Effect of Corporate Governance on Financial Performance of SACCOS in Kenya

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Abstract
This study sought to find out the effect of corporate governance on financial performance of savings and credit cooperatives.. The study looked at five theories related to corporate governance namely: agency theory, stakeholder theory, stewardship theory, simple finance model and the political model. It looked at work by others in Kenya, Uganda, Nigeria and Korea. There are 121 Sacco's in Nakuru, out of which there are fifty active Sacco's. The study did a survey of three Sacco's which have the majority of Sacco members. The study targeted all employees of the Sacco's. The study adopted a census method. They were availed to the respondents so that they could fill and return them. The study was carried out between May 2013 and December 2013. The study used Spearman's rank correlation to analyze and present findings in tables showing percentages, frequency distribution, and also bar graphs, and pie charts. The study found out that there was a significant relationship between financial reporting and financial performance of savings and credit cooperatives. Sacco's with more frequent financial reporting structures showed better financial performance. The study found out that there was a significant relationship between management style and financial performance of savings and credit cooperatives. Participative management with democratic leadership enhanced the financial performance of Sacco's. The relationship between size of the board and financial performance was insignificant at 5% significance level. The study recommended that financial reporting should be done as frequently as possible, and management should use a leadership style that is most comfortable to employees and Sacco size should be kept where financial performance is least affected adversely. The study further recommended that studies should on corporate governance be carried out in other areas such as microfinance institutions, commercial banks and the financial sector as a whole.

1.1 Introduction

Corporate governance is a term often used to describe the way a company is managed, monitored, and held accountable. There is no universally accepted definition of corporate governance primarily because its concept is not well defined, it covers various distinct economic phenomena, and it is often described from shareholders' view of what a company should and should not do (Rezaee, 2009).

Good corporate governance shields a firm from vulnerability to future financial distress (Bhagat and Jefferis, 2002). The argument has been advanced repeatedly that the governance structure of any corporate entity affects the firm's ability to respond to external factors that have some bearing on its financial performance (Donaldson, 2003). It is believed that good governance generates investor goodwill and confidence (Demsetz and Villalonga, 2002). Again, poorly governed firms are expected to be less profitable. Claessens, et. al. (2002) also posit that better corporate framework benefits firms through greater access to financing, lower cost of capital, better financial performance and more favorable treatment of all stakeholders.

There are different types of cooperative societies, namely, consumer cooperative societies, credit and thrift societies. Cooperative societies are usually promoted and run by people who may not have adequate educational and professional background of accounting and finance (Hanif and Mukherjee, 2000). Hence, it may be extremely useful to get acquainted with the most important provisions of the relevant cooperative societies Act and rules made there under. A society that has proclaimed as its objectives the promotion of economic interest of its members in accordance with the cooperative principles or a society formed with the objective of facilitating the functioning of such a society may be registered under the appropriate act (Hanif and Mukherjee, 2000). On proper registration, a society will become a body corporate under the name in which it has been registered with perpetual succession and common seal and with power to own property and enter into contracts. According to the Nakuru District Cooperatives office, there are one hundred and twenty one Sacco's in the district with a membership of twenty seven thousand as at September 2012.

In Kenya, Sacco's are regulated by the government through the Sacco Societies Regulatory Authority (SASRA). SASRA is a Semi-Autonomous Government Agency under the Ministry of Industrialization and Enterprise Development. It is a creation of the Sacco Societies Act 2008 and was inaugurated in 2009 charged with the prime responsibility to license and supervise Deposit Taking Sacco Societies in Kenya.

The Authority derives its powers to regulate the deposit taking Sacco Societies in Kenya from the Sacco Societies Act 2008 and the Regulations issued there under. The mandate of the Authority as provided by the Act includes the following; license Sacco societies to carry out deposit-taking business in accordance with this Act; regulate and supervise Sacco societies; hold, manage and apply the General Fund of the Authority in accordance with the provisions of this Act; levy contributions in accordance with this Act; do all such other things as may be lawfully directed by the Minister; and perform such other functions conferred on it by this Act or by any other written law. In a Sacco, the membership is the top most organ. The membership exercises most of its authority in the Annual General Meetings or Special General Meeting. It is in these meetings that most of the Sacco decisions are made. Below the membership is the Board of Directors. The board is elected by the members to manage Sacco resources on behalf of the members. Within the board, is supervisory committee. This committee supervises the work of other committees. These committees work and report to the board. The management team consists of the Chief Executive Officer (CEO) and other functional managers. The management team is highly involved in day to day running of the Sacco. Staffs of the Sacco are under the management team. The management works through them (Fisher & Desrochers, 2002). In measuring financial performance, ratios are used. Without ratios, financial statements would be largely uninformative to all but the very skilled. With ratio, financial statements can be interpreted and usefully applied to satisfy the needs of the reader (Sangster and Wood, 2010). A ratio can be used as a yardstick for evaluating the financial position and performance of a concern, because the absolute accounting data cannot provide meaningful understanding and interpretation. A ratio is the relationship between two accounting items expressed mathematically (Jain and Narang, 2009). There are different expressions of ratios. The major ones include: profitability; liquidity; gearing and liquidity.

