively (SASRA, 2011). The use of financial products in SACCO saving increased from 9.2 to 10.6 in 2009 and 2013 while ratios for obtaining SACCO credit were 3.1 and 4.0 respectively, an indication of increased activity according to (CBK & FSD Kenya, 2013).

SACCOs need to safeguard gains made so far and build confidence since bankruptcy of a SACCO will be a manifestation of instability in the sector. Crisis such as the global financial markets faced since 2007 have grave implications for economic growth in developed and developing countries. Kenya's economy and financial system stability still face vulnerabilities associated with global risks. The global economic growth declined to 3.9 percent in 2011 according to the Financial Stability Report by (Central Bank of Kenya, 2011). Continued fragility in Europe, declining demands in Asia and slow recovery in US pose significant threats to Kenya's macroeconomic and financial stability. Emerging markets face the risk of sharp reversals prompted by weaker global growth and rise in funding costs that could weaken domestic banks and finance sector. (Lim, 2014) notes that worst isn't over for emerging markets as benchmark stock index has sank low, nations' currencies are tumbling and China's economy slows.

The state of a country's economy affects SACCO memberships and loan intake as well. According to (Mpiira, et al., 2013) people will not join SACCO where there is no viable economic enterprise that would generate them income. Research from IMF by (Hesse & Cihák, 2007) however indicate that cooperative financial institutions tend to be more stable in times of crisis, as their investment patterns use the capital of members in ways that best serve their long term needs and interests. It is therefore thought that their comparative stability, under both average and extraordinary conditions, can help to mitigate crisis impact for members and clientele, especially in the short-term. However, since most SACCOs draw their membership from the formal sector, in times of economic downturn, the functioning of the

SACCO can be undermined if member's incomes are destabilized by volatility in the economy and this may lead to reduction of members' savings and increased demand for loans.

According to a report by AMFIU report (2008) globally, two out of at least three SACCOs formed earlier were not in operation since they have ceased operations or are basically dormant. A study conducted by WOCCU (2005-2008) indicated that the trend in the loans given by SACCOs had declined since 2008. The report showed that loans had increased by 23.15% in 2005-2006, increased by 26.71% in 2006-2007. However, the trend reduced in 2007-2008 by 3.46% and later 23.25%. Therefore IMF (2001) concluded that SACCOs had faced many problems which have destroyed their previous reputation as the providers of financial services.

Savings and Credit Cooperative Organizations (SACCOs) are member-owned and their main business to promote easy access to credit for the members. The members of the cooperative contribute resources which are pulled together and with this contribution, the SACCO uses them to offer small loans to the members (Were, 2009). This therefore makes them user-owned and in return offers all financial services to the members (WOCCU, 2005-2008).

Corporate Governance

According to Mayer (1997), corporate governance is concerned with ways of bringing the interests of investors and managers into line and ensuring that firms are run for the benefit of investors. It is concerned in ways in which all stakeholders attempt to ensure that managers, employees and other insiders are always taking appropriate measures that safeguard their interests. Corporate governance is the system by which organizations are directed and controlled. It's a set of relationships between company directors, shareholders and other stakeholder's as it addresses the powers of directors and of controlling shareholders over minority interest, the rights of employees, rights of creditors and other stakeholders (Muriithi, 2009). Metrick and Ishii (2002) define corporate governance as both the promise to repay a fair return on capital invested and the commitment to operate a firm efficiently given investment.

Corporate governance has also been defined by Keasey, Thompson & Wright (1997) to include the structures, processes, cultures and systems that engender the successful operation of organizations. The definition could therefore be centred on how the organization relates with other stakeholders within an environment. Maati (1999) viewed corporate governance as the whole set of measures taken within the social entity that is an enterprise to favour the economic agents to take part in the productive process, in order to generate some organizational surplus, and to set up a fair distribution between the partners, taking into consideration what they have brought to the organization. The Cadbury Committee, Cadbury (1992) defines corporate governance as the system by which companies are directed and controlled. According to Shleifer and Vishny (1997), corporate governance is the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. Many studies on corporate governance have been looking into different ways in which investors can monitor their investments, where a board of directors ‘serve as the liaison between investors and managers.

Lack of sound corporate governance has enabled bribery, acquaintance and corruption to flourish and has suppressed sound and sustainable economic decisions. It is also important to remember that although corporate governance has emerged as a way to manage modern joint stock corporations it is equally significant in state-owned enterprises, cooperatives, and family businesses. Regardless of the type of venture, only good governance can deliver sustainable good business performance, Freeman (1984). Organizations with good corporate governance have the capacity to maintain high-quality services and to deliver improvement. Poor governance arrangements set the framework within which the organizational systems and processes fail to detect or anticipate serious service and financial failures. Baker (2007) Good governance in organizations, based on openness, clarity and honest accountability enhances public trust and civic engagement.

