

**EFFECT OF COMPLIANCE TO SASRA REGULATIONS ON FINANCIAL
PERFORMANCE OF SAVINGS AND CREDIT CO-OPERATIVES IN KENYA:**

A SURVEY OF DEPOSIT TAKING SACCOS IN NAIROBI COUNTY

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DECLARATION AND APPROVAL

DECLARATION

This research project is my original work and has not been presented to any other institution. No part of this work should be reproduced without the author's consent or that of Kabarak University.

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APPROVAL

This research project has been submitted for examination with our approval to my Kabarak University Supervisors.

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DEDICATION

This research project is dedicated to my daughter Victoria Waitherero and my parents Mr. and Mrs. Wanyoike.

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First of all, I would like to thank God almighty who has brought me this far and for the grace He has bestowed upon me as I was working on this project. Secondly, I would wish to thank my family for moral and financial support and also for their encouragement. Finally, I would wish to express my sincere gratitude to my supervisors Dr. Maina Waiganjo and Dr.Simon K. Kiprop for their guidance, selfless dedication and encouragement in making this research project successful.

ABSTRACT

Deposit Taking Saccos' in Kenya are required to adhere to regulations set by SASRA within a period of four years which is ending in 2014. Despite the fact that SASRA regulations have been in operation for the last four years, the effects of compliance of the DTS to these regulations on their financial performance has not been established. Empirical studies have clearly avoided looking at specific aspects of these regulations particularly their effects on financial performance of the Saccos. Hence, the purpose of this study was to establish the impact of SASRA Regulations on Saccos' financial performance in Nairobi County. More specifically, the study sought to investigate the effect on staff competence, quality of board of directors and corporate governance on financial performance of Saccos. The target population was all the 34 DTS in Nairobi County which were obtained through census using survey design. Both primary and secondary was used in this study. The researcher used data from 2006 to 2012 to carry out the research. Analysis of data was done using both descriptive and inferential statistics with aid of Statistical Package for Social Science (SPSS) computer software package. The study findings indicated that the quality of the Board of Directors was an important aspect in improving the Saccos financial performance as per the SASRA regulations ($\beta = 0.567$; $p=0.05$). The findings also revealed that Sacco staff competence ($\beta = 0.705$; $p=0.05$) had a strong influence on the financial performance of the Saccos in the area. Corporate governance ($\beta = 0.778$; $p =0.05$) was also identified as the most significant effect of SASRA regulations on the Saccos financial performance. The study concludes that all the variables of the study were important factors in financial performance of the Saccos and needed to be addressed beginning with the most crucial which was in this case corporate governance. It is recommended that the SASRA regulations should be modified to upgrade the roles and qualifications of the Board members in order for them to play amore influential role in improving the financial performance of the Saccos and more staff should be involved in decision making at higher levels at some point in their careers in order to develop their potential as future managers and directors of the Saccos. Further research should be done in the following areas; the effect of competition on the financial performance of the Saccos and the effect of SASRA regulations on the organizational culture of Saccos. The significance of this study is that if this study was never conducted, the stakeholders would never have known the influence that corporate governance, staff competence and quality board has on the financial performance of Saccos.

Key words:

Performance, Competence, Governance, Regulation, Authority, Compliance

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ACRONYMS AND ABBREVIATIONS

SASRA-Sacco Societies Regulatory Authority

SACCO-Savings and Credit Co-operatives Limited

KUSCCO- Kenya Union Of Savings and Credit Co-operative Organization

ATM-Automatic Teller Machine

PCO- Provincial Co-operative Officer

MOCD&M-Ministry of Co-operative Development and Marketing

DCO-District Co-operative Officers

GOK-Government of Kenya

FOSA-Front Office Savings Activities

SMES-Small Medium Enterprises

DTS- Deposit Taking Saccos

DGF- Deposit Guarantee Fund

WOCCU-World Council of Credit Unions

CEO-Chief Executive Officer

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

A cooperative society is an autonomous association of persons united voluntarily to meet their common economic cultural needs and aspirations through a jointly owned and democratically controlled enterprise. The key idea behind a co-operative society is to pool the scarce resources, eliminate the middlemen and to achieve a common goal or interest (Ministry of Cooperative Development and Marketing, 2007). Cooperative Societies are good vehicles for assisting the people improve their socio-economic situation. They derive their strength and validity from member solidarity cooperation and concern for each other. The Co-operatives are anchored on a well established Co-operative philosophy based on seven principles formulated by the International Co-operative Alliance which include: voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education, training and information, cooperation among co-operatives and finally concerned for the community (Hans, H. 1976).