Previous research has shown that corporate governance in Sacco's in Kenya has not been effectively regulated and supervised. It is important to emphasize that good corporate governance practices in the Sacco's is imperative if the cooperative movement is to effectively play a key role in the overall development in Kenya. Sacco's in Kenya have been increasing to more than two thousand as at 2010. Some of these Sacco's have been practicing corporate governance but some do no practice it fully. In 2011, the Kenyan minister for industrialization fired the East African Portland Cement Company board because of revelations that there were procurement flaws in several contracts worth close to $47.6 million, at least going by the government's side of the story. This resulted to a halt in the company's operations as the fired men went to court and obtained an order to stop the company's operations until their case had been heard and determined. According to Labie & Périlleux (2008), corporate governance tend to be more complex in management structures of Sacco's due to their democratic principle for decision-making but also because their ownership. Firstly, there is the conflict between owners and managers (Fisher & Desrochers, 2002). Second, there is the conflict between Sacco employees and volunteers (Branch & Evans, 1999). Third, there is the conflict between the members and their elected management board (Rock et al., 1998). Fourth, there is the moral hazard conflict between net borrowers and net savers. This can generate two main types of conflicts. Both the net borrowers and net savers may compete to dominate. Both cases are sub-optimal as experience has shown that better governance is achieved in Sacco's that have a balance between net savers and net borrowers (Branch & Baker in 1998).The study sought to find out what is it that is in corporate governance that makes the majority of Sacco's' practice it partially and only a few Sacco's practice it fully. The study therefore sought to find out the effect of corporate governance on the financial performance of savings and credit cooperatives. The study aimed at testing the following hypothesis

i. H_0: There is no significant difference between financial reporting and financial performance of savings and credit cooperatives.
ii. H_0: There is no significant difference between management style and financial performance of savings and credit cooperatives.
iii. H_0: There is no significant difference between size of board of directors and performance of savings and credit cooperative.

2.1 Practices in Corporate governance

There are many different models of corporate governance around the world. These differ according to the variety of capitalism in which they are embedded. The Anglo-American model tends to emphasize the interests of shareholders. The coordinated or Multi-stakeholder Model associated with Continental Europe and Japan also recognizes the interests of workers, managers, suppliers, customers, and the community. A related distinction is between market-orientated and network-orientated models of corporate governance (Douma and shreuda, 2013) Some continental European countries, including Germany and the Netherlands, require a two-tiered Board of Directors as a means of improving corporate governance (Bob, 2009). It has been suggested that the Indian approach is drawn from the Gandhian principle of trusteeship and the Directive Principles of the Indian Constitution, but this conceptualization of corporate objectives is also prevalent in Anglo-American and most other jurisdictions (SEBI committee, 2003). The Africa Capital Markets Forum is undertaking a study on the state of Corporate Governance in Africa. The King's Committee Report and Code of Practice for Corporate Governance in South Africa published in 1994 continue to stimulate corporate governance in Africa.

Regional conferences were held in Kampala, Uganda, in June 1998 and September 1999 to create awareness and promote regional co-operation in matters of corporate governance. At the June 1998 Conference, it was resolved that each member state be encouraged to develop both a framework and a code of best practice, to promote national corporate governance, and that efforts be made to harmonize corporate governance in the East African region under the auspices of the East African Cooperation, and through the establishment of a regional apex body to promote corporate governance. Consultative Corporate Sector seminars held in November 1998 and March 1999 resolved that a Private Sector Initiative for Corporate Governance be established to: Formulate and develop a code of best practice for corporate governance in Kenya; Explore ways and means of facilitating the establishment of a national apex body [the National Corporate Sector Foundation] to promote corporate governance in Kenya; Co-ordinate developments in corporate governance in Kenya with other initiatives in East Africa, Africa, the Commonwealth and globally.