Corporate governance is a set of rules that define the relationship between stakeholders, management, and board of directors of a company and influence how that company is operating. At its most basic level, corporate governance deals with issues that result from the separation of ownership and control. But corporate governance goes beyond simply establishing a clear relationship between shareholders and managers. The presence of strong governance standards provides better access to capital and aids economic growth. Corporate governance also has broader social and institutional dimensions. Properly designed rules of governance should focus on implementing the values of fairness, transparency, accountability, and responsibility to both shareholders and stakeholders.

Good corporate governance ensures that the business environment is fair and transparent and that companies can be held accountable for their actions (Nicolaescu, 2012). The main idea of this study was to examine whether or not the factors (independent variables) taken into consideration could determine the effect of financial performance of SACCOs through corporate governance, those independent variables are Board size – number of board members within a financial year, Diversity (Gender) - number of women on the board, the compensation of the board- average compensation of all directors on the board, and the working experience of the board- number of years served in a board.

SACCOs in Kenya

A Savings and Credit Co-operative (SACCO) is a democratic, unique member driven, self-help union. It is owned, governed and managed by its members who have a common bond: working for the same employer, belonging to the same church, labour union, social fraternity or living/working in the same community (KUSCO). In a cooperative society people come together voluntarily for the purpose of solving their socio-economic problems through self-help initiatives, mutual support and investment ventures aimed at equally benefiting the group and members. The most common types of co-operative societies in Kenya include but not limited to; Savings and credit co-operatives, housing co-operatives, consumer co-operatives, transport co-operatives, marketing co-operatives, horticulture co-operatives, handicraft co-operatives, industrial co-operatives, building and construction co-operatives, service co-operatives and multi-purpose co-operatives (SASRA, 2015).

The Sacco industry is part of the cooperative sector in Kenya, which has impacted on lives of many disadvantaged Kenyans over the years. SACCOs in Kenya may be categorized into financial and non-financial cooperatives. Non-financial cooperatives deal with the marketing of members' produce and services such as dairy, livestock coffee, tea, handicrafts and many more similar cooperatives. On the other hand financial cooperatives comprise SACCOs, housing and investment cooperatives. The Sacco sub sector can be described as two-tiered given the range of financial services to members and regulatory regime.

The traditional Savings and Credit Cooperative Societies (SACCOs), described in law as Non-Deposit taking SACCOs provide a limited range of savings and credit products, are registered and supervised under the Cooperative Services Act, CAP 490. The Deposit Taking SACCOs (DTS) besides the basic savings and credit products, also provide basic 'financing sector ' services (demand deposits, payments services and channels such as quasi financing sector services commonly known a ATMs), FOSA and are licensed and supervised under the Sacco Societies Act of, 2008. The general trend is that SACCOs start as non-deposit taking Sacco business and grow to deposit taking Sacco business to expand the range of financial services to members (KUSCCO, 2016).

Based on WOCCU's standards of measuring performance, the factors which determine the performance of SACCOs include; asset base, liabilities, performance of the loan book, corporate governance and the quality of staff and regulations in the industry. Sacco Societies Regulatory Authority (SASRA) , rates the financial performance of deposit taking SACCOs based on total assets, member deposits, loans advanced, total capital and the surplus reflected in financial statements which was the basis of measuring financial performance in this study. Financial performance of a firm is a function of underlying factors and organisation which work cohesively to produce results. These aspects include but limited to board size, powers and function of the board, board-management relationship, transparency and disclosure, board composition, organizational values, leadership styles and terms of appointment of directors (Mutunga, 2002).

STATEMENT OF THE PROBLEM

Mudibo, (2005); pointed out that 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 (Mudibo, 2005). Certainly, these issues are the factors that either undermine or support the running of SACCOs. However, in his research he has not identified the aspects of risk management that affect the performance of the SACCOs. In addition there are inadequate research findings on how and to what extent these factors influence the performance of the SACCOs in Kenya. 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 (GDP) therefore called for an investigation into the effect of corporate governance on the on performance of selected SACCOs in Kisii County, Kenya. Many researchers have carried out studies 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 selected SACCOs in Kisii County, Kenya.

GENERAL OBJECTIVE

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

SPECIFIC OBJECTIVES

1. To evaluate the influence of board composition on performance of SACCOs in Kisii County, Kenya.
2. To determine how board size influences performance of SACCOs in Kisii County, Kenya.
3. To assess how board members' qualification influences performance of SACCOs in Kisii County, Kenya.
4. To establish how gender balance influences performance of SACCOs in Kisii 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 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 the 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 behaviour due to legitimacy authority that has been bestowed to them by the shareholders, this behaviour leads to conflict of interest causing agency problem.