Co-operatives are divided into financial co-operatives and Non-financial Co-operatives. Co-operative philosophy started in the year 1844 in Britain by Rochdale Pioneers and its principles are followed worldwide (Kibera, 2003). Regionally the first Sacco Society, in Africa, was introduced in Africa by Father John Ncnulty in Ghana in 1959. The Sacco was intended to assist villagers improve their economic conditions (Ng'ombe & Mikwamba, 2004). English speaking nations were the first to adopt Saccos' with ,the first entrants into Sacco community being Ghana, Uganda, Nigeria, Tanzania, and Kenya. Most of the Non-English speaking nations in Africa started appreciating Saccos' in 1960s, with major influx into Sacco community in 1970s (Mwakajumilo, 2011). The cooperative sector in Kenya plays a significant role in the Kenyan economy currently contributing to over 31% of the national savings and over 40% of the Gross Domestic

product supporting over 60% of the nation's population either directly or indirectly (MOCD&M 2011).

As far as the legal framework in Kenya is concerned, in 1931 the colonial government enacted the Co-operative ordinance which forbade the Africans to form or join Co-operatives but, in 1945 this was repealed and Africans were allowed to form and even join Co-operatives. In 1965, the pre-independence Government recognized the co-operatives and in 1966 the Co-operative Societies Act was enacted which allowed the Government to control and supervise the cooperatives through the commissioner of Co-operatives. A session paper was also prepared on African Socialism and development in Kenya. These principles were very important during the formation, management and the foundation of the Cooperatives (Kobia, 2011). In 1945, the Co-operative Ordinance Act was passed where the Government of Kenya (GoK) legally controlled the Co-operatives.

The original legal framework for Saccos' in Kenya was provided by the Co-operative Societies Act of 1966 which gave Government extended powers to get involved in the day to day management of co-operatives. The act was amended in 1997 removing much of the control from the government through the Commissioner of Co-operatives under the Co-operative Societies Act 1997. This Act was enacted to provide a policy framework for co-operative development in Kenya therefore delineating these co-operatives from the control of the Government by necessitating the withdrawal of state control over the co-operative movement. The aim was to make co-operative societies autonomous, self-reliant, self-controlled and commercially viable institutions. The role of the government was redefined from one that sought to control co-operative development, to one that now seeks to regulate and facilitate their autonomy. This allowed the co-operatives to compete with other private enterprises (Republic of Kenya, 1997a). The 1997 Act was amended in 2004 through the Co-operative Societies (Amendment) Act of 2004 which was enacted to re-enforce state regulation of the co-operative movement through the office of the Commissioner for Co-operatives Development.

The Ministry regulates the movement under the Co-operative Societies Act and the rules which were enacted in 1966 and revised in 2004. The implementation of the Act was done through MOCD&M structure that includes PCOs and DCOs. Even though Saccos' have a great impact on the economy, they were not incorporated in the formal financial sector. The government found it necessary to recognize the potential that is in Saccos' and thus came up with a specific legislation which would provide regulations and standards unique to new Sacco business. Sacco Societies Act, 2008 which provided for the establishment of SASRA was introduced and it ushered in prudential regulations to promote and maintain financial soundness of Saccos'. SASRA is a Semi-Autonomous Government Agency under the line ministry and is a creation of the Sacco Societies Act 2008. It was inaugurated in 2009 and was charged with the prime responsibility of licensing and supervising deposit taking Sacco Societies in Kenya. (Republic of Kenya, 2008b).

The establishment of SASRA falls within the Government of Kenya's reform process in the financial sector which has the dual objectives of protecting the interests of Sacco members and ensuring that there is confidence in the public towards the Sacco sector and spurring Kenya's economic growth through the mobilization of domestic savings. SASRA regulates all DTS in Kenya which are currently 215 with 126 having been licensed. It's worth noting that Saccos represent one of the most important sources of financing in developing countries and in the last few years, Saccos have experienced tremendous growth all over the world. (Labie& Périlleux, 2008; Armendariz & Morduch, 2005; Magill, 1994). Today, there are more than 46,000 Saccos, serving about 172 million people in 92 countries. In 1996 in Africa, Asia and Latin America, a total of 20,512 Saccos were serving 16 million members; by 2006 the numbers had increased to 31,725 Saccos, serving more than 59 million members (WOCCU, 2006). Therefore, within 10 years, those regions have seen a growth rate of more than 54% in the number of Saccos, and more than 268% growth in the number of members (WOCCU, 2006). Given the impact of DTS' on the economy and individual Kenyans, Sasra regulations could not have come at a better time than this.