Decision making is an everyday affair for any organization. The quality of decisions made depends on the quality of the underlying information that forms the basis of that decision making. Of great importance is the information supplied by financial statements, which generally provides a summary of all the other activities of the organization. To be of importance to decision makers, financial reporting has to be exhaustive both in content and quality. Sufficient guarantee has to be provided to make the information reliable and reduce uncertainty.If "accounting is the language of finance" (Lasher, 2008,) then financial reporting is the "communication of financial information useful for making investment, credit, and other business decisions" (Wild, Shaw & Chiappetta, 2009,) According to Oshisami (1992) Audited financial statements made available by the auditor general represents the authentic and legal financial position of a company at any time. A financial report is useful to existing and potential investors and creditors and other users in making rational investment decisions.

Early research in this area is due to Jensen and Meckling (1976) who identify two types of conflicts: One from managerial moral hazard since, in not having full ownership, managers are unable to capture the full benefits of their efforts. As well, they do not bear the full costs of their actions. This conflict has been described as "managerialism" or "managerial agency." Furthermore, the complexity of the coordination task in the modern firm, imperfect information, and bounded rationality all combine to necessitate the vesting of managers with discretion. Such discretion, however, creates opportunities for interested behavior by the managers. This temptation to self-aggrandize is reinforced by having different sets of information available to agents and principals. This information asymmetry can mean that those who in practice discipline the managers may not be able to monitor cheaply the performance of the managers. Disciplining errant managers can also be a difficult problem when there are missing markets, such as the market for corporate control. And even when no markets are missing, it seems that management has become increasingly adept at entrenching themselves. The literature on corporate governance tells of chief executives vested with wide discretionary powers who have exploited this scope to entrench themselves and their allies on the board, sometimes using the resources of the organization to perpetuate their tenure. This was rampant in the USA during the wave of mergers and corporate takeovers in the 1980s.

The possibility of a large board has the likelihood of more knowledge and skills at their disposal. Also, a large board size might also help to reduce the effect of an authoritative and dominant CEO. It is believed that the board becomes more effective in carrying out its duties as more directors are recruited into the board. However, another school of thought believes that large board sizes pose more harm than good for the corporate institution. There is the view that the larger the board size, the more difficult it becomes to control and hence achieve results. Also, large boards are more prone to formation of fractions, thereby delaying decision making processes (Ogbechie & Koufopoulos, 2009).According to Yermack (1996), John & Senbet (1998) large boardrooms tend to be slow in making decisions, and hence can be an obstacle to change as opposed to small board size. The WOCCU report (2007) agrees with the conclusions of Yermack (1996), John & Senbet (1998) observing that a board constituted by fewer than five members, may find it difficult to adequately represent its diverse member body, just as a board constituted by more than nine members may make consensus achieving difficult and may increase logistical problems. It maintains that the board may be composed of an odd number of members, no less than five and no greater than nine. The purpose of this structure is to prevent tied votes.

2.2 Theoretical review

Agency theory revolves around an individual referred to as the principal who hires another individual (the agent) and delegates decision making authority to the agent (Jensen & Meckling, 1976).

A Sacco, being an artificial person, interacts and enters into contracts with other entities. The entities could be: suppliers; creditors; employees and the government among others. This brings about an agency relationship between the Sacco and the entities. Stewardship Theory argues and looks at a different form of motivation for managers drawn from organizational theory. This theory stipulates that a manager's objective is first to maximize the firm's performance because a manager's need of achievement and success are met when the firm is doing well (Coleman, 2008). The dominant motive, which directs managers to accomplish their job, is their desire to perform excellently. Stakeholder Theory centers on the issues concerning the stakeholders in an institution. It stipulates that a corporate entity invariably seeks to provide a balance between the interests of its diverse stakeholders in order to ensure that each interest constituency receives some degree of satisfaction (Abrams, 1951). However, there is an argument that the theory is narrow (Coleman, 2008) because it identifies the shareholders as the only interest group of a corporate entity. However, the stakeholder theory is better in explaining the role of corporate governance than the agency theory by highlighting different constituents of a firm (Coleman, 2008).