The principal expect 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 more risky 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, 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, Van Der Zwan, Xu, Swantek, Tracy and Gergen (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 behaviour. 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 company's 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 behaviour 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 perspectives 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 research and analysis intensive qualification like PhDs in particular 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 attempts 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 if 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, 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 was a descriptive census survey 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 allowed analysis of qualitative data which could not be quantified in figures. The design involved systematic collection of data from members of a given population through questionnaires.

Population of Study

The target population for this study was 3 SACCOs in Kisii County, Kenya. This included Wakenya Pamoja, Gusii Mwalimu, and Gusii farmers SACCOs. From each of the SACCOs 10 members of the board were considered plus the members of staff that dealt with board affairs, hence the study's target population was 30 respondents.

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 will be selected (Cooper & Schindler, 2003). Stratified random sampling technique was used since population of interest was not homogeneous and could be subdivided into groups or strata to obtain a representative sample. From the above population of 30, a census was taken since the population size was small and representative

Data Collection

The study used primary data which was obtained through administration of questionnaires. Structured questionnaires, comprising open ended and closed questions were used. Questionnaires were used because of the large number of respondents. They collected information that was not observable thus the respondents could 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 provided 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 RESUTLS

The main objective of the study was to determine the influence of corporate governance on performance of selected SACCOs in Kisii County, Kenya. The study was guided by the following specific objectives; to evaluate the influence of board composition on performance of selected SACCOs in Kisii County, Kenya; to determine how board size influences on performance of selected SACCOs in Kisii County, Kenya; to assess how board members' qualification influences on performance of selected SACCOs in Kisii County, Kenya and to establish how gender balance influences on performance of selected SACCOs in Kisii County, Kenya. The study was anchored on the agency theory and stakeholders' theory. The study adopted descriptive research design targeting three selected SACCOs (Wakenya Pamoja, Gusii Mwalimu, and Gusii farmers SACCOs) from Kisii County. The study targeted 30 respondents comprising of board members, top and middle managers in these SACCOs. Primary data was collected using questionnaires and the analysis was done using descriptive and inferential statistics. Out of 30 questionnaires issued to respondents by the researcher, 23 of them were completely filled and returned to the researcher resulting into a 76.7% response rate.

Board Composition and Firm Performance

The researcher sought to determine how board composition influenced organizational performance of selected SACCOs. From regression results, the study revealed that board composition had a positive and significance influence on performance of the selected SACCOs. From descriptive statistics, the study established that the board represented the interest of shareholders. Majority of the respondents agreed that the board sourced directors from performing organizations and excellence role models. Respondents of the study further agreed that the directors had diverse background from ethnic, professional to civilization. Respondents agreed that the directors were all experienced. From the findings, the board had strong networking skills which had improved company linkages. The study found out that the company directors had the necessary professional experience to conduct their mandate.

Board Size and Firm Performance

The study examined how board size influenced performance of selected SACCOs. From regression analysis, the study found out that board size had a positive and significant influence on performance of the selected SACCOs. The findings from descriptive statistics indicated that a small board size made decisions easily and in time. Respondents agreed that a large board size faces communication and logistical problems. Most of the respondents agreed that small boards had fewer communication and coordination problems. Majority of the respondents agreed that large boards had an enhanced company monitoring capacity. Respondents slightly agreed that lean board size was cost effective and efficient and that large board size was less effective in discharge its mandate.

Board Members' Educational Qualifications and Firm Performance

The study investigated how board members' education qualification influenced firm performance. From the findings, board members educational qualification had positive and significant effect on performance of selected SACCOs. The study found out that directors were all graduates. The directors had come up with innovative ideas which had contributed to high performance of the SACCO. Board of directors had diverse skill and knowledge backgrounds. The board was composed of professionals. The vast experience of director had steered performance of the SACCO to greater heights. The directors were of high integrity.

Gender Balance and Firm Performance

The study investigated how gender balance influenced organizational performance. From regression results, gender balance had a positive and significant influence on performance of selected SACCOs. The study established that the board had diverse exposure levels. The board was dominated by male chauvinism paradigm. The SACCO board gender distribution reflected the structure of the society. The board gave roles fairly without discrimination based on gender.
The study established that the board represented ethnic diversity in the society. The board entrusted women with leadership.

REGRESSION ANALYSIS

The researcher carried out regression analysis to determine how corporate governance influenced organizational performance. From Table 1, the adjusted R square was 0.776, which indicates that 77.6% change in organizational performance of selected SACCOs is explained by their corporate governance (Board Composition, Board Size, Board Members' Educational Qualifications, and Gender Diversity). This further implies that apart from corporate governance, there exist other factors with an influence on organizational performance of the selected SACCOs that future studies should focus on.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.884[a]	.781	.776	1.28812

a. Predictors: (Constant), Board Composition, Board Size, Board Members' Educational Qualifications, Gender Diversity

The Analysis of Variance (ANOVA) was conducted at 5% level of significance. The findings are indicated in Table 2.