1.2 Statement of the Problem

The enactment of the SACCO Act of 2008 established SASRA as a legal authority to regulate the sector and subsequently the Kenya government introduced regulations on SACCOS' through SASRA in the same year. In Kenya, there are two types of SACCOS' namely; Deposit Taking Saccos' (DTS) and Non-DTS. In broader terms, SASRA was charged with the prime responsibility to license and supervise DTS in Kenya. The regulations came in against a backdrop of losses and compromised profitability, loss of members to banks, incompetent staff and poor corporate governance. All licensed DTS were required to review and align their policies and systems to the regulatory standards to underscore the business risks attendant to them namely credit, operational, market and legal (SASRA,2012). More specifically at operational level, SASRA regulations require SACCOS' to reconstitute their boards, improve on corporate governance and upgrade staff competence in order to improve profitability. In addition, despite the fact that SASRA regulations have been in operation for the last four years, the effects of compliance of the DTS to these regulations on their financial performance has not been established. Since the enactment of these regulations, there has been increased empirical attention on the effect of the regulations on the financial performance of SACCOS' in the country (Kioko, 2010). However, empirical studies have clearly avoided looking at specific aspects of these regulations particularly their effects on financial performance of the Saccos. This study, therefore sought to establish the effect of SACCOS' compliance to SASRA regulations on financial performance of DTS in Kenya. If the effect of compliance of DTS TO Sasra regulations is not addressed then most DTS might not be able to meet the deadline that Sasra has set for all the DTS to have complied. In addition, stakeholders are bound to loose incase any Sacco collapses. On the other hand, the government will also not be able to effectively monitor the operations of Saccos specifically DTS which are intended to propel economic growth.

1.3 Objectives of the Study

1.3.1 General objective

The general objective of this study was to examine the effect of compliance to SASRA regulations on the financial performance of the Deposit Taking Saccos in Nairobi County.

1.3.2 Specific Objectives

The following specific objectives guided the study:

- (i) To establish the relationship between quality of Board of Directors and financial performance of Deposit Taking Saccos in Nairobi County
- (ii) To determine the relationship between staff competence and financial performance of Deposit Taking Saccos in Nairobi County
- (iii) To determine the relationship between Corporate governance on the financial performance of Deposit Taking Saccos in Nairobi County

1.4 Research Hypotheses

In an attempt to achieve the above objectives, this study developed the following hypotheses:-

- i) **H₀₁**: There is no significant relationship between quality of Board of Directors and financial performance of Deposit Taking Saccos in Nairobi County
- ii) **H₀₂**: There is no significant relationship between staff competence and financial performance of Deposit Taking Saccos in Nairobi County
- iii) **H₀₃**: There is no significant relationship between corporate governance and financial performance of Deposit Taking Saccos in Nairobi County

1.5 Significance of the Study

This study is likely to benefit various stakeholders including the government of Kenya, current and potential investors, members of Saccos and other financial institutions. The policy makers will obtain knowledge of the cooperative movements dynamics and thus obtain guidance from this study in designing appropriate practices that will regulate the stakeholders in the Saccos' in Kenya. The researcher anticipates findings of the study will

also help DTS in Kenya in discovering new and better techniques of improving and running their operations in order to improve their financial performance. The government through the line ministry can use this study to educate those Saccos' that have not complied about the importance of being regulated. Finally, the study will identify the knowledge gaps and provide suggestions for further research. This will form a base for scholars who are interested in conducting research in this area in future.

1.6 Justification of the study

A survey of Deposit taking Saccos' was carried out given the enormous impact of such Saccos on Kenyan economy and the fact that there has been very low understanding of the Act and regulations. Sasra regulation was enacted in 2008 and thus a lot of research has not been carried out in this area thus justifying our research in this area. Both primary and secondary data was used in this study. The justification for collecting data on financial performance both from Sasra and the DTS was to verify the information that DTS were giving.

1.7 Scope of the Study

Currently, there are 126 DTS in Kenya that have complied with SASRA regulations. The target population was 34 DTS in Nairobi County. A census of all the 34 DTS was carried out since the County hosts majority of the DTS that have already complied with SASRA regulations (SASRA 2013). The study was conducted between May and September 2013. The research assessed the level of compliance of Saccos' to SASRA regulations by establishing the effects of quality of board of directors, staff competence and corporate governance on the financial performance of Saccos.