2.3 Empirical Review

Wambua (2011) conducted a study on the effects of corporate governance on the financial performance of Sacco's in Kenya. The objectives of the study were: To assess the relationship between board composition and the financial performance of the deposit taking Savings and Credit Cooperatives in Kenya; To establish the effects of number of non-executive directors on the financial performance of the deposit taking Savings and Credit Cooperatives in Kenya, and; To determine the influence of Sacco leadership on the financial performance of the deposit taking Savings and Credit Cooperatives in Kenya. The theories in this study were: agency theory, shareholder theory and stakeholder theory. The study found that 59% of the respondents indicated that the board size and composition affected the financial performance in the Sacco to a little extent. The number of non-executive directors affected the performance of the Sacco was a challenge the board faced to a great extent as shown by a mean of 4.20. The study showed that respondents strongly agreed that the board was actively involved in shaping Sacco strategy; this was shown by a mean of 4.80. The study revealed that 50% of the respondents indicated that the number of non-executive directors affected the financial performance of the Sacco to a little extent. The study showed that directors were involved in making the internal corporate governance mechanisms to a great extent as shown by a mean of 4.20. Reducing ownership concentration affected the financial performance of the Sacco to a great extent as shown by a mean of 4.23; employee involvement affected the financial performance of the Sacco to a great extent as shown by a mean of 3.91. 59% of the respondents indicated that the Sacco leadership affected the financial performance of the Sacco to a little extent. The study also found that financial monitoring by the board affected the financial performance of the Sacco to a very great extent as shown by a mean of 4.70; number of meetings held by the board affected the financial performance of the Sacco to a very great extent as shown by a mean of 4.50. The respondents strongly agreed that Sacco leadership played an important role in selecting, monitoring, and replacing the CEO as shown by a mean of 4.67 (Wambua, 2011). The study concluded that the board size and composition does not affect the financial performance in the Sacco's. The number of non-executive directors affect the performance of the Sacco is a challenge the board faced. The board was actively involved in shaping Sacco strategy. From the findings, it was deduced that the directors were involved in making the internal corporate governance mechanisms. Reducing ownership concentration affected the financial performance of the Sacco. Employee involvement affected the financial performance of the Sacco. The Sacco leadership affected the financial performance of the Sacco. Finally, the study concluded that financial monitoring by the board affected the performance of the Sacco. The study recommended that a further study be carried out to establish how deposit taking Sacco's have been able to come up with various strategies, polices and systems to comply with a regulated business environment. Moreover, a study should also be carried out to establish the challenges Sacco's face. The same study should be carried out in other financial sectors for example banks and microfinance institutions to find if the same results will be obtained (Wambua, 2011).

Mugenyi (2010) conducted a study titled 'Corporate Governance and Strategy in Sacco's in Uganda'. The study had the following objectives: To find out to what extent is the BOD in control of its affairs resting no external superior authority; To find out if the BOD possess the right skills mix and dedication to move it forward; To find out if the Sacco possess a clear governance structure with clearly laid out and followed responsibility and accountability practices for all organs and persons; to determine if the Sacco ownership structure clear. The study used qualitative approach. The study utilized focus group discussions to collect data from board members of Sacco's concerning governance and strategy. A total of seven focus group discussions were held in seven Sacco's visited. Each focus group involved between 4 to 8 board members with the board chair, secretary and loans committee member in attendance. On the question of control of the affairs of the Sacco the focus group data gives mixed results with some Sacco boards showing full control of affairs. Evidence on decision making and implementation of key strategic issues as validated from Sacco records indicated board resolutions are implemented. However what was clear is that the board committees are either dysfunctional or keep no records. Another observation made is the increasing political interference in the affairs of the Sacco's characterized by increasing patronage from the political elite hence distorting the ownership and governance principles. The ability of the board in terms of the skills mix and commitment to move the Sacco forward attracts a lot of attention. The study showed that most of the boards are manned by individuals that lack the appropriate skills to govern a financial institution ranging from peasant farmers to primary school teachers (Mugenyi, 2010).

On the question of possession of and compliance to by-law`s, constitution and internal governance guidelines results indicate that most Sacco's are adhering to guidelines mostly set by apex bodies like Uganda Cooperative Alliance (UCA) and Uganda Credit and Savings Cooperative Union (UCSCU). However the ability of the board to interpret and operationalize these guidelines as well as debate and pass by-laws for more efficient operations is limited. Focus group discussions revealed dominance of few individuals in the affairs of the board. Opinions of a particular character on the board not necessarily the chairperson dominate the grounds for decisions making indicating the power imbalance in decision making in the boards. On the Sacco board's strategic function both documentary evidence and focus group discussions indicate frailty. If business plans exist they are kept in cupboards and never followed and the board has no capacity to interpret plans into operational activities. The reason as discovered during discussions and evidence from existing documents may be because most of the plans are made by consultants for the Sacco's when they are applying for credit. The study concluded by noting that there was need for boards to perform their strategic role to transform the Sacco's into profit making financial service providers and reduce risk exposure will determine the next step in the growth of this segment of the microfinance sector (Mugenyi, 2010).