Table 2: Analysis of Variance (ANOVA)

	Sum of Squares	df	Mean Square	F	Sig.
Regression	683.162	4	170.790	51.458	.000[b]
Residual	46.459	14	3.319		
Total	874.727	22			

a. Dependent Variable: Organization Performance
b. Predictors: (Constant), Board Composition, Board Size, Board Members' Educational Qualifications, Gender Diversity

The findings show that $F_{Calculated}$ was 51.458 and $F_{Critical}$ was 3.112. On this basis, the value of F calculated exceeds that of F critical. This shows that the overall regression model was significant and therefore fit to predict how corporate governance influenced organizational performance of selected SACCOs. The regression coefficients together with p-values on each of the study variables are indicated in Table 3. The interpretation of p values was done at 5% level of significance.

Table 3: Regression Coefficients Results

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	4.157	1.334		3.116	.000
Board Composition	.348	.100	.222	3.469	.000
Board Size	.520	.206	.232	2.526	.017
Board Members' Educational Qualifications	.444	.133	.426	3.346	.002
Gender Diversity	.419	.111	.218	3.759	.001

a. Dependent Variable: Organization Performance

$$\mathbf{Y = 4.157 + 0.348\, X_1 + 0.520\, X_2 + 0.444\, X_3 + 0.419 X_4}$$

Where: Y= Organizational performance; X_1= Board Composition; X_2= Board Size; X_3= Board Members' Educational Qualifications; X_4= Gender Diversity

Therefore, when all the variables of the study are held constant, performance of selected SACCOs would be at 4.157. At 5%, the study documents that board composition (β=0.348, p=0.000) had a positive and significant effect on performance of selected SACCOs. According to Yermack (2010), the Board through its composition should collectively possess the necessary knowledge and experience to address the strategic and challenging demands facing the organisation.

Board size (β=0.520, p=0.017) had a positive and significant effect on performance selected SACCOs. This finding contradicts with Eisenberg et al. (2008) who found negative correlation between board size and profitability when using sample of small and midsize Finnish firms. However, Sanda et al. (2003) found that firm performance is positively related with small, as opposed to large boards.

Board members' educational qualifications (β=0.444, p=0.002) had positive and significant effect on performance of selected SACCOs. Smith et al. (2006) found that the positive effect of women on firm performance depends on their qualifications.

Gender balance (β=0.419, p=0.001) had positive and significant effect on performance of selected SACCOs. The finding is in line with Burton (1991) who 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.

Thus, it can be inferred from these findings that corporate governance had a positive and significant effect on performance SACCOs. Freeman (1984) revealed that regardless of the type of venture, only good governance can deliver sustainable good business performance.

CONCLUSIONS

The study concludes that board composition had a positive and significance influence on performance of the selected SACCOs. The board represented the interest of shareholders. The board sourced directors from performing organizations and excellence role models. Directors had diverse background from ethnic, professional to civilization. The directors were all experienced. The board had strong networking skills which had improved company linkages.

The study further concludes that board size had a positive and significant influence on performance of the selected SACCOs. A small board size made decisions easily and in time. A large board size faces communication and logistical problems. Small boards had fewer communication and coordination problems. Large boards had an enhanced company monitoring capacity.

The study also concludes that board members educational qualification had positive and significant effect on performance of selected SACCOs. The directors were all graduates. The directors had come up with innovative ideas which had contributed to high performance of the SACCOs. Board of directors had diverse skill and knowledge backgrounds. The board was composed of professionals.

The study concludes that gender balance had a positive and significant influence on performance of selected SACCOs. The board had diverse exposure levels. The board was dominated by male chauvinism paradigm. The SACCO board gender distribution reflected the structure of the society.

RECOMMENDATIONS

The study recommends that the shareholders and members of all selected SACCOs should critically evaluate their board composition by ensuring sufficient number of non-executive directors. Head hunting should be largely encouraged so as source directors from performing organizations and excellence role models among the selected SACCOs.

The study also recommends that the shareholders and members of all the selected SACCOs should establish sizeable boards so that cannot easily be manipulated by the management team. The established boards should not be too large; neither should they be too small.

The study recommends that the members who are owners of the selected SACCOs need to hire directors with higher levels of intellectual abilities for better performance. This would enable directors to come up innovative ideas which would lead to higher performance of the SACCOs.

The study recommends that all members and shareholders of the studied selected SACCOs need to significantly improve on gender diversity in the boards by ensuring that they are gender balanced.

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