1.8 Limitations of the Study

The respondents approached were reluctant in giving information fearing that the information sought might be used to intimidate them or paint a negative image about them or their Sacco. The researcher handled this problem by issuing an introduction letter from the University and assured them that the information they give was going to be treated confidentially and it was to be used purely for academic purposes. Coverage of

SASRA is limited given the fact that the regulations were enacted in 2008 thus there's lack of enough material since a lot of research has not been conducted in this area. However, the exploration approach was taken to find the new developments that are taking place as a result of introduction of the new regulations.

1.9 Definition of Operational Terms

Authority- According to Armstrong (2006), authority is power to influence or command thought, opinion, or behavior. It also means freedom granted by one in authority, persons in command or a governmental agency or corporation to administer a revenue-producing public enterprise. In this study authority means SASRA which is the regulatory body set by the government to regulate Saccos.

Competence- According to Gupta (2010), competence means having skills, traits and knowledge required for a person to be effective in a job. In this study, competence will be measured in terms of the skills to implement the requirements of SASRA.

Compliance- According to Njuguna (2011), compliance means conforming to a rule, such as a specification, standard or law. Regulatory compliance describes the goal that corporations or public agencies aspire to achieve in their efforts to ensure that personnel are aware of and take steps to comply with the regulations. In this study compliance means ability of DTS to integrate and follow regulations laid down by SASRA.

Corporate Governance

According to Labie (2011), corporate governance is a system or set of mechanisms by which an organization is directed and controlled in order to reach its mission and objectives. In this study, corporate governance will be measured in terms of existence and implementation of the code of conduct of board of Directors and The Fit and Proper Test.

Financial Performance

According to Armstrong (2006), performance is often defined simply in output terms- the achievement of quantified objectives. In this study financial performance will be measured in terms of profitability.

Quality- According to Juran (1989), quality is defined as fitness for purpose. In this study quality means degree of independence of board of directors, their qualifications and experience.

Regulation-According to Baskin, Heiman, Lattimor and Toth (2012), regulation means a proposition underlying systems theory that maintains that underlying the behaviour of systems is constrained and shaped by interaction with other systems. In this study, regulation means the rules that have been put and which DTS are expected to adhere to.

The Fit and Proper Test- According to Njuguna (2011), The Fit and Proper Test form is issued by Sasra. Board of Directors are required to provide information about their experience, skills, membership to professional bodies, their source of wealth and other personal details.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The specific areas covered here are the theoretical review, empirical review, conclusion and conceptual framework.

2.2 SASRA Regulations

There are various areas covered by Sacco regulatory framework as outlined in this section.

2.2.1 Prudential standards and reporting requirements by the Act

The issues dealt with relate to the extent of external borrowing, asset categorization and provisioning, maximum loan size and insider lending and loan loss classification. Saccos' are subject to adhering to; Monthly returns (capital adequacy, liquidity, and deposits), Quarterly returns (risk classification of assets and loan loss provisioning, investment returns, financial performance) and other returns as requested by the body. The Act requires Saccos' to submit Annual returns (audited financial statements). SASRA has the authority to inspect the premises and the records of a Sacco and to prescribe enforcement actions in case of deficiencies including the appointment of a statutory manager. Non-compliance with legal requirements carries clearly specified penalties and includes removal from office of directors and other responsible officers. This is applicable to all licensed Saccos'. Once licensed, member deposits will be protected in the event of collapse of a Sacco. SASRA is on the process of setting up a Deposit Guarantee Fund (DGF) and Saccos will be expected to contribute to this coverage to a limit of shs.100,000. The Fund shall vest on a Board of Trustees four members of which shall be nominated by the Saccos.

2.2.2 Conducting business in a prescribed format

Saccos' can no longer carry out their activities using old usual way . Enactment of SASRA was a wake up call for Saccos. The Committee Members are prohibited from carrying out the routine operations of Saccos but are required to set policies to be implemented by staff. Thus roles are changing and staff are more independent to carry out their duties without interference of the board. Risk assessment and making provision for loan losses has been made mandatory. Setting aside reserves and a fund from which members can be refunded incase the Sacco collapses has been made mandatory . Saccos' are also required to have systems that are SASRA compliant.