Enobakhare (2010) in his study 'Corporate governance and bank performance in Nigeria' had the following as his objectives: To examine the relationship between institutional ownership and bank performance; To find out the effect of foreign ownership on bank performance; To assess the effect of Board ownership on bank performance, and; To find out the relationship between government ownership and bank performance. The period under review was from the year 2003-2008.The theories looked at were: agency theory; stakeholder theory; stewardship theory; organizational theory; and resource dependency theory. The methodology employed by the study was regression analysis. The study concluded that the Nigerian banking sector is affected by the level of corporate governance culture being embraced. The corporate governance variable was ownership styles and proved to have an impact on a bank's profitability. It has also been proved in the Nigerian context that the ownership style of the banks is bound to have an effect on the banks' profitability. Also, a fall out of this research is that it further re-emphasizes that the past bank crisis in Nigeria must have been fuelled by ignoring corporate governance measures in the day to day running of the banks. To further explore the relationship between corporate governance and a bank's profitability, the study recommended that a research on the CEO tenure be carried out. Analyzing the impact of a CEO's tenure on the bank's profitability will help to determine if the CBN's recent stance on the bank's chief executive was necessary and if it will have a positive effect on return on assets. Also, since the most prevalent form of ownership is board ownership, it will be important to confirm if board size has any correlation on profitability of banks in Nigeria (Enobakhare, 2010).

Finally, analyzing the impact of board activity, intensity on the bank's profitability will also be helpful in the Nigerian banking sector. The banking sector is of great importance to every economy due to its function of intermediation. However, other sectors of the economy are equally important, as they also contribute to the country's economic growth. The study further suggests that the variables used in this research, be tried on other sectors of the economy to evaluate their impact on the firm's profitability in the Nigerian context. This will further throw more light on corporate governance culture in the Nigerian corporate world (Enobakhare, 2010). In their study, Determinants of the corporate governance of Korean firms, Lee and Park (2005) made the following their objectives: ownership and corporate governance; business structure and corporate governance; firm size and corporate governance, and; other financial characteristics and corporate governance. The study used regression analysis. The paper analyzed the determinants of the corporate governance of Korean firms, focusing on the incentives of controlling shareholders. It used the data on corporate governance scores of Korean firms over the period of 2001 through 2003 as well as their individual governance mechanism for an empirical analysis. The paper showed that controlling shareholders of Korean firms tend to resist good corporate governance that will monitor and check their decisions. This result is possibly due to the fact that they tend to assume a managerial role as well as a monitoring role as block shareholders. Naturally, they would enjoy the private benefit of control and would not like being monitored or challenged by outside investors in the matter of management. From a policy point of view, the study showed that there exists a limit to the functioning of internal governance mechanisms as they can be neutralized by insiders. It suggested a need for regulatory intervention by authorities in regard to the issue of establishing the corporate governance of public firms, and also a need for an active market for control as a complement to the internal governance mechanism (Lee and Park, 2005).

Financial reporting is the way a business reports on its performance. International Accounting Standards Board proposed a guideline of procedures and principles to be used in preparation of financial reports. These guidelines are referred to as the Generally Accepted Accounting Principles (GAAP). In order for the reports to be believed by various users, it is important that an independent person (external auditor) audits the reports and confirm that they represent a true picture of the business. The government, through the SASRA Act, gives guideline on when and how the reports should be prepared and submitted to the government auditor. Different managers use different management styles. Management support, work delegation and organization communication can show a type of management style employed by a manager. A manager who gives support to and delegates work to junior employees and support good communication is likely to achieve more than one who does not.The diversity of a board is usually seen as its strength. a good board should consist of members with different professions. These members should also be visible in their professions. The board should also contain both genders. The members of the board should also be a mix of members with different experiences. Both the young and the old should be accommodated.

3.1 Methodology

This study adopted a survey correlation type of research design. The study adopted a survey so as to capture data from for a membership of Sacco's that was representative of the entire Sacco membership of the Nakuru district. The study selected three Sacco's which had open membership and formed a significant membership of the Sacco's. The three Sacco's formed a membership of 21,000 out of a total membership of 27,000 members in the district. The study targeted all the Sacco's within the Nakuru town Central Business District. Since there were many Sacco members it could not be easy to get them all or get a few who may give accurate information on the entire membership. The study focused on the employees of the Sacco's as they were in the best position to give accurate information about the Sacco's. The Sacco's selected for the study had employee population of eleven; thirty four and eight for Vision Afrika; Cosmopolitan and Nakuru county youth respectively. This led to a sample size of fifty three. For this reason, a census approach was used.

The study used a questionnaire as a research instrument. The study used both open ended and close ended questions. Likert scale was also included in the questionnaire. In order to ensure validity and reliability of the instrument, piloting of the instrument was conducted before actual data collection was carried out. In conducting the pilot study, the researcher presented the questionnaire to Rongai Rural Sacco for filling. The study used questionnaires which were issued to the respondents for filling. The questionnaire had both open-ended and closed-ended questions. Data collected from the field was analyzed using Spearman's rank correlation coefficient and the results were presented in tables showing percentages, frequency distribution, and also bar graphs, and pie charts. An alpha of 0.05 was used. The alpha was used in the test of hypothesis.

4.1 Results and Discussion

Most respondents answered that the management do prepare financial reports. This represented 89.36 percent. However, a few of the respondents (10.64 percent) answered that the management does not make the financial reports. Majority of the respondents (42.55 percent) answered that the reports are given on a weekly basis, 25.53 percent answered that reports are given on a fortnight basis and 21.28 answered that reports are given on a monthly basis. This implies that it is important that reports that show the current position of an organization should always be available. This is important because decision making in an organization is done on a daily basis and it depends on reports. The respondents in the study generally believed that the board discusses recruitment of management largely. This was shown by a mean of 3.85. A mean of 3.19 showed that respondents believe appraisal of employees was discussed to a moderate extent. The means of 3.74 and 3.96 showed that the board discusses improvement of BOSA and FOSA services to a large extent. All the staff of Sacco's who participated in the study indicated that their organizations conducted external auditing on its financial reports. None was opposed to this statement.

The study also sought to establish the frequency in which Sacco's conducted external auditing of their financial reports. Over half of the Sacco's staff 57.45% indicated that their Sacco's subjected their financial reports for external audits once in a year while 42.55% cited twice a year. The implication is that the users of Sacco financial reports such as Sacco members, government and potential new members are protected because the opinion of a third professional party on the financial reports is sought regularly. To establish the effects of financial reporting on the financial performance of Sacco's, the study sought opinions from the SACCO Staff. Findings revealed that financial reporting had a significant effect on the financial performance of Sacco's. Majority 74.5% agreed that financial reports ensured proper reporting other sources of incomes rated at a μ= 4.00 and σ = 0.51. Secondly financial reporting significantly assisted in minimizing the cost of operating μ= 3.91 and σ= 1.21, majority 42.6 cited that this was affected to a very great extent. The third cited effect of financial reporting was noted in reducing default risk μ = 3.91 and σ= 0.94 where 38.3% indicated that this reduced default risk to a very great extent while 48.9% cited moderate extent. Lastly financial reports were identified to reduce debt levels of Sacco's μ= 3.55 and σ= 0.80.

Hypothesis one stated that there is no significant relationship between financial reporting and financial performance of savings and credit cooperatives. This was tested at a significance level of 0.05, therefore, ($H_0 : \geq 0.05$; $H_1 : < 0.05$)**.** The relationship between the frequency of financial reporting and financial performance in the selected Sacco's was then determined using the Spearman's correlation coefficient and the test results were presented on table 4.3.

Table 4.1: Spearman's correlation between frequency of financial reporting and financial performance of Sacco's

Correlations

			Frequency of financial reporting	Financial performance
Spearman's correlation	Frequency of financial reporting	Correlation Coefficient	1.000	0.232*
		Sig. (2-tailed)	.	0.017
		N	47	47
	Financial performance	Correlation Coefficient	0.232*	1.000
		Sig. (2-tailed)	0.017	.
		N	47	47

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

According to the results, the statistical r (r calculated) was found to be 0.017. This value fell within the acceptance region of which the critical value was 0.025. This meant that the result (relationship between financial reporting and financial performance of Sacco's) was statistically significant at 5% level of significance. The result of 0.232 showed a weak positive relationship. The study therefore accepted the null hypothesis and concluded that there is no significant difference between financial reporting and financial performance of Sacco's. According to Oshisami(1992) Audited financial statements made available by the auditor general represents the authentic and legal financial position of a company at any time.