2.2.3 Submitting returns regularly and Surveillance-being watched all the times

Saccos are required to send various returns like capital adequacy returns and others on or before 15th day of every month. SASRA has competent technocrats who go through the reports and Saccos are summoned whenever there are some irregularities. Failure to returns attracts penalties thus has made Saccos' more vigilant in sending their returns. SASRA monitors Saccos' operations through on-site and off-site surveillance. Before a Sacco engages in any new operations like admitting new class of members, opening and closing branches SASRA has to be informed and they inspect the activities before approving such activities. When a Sacco ignores such requires, heavy penalties are bound to follow. SASRA licenses Saccos nowadays and those Saccos' that do perform as required have their licenses not renewed.

2.3 Compliance of staff

SASRA has put a threshold of the required qualification of the senior staff which has meant that Saccos had to go back to the drawing board and recruit more qualified staff while at the same time they had to train the already existing staff in order to meet Sasra regulations. According to Sasra regulations, the Internal auditor should be a qualified Certified Public Accountant and should also pass the test integrity. Training of staff has been emphasized by SASRA thus the authority conducts seminars from time to time. Previously Sacco staff were being recruited based on nepotism and most of them did not

have relevant qualification. This has changed since the introduction of SASRA regulations. This study will thus seek to find out the effect of staff competence on financial performance of DTS.

2.4 Quality of Board of Directors

In theory, the board is responsible to the shareholders and is supposed to govern a company's management. The role of the board of directors has increasingly come under scrutiny in light of corporate scandals such as those at Enron, WorldCom and HealthSouth, in which the board of directors failed to act in investors' best interests (Gup, 2004). Quality of board of Directors can be measured by their independence, knowledge, experience, board size and related transactions. Appointments to the board of Directors should be through a managed and effective process, ensure that a balanced mix of proficient individuals and that each of those appointed is able to add value and bring independent judgment to bear the decision making process. The board of directors should determine the purpose and values of the corporation, determine the strategy that purpose and implement its values in order to ensure that the corporations survives and thrives and that procedures and values that protect the assets of the corporation are put in place (CBK, 2001). The emergence of the Investment and Audit committees has been necessitated by the growing number of Saccos' engaging in various forms of investments. The investments Committee is a sub-committee within the management committee and aims at the betterment of the Saccos well being. It is imperative that the members of the sub-committee should have sound knowledge of financial management. Generally the investment committee should always be guided by the trend in the economy, return on investments performance of the property market, requirement regulations and laws which pertains to investments, shareholders and members interest. It is for this reason that the Audit Committee organize regular audits of affairs of the Sacco Society in collaboration with Internal auditor. Apart from the formal auditing of the Co-operative Society, the committee should also be on to look out for potential problems. The board should ensure that a proper management structure is in place and make sure that the structure functions to maintain corporate integrity, reputation and responsibility. The board should monitor and evaluate the implementation of strategies, policies, management performance criteria

and the plans of the corporation. In addition, the board should constantly review the viability and financial sustainability of the enterprise and must do so at least once a year (CBK, 2001). Quality of board can also be measured through their independence. The Board should ensure that no one person or group of persons has unfettered power and that there is an appropriate balance of power on the Board so that it can exercise objective and independent judgment (CBK, 2001). SASRA has put a requirement that all related transactions must be disclosed by all DTS. Thus statements of loans of staff members and Board of Directors are usually submitted to SASRA from time to time.

2.5 Corporate Governance

According to Labie and Mersland (2011), corporate governance is a system or set of mechanisms by which an organization is directed and controlled in order to reach its mission and objectives. SACCOs are usually characterized by multiple objectives and are therefore different not only in their organizational forms but also in terms of products, methodologies, social priorities and profit seeking behaviour (Mersland & Storm, 2009). Corporate governance focuses on the board room but extends the scope to include owners and others interested in the affairs of the company, including creditors, debt financiers, analysts, auditors and corporate regulators' (Tricker, 1994). Governance is about the use of power in an organization and it seeks to ensure leader's governance to people. It also seeks to ensure that leaders act in the best interest of the organization. It targets members who are the owners of the organization and seeks to ensure that the power of an organization is used in a manner that facilitates independence, responsibility, efficient, fairness, accountable, social responsibility, transparency, efficiency and discipline (Murtishaw and Sathaye, 2006). Good Corporate Governance entails effectiveness, competitiveness and sustainability of the society. It also ensures the achievement of objectives, innovation, quality production/products, competitive edge and credibility which would attract investments. It emphasizes the use of resources efficiently, preservation of physical and social environment, sensitivity to society's needs and social responsibility (Bosch, 1995). According to SASRA, Saccos' should establish appropriate policies in areas such as human resource, credit, investment, savings, liquidity , risk management and establish audit committees to enhance internal controls. They should

also adopt international accounting and auditing standards. Saccos and are supposed to appoint external auditors who have met the required standards as laid out in Sec.45 of the Act. Disclosures of related transactions should be done in the financial statements. Directors should not hold position in more than one Sacco licensed under the Act. Sanctions for non-compliance with the law as opposed to persuasive guidelines have also been introduced.