The respondents agreed that their managers were approachable. This was shown by a mean of 4.3. The respondents agreed that their manager inspires and motivates others. A mean of 4.06 showed that the respondents agree that their manager treats staff equally, fairly and consistently. On the question of encouragement to come up with new ideas for improvement, the respondents generally agreed. The respondents also agreed that their manager welcomes and responds constructively to staff ideas. The respondents agreed that their manager communicates efficiently. This was shown by a mean of 4.19. Respondents agreed that their manager recognizes and celebrates success and good work. The respondents agreed that their manager delegates work efficiently. The respondents agreed that their manager involves them in decision making. A mean of 4.43 implied that respondents believed their manager encourages good working relationship. The respondents agreed that their manager has a strong and decisive leadership. The respondents generally believe that their manager is a role model to employees. This was shown by a mean of 3.83. The result showed that employees are comfortable with the management style employed in their Sacco. This is important if conflicts between employees and management are to be kept to a minimum. The less conflict there is the better performance of the organization.Those who believed that leadership style affected financial performance to a moderate extent were the majority at 36.59 percent. 34.15 percent believed that leadership style affected financial performance to a great extent and 29.27 percent believed that leadership style affected financial performance to a very great extent. This showed that leadership style and financial performance have a direct relationship though not very strong.The majority of respondents believe that leadership style has a negative effect on financial performance to a low extent. 36.59 percent believe that leadership style has an effect on financial performance to a great extent. 19.51 of the respondents believe that leadership style has a negative effect on the financial performance to a moderate extent.

Hypothesis two stated that there is no significant relationship between management style and financial performance of savings and credit cooperatives. This hypotheses were tested by correlating the two variables using spearman rho correlation where test significance was fixed at 0.05, hence, $H_{0:} \geq 0.05$; $H_{1:} < 0.05$. The test results are presented on table 4.2

Table 4.2: Spearman's correlation between management style and financial performance of Sacco's

Spearman's Correlations

			Management style	**Financial performance**
Spearman's Correlation	Management style	Correlation Coefficient	1.000	0.299*
		Sig. (2-tailed)	.	0.041
		N	47	47
	Financial performance	Correlation Coefficient	0.299*	1.000
		Sig. (2-tailed)	0.041	.
		N	47	47

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

The statistical r for the test of this hypothesis was 0.041. This lied outside the acceptance region. This meant that there was a relationship between management style and financial performance of Sacco's. The study therefore, rejected the null hypothesis and accepted the alternative hypothesis. It could thus be concluded that the relationship between management was due to other factors, chance or error. The study therefore concluded that there was a significant relationship between management style and financial performance of Sacco's. The literature on corporate governance tells of chief executives vested with wide discretionary powers who may exploit this scope to entrench themselves and their allies on the board, sometimes using the resources of the organization to perpetuate their tenure. This was rampant in the USA during the wave of mergers and corporate takeovers in the 1980s.

On the requirements of a board member, the most popular answer on this question was that one was required to be a member of a Sacco before they could be allowed to be a member of the Board of the Sacco. All the respondents believed so. Other requirements: length of membership; academic qualification; bankruptcy, and professional experience were not very popular answers. The majority of the respondents answered that their board had different committees. These represented 88.3 percent. On this question, the majority agreed with the statement. The respondents believed that their board was diverse. This was shown by a mean of 4.30. A mean of 4.06 showed that the respondents agreed that their board was efficient. The respondents agreed that their board was made up of experts. This was shown by a mean of 3.81. A majority of 57.4 percent believed that there was continuity in times of leadership change. The respondents were neutral on the question of board members taking individual responsibility on board actions. On whether there is unity of the board, the respondents were neutral. This was shown by a mean of 2.77. The respondents believed that the board members had a description of board roles. They showed a mean of 3.74. The respondents agreed that there were procedures put in place to identify potential directors. This was represented by 51 percent.

Hypothesis three stated that there is no significant difference between size of the board and financial performance of savings and credit cooperatives. Similarly, these were tested by correlating the size of BOD with the financial performance of the SACCO using spearman rho correlation. The tests were done at a significance level of 0.05, therefore, $H_{0:} \geq 0.05$; $H_{1:} < 0.05$.

Table 4.3: Spearman's correlation between Size of BOD and financial performance
Correlations

			Size of BOD	Financial performance
Spearman's Correlation	Size of BOD	Correlation Coefficient	1.000	0.169
		Sig. (2-tailed)	.	0.056
		N	47	47
	Financial performance	Correlation Coefficient	0.169	1.000
		Sig. (2-tailed)	0.056	.
		N	47	47

The calculated value of r was 0.056. The critical value was 0.025. This means that r fell outside the acceptance region. The study therefore rejected the null hypothesis and accepted the alternative hypothesis. This implied that the size of the board affects financial performance of Sacco's. The study therefore concluded that the size of the board of directors affects financial performance of Sacco's. The finding agreed with literature reviewed. The literature reviewed suggests that the number and quality of directors in a company has an effect on how well the board functions, hence its performance. According to Yermack (1996), John & Senbet (1998) large boardrooms tend to be slow in making decisions, and hence can be an obstacle to change as opposed to small board size.

In respect to financial performance, there were two financial year end dates that were stated by the respondents. 67 percent of the respondents stated that their Sacco ends its financial year on 31st December. 33 percent stated that their Sacco ends its financial year on 30th June. Majority of the respondents were neutral to the statement that the gross profit of their Sacco was improving. This was shown by a mean of 3.81 and a standard deviation of 0.85. A mean of 3.83 showed that respondents were neutral to the statement that net profit has been increasing. On whether current ratio of the Sacco was favorable compared to previous years, 48.9 percent strongly agreed, 36.2 percent agreed, 12.8 percent were neutral and 2.1 percent disagreed. When asked if quick ratio is favorable compared to other years, 31.9 percent strongly agreed, 48.9 percent agreed, 17 percent were neutral and 2.1 percent disagreed. When asked if debtor's turnover has improved compared to previous years, 29.8 percent strongly agreed, 40.4 percent agreed, 21.3 were neutral, 6.4 percent disagreed and 2.1 percent strongly disagreed. On whether creditors turnover has been improving compared to previous years, 21.3 percent strongly agreed, 31.9 percent agreed 36.2 percent were neutral, 6.4 percent disagreed and 4.3 percent strongly disagreed.

When asked if total assets of the Sacco have increased, 31.9 percent strongly agreed, 34 percent agreed, 19.1 percent were neutral, 6.4 percent disagreed and 8.5 percent strongly disagreed. When asked if total liabilities of the Sacco have reduced, 6.4 percent strongly agreed, 23.4 percent agreed, 44.7 percent were neutral and 25.7 percent disagreed. On the net worth of the Sacco 12.8 percent strongly agreed that it is favorable, 70.2 percent agreed that it is favorable, 12.8 were neutral and 4.3 percent disagreed that it was favorable. When asked if gross revenue of the Sacco has improved, 6.4 percent strongly agreed, 57.4 percent agreed, 31.9 percent were neutral and 4.3 percent disagreed. On the question of total expenses of the Sacco being favorable, 12.8 percent strongly agreed, 6.4 percent agreed, 51.1 percent were neutral and 28 percent disagreed.

5.1 Summary of Findings

The study made different findings. The return rate was 88.68 percent. The majority of the respondents had post high school qualifications. The majority of the respondents had more than one year experience in Sacco's. The management of these Sacco's and the board deliberates on the Sacco issues on a regular basis. External auditing is normally conducted on the financial statements of the Sacco's. On the objective of financial reporting, the statistical r was found to be 0.017. This value fell within the acceptance region of which the critical value was 0.025. The implication, therefore, was that there was relationship between financial reporting and financial performance of Sacco's at 5% level of significance A majority of the respondents believed that the leadership of their Sacco's has a positive effect on financial performance of the Sacco. The finding on management style objective was that the statistical r for the test of this hypothesis was 0.041. This lied outside the acceptance region. The study rejected the null hypothesis and instead accepted the alternative hypothesis. This meant that there was a relationship between management style and financial performance of Sacco's.

All the Sacco's involved in the study had a board of directors. For one to be a board member, they have to meet different requirements set by the Sacco's. The r calculated value of 0.056 fell outside the acceptance region. The study rejected the null hypothesis and accepted the alternative hypothesis. This implied that the size of the board affected financial performance of Sacco's.

5.2 Conclusions

The study concluded, from the findings, that there existed a relationship between financial reporting and financial performance of Sacco's at 5% level of significance. Management style also affected financial performance of Sacco's. This finding agreed with the stewardship theory which stipulates that a manager's objective is first to maximize the firm's performance because a manager's need of achievement and success are met when the firm is doing well (Coleman, 2008). The final conclusion of the study was that size of the board of directors affected financial performance. This finding agreed with a study done in England where the finding was that board size had a strong negative impact on profitability on firms. The study done in England concluded that the detrimental effect of large board size is arguably the result of boards becoming less effective at both the advisory and monitoring functions.

5.3 Recommendations

Based on the results of the finding, the study recommends that financial reports available should be as current as possible and should be prepared as regularly as possible. This could be important to investors (both current and potential), employees, and even the management itself when it comes to decision making. The management should employ a management style that all or the most employees are comfortable with so as to motivate them to be more productive. The Board of Directors should be supportive of the management so that the management is able to deliver to the Sacco.

This study has reviewed the effects of corporate governance on the financial performance of the Sacco's. This study recommends that a study be carried out on how Sacco's may use corporate governance to the benefit of all Sacco stakeholders. The study recommends that studies on corporate governance be done on microfinance institutions, commercial banks and the financial sector as a whole. This may help other players in the financial sector on how to run their organizations well so as to achieve the most for all stakeholders.

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