2.5.1 Democratic governance

Authority and duties of the members (shareholders) are jointly and severally to protect, preserve and exercise the supreme authority of the Sacco. It ensures that competent persons are elected to the board and that the board is constantly held accountable and responsible for efficient and effective governance (Bosch, 1995). The democratically elected board should provide leadership to the Sacco with the following qualities: integrity, judgment, strategy and values, structures and organization, viability and financial sustainability, corporate compliance, communication, development and strengthening of skills, adoption of technology and recognition of risk areas, key performance indicators, social and environment responsibility, internal controls and procedures and generally the imaging issues.

2.5.2 Markets governance

Markets must be deeply embedded in systems of governance which is the idea that markets are self-regulating. This received a mortal blow in the recent financial crisis and should be buried once and for all because markets require other social institutions to support them. They rely on courts, legal frameworks, and regulators to set and enforce rules. They depend on the stabilizing functions that central banks and countercyclical fiscal policy provide. They need the political buy-in that redistributive taxation, safety nets, and social insurance help generate. And all of this is true of global markets as well (Pandey, 2003).

2.6 Theoretical Literature Review

This study is anchored on the following theories:-

2.6.1 Agency Theory

Agency theory is developed as framework for analyzing conflicting interests between key stakeholders, in addition to the development of mechanisms for resolving conflicts (Tipuric, 2008). Besides prevalent contribution within discipline of corporate governance, agency theory application is extensive: agency theory may be applied in every situation in which one party (the principal) delegates work to another (the agent), who performs that work. Agency theory attempts to describe the relationship in terms of behavioral characteristics and provides mathematic instrument for evaluating situations between parties who lack mutual trust. Incentive for agency theory development is the relationship between ownership and control function within large corporations. Pioneers, Jensen and Meckling, tried to verify that corporations do not operate according to the maximization principle, mainly because of the conflicting interests of major governing parties (Jensen & Meckling, 1976). Agency theory describes economic exchange relation between principal and agent. Principal-agent relation, in which principal delegates work to the agent, is described using the metaphor of a contract (Jensen & Meckling, 1976). The objective of this theory is to determine optimal contract between principal and agent. According to Abdullah & Valentine (2009), agency theory explains the relationship between the principals, such as members and agents. In this theory, members who are the owners or principals of the Sacco, hires by electing the management board as their agent (Alchian & Demsetz, 1972; Jensen & Meckling, 1976; Mitnick, 2006; Bruton et al., 2000). Principals (members) delegate the running of business to the management board which in turn hire and delegate authority to the managers (Clarke, 2004). Indeed, Daily et al. (2003) note that two factors can influence the prominence of agency theory. First, the theory conceptually reduces the corporation to two participants of managers and the owners. Second, agency theory suggests that employees or managers in Saccos' can be self-interested. Shareholders expect the agents to act and make decisions in the principal's interest. On the contrary, the agent may not necessarily make decisions in the best interests of the principals (Padilla, 2002). In agency theory, the agent may succumb to self-interest, opportunistic behavior and falling short of the agreement between the interest of the principal and the agent's pursuits. Although with such setbacks, agency

theory was introduced basically as a separation of ownership and control (Bhimani, 2008). Indeed, agency theory can be employed to explore the relationship between the ownership and management structure. However, where there is a separation, the agency model can be applied to align the goals of the management with that of the owners. 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). This theory prescribes that employees must constitute a good governance structure since they are held accountable in their tasks and responsibilities. This theory helps the researcher identify and describe the parties in DTS. The agency costs that a Saccos incurs also affect financial performance of DTS.

2.6.2 Corporate governance theories :-

(i) Stakeholder Theory

Pioneering work in the area of stakeholder management was provided by Freeman in 1984, who outlined and developed the basic features of the concept in a book entitled *Strategic Management: A Stakeholder approach* (Cole et al. 1984). Abdullah & Valentine (2009) indicate that a stakeholder can be defined as any group or individual who can affect or is affected by the achievement of the organization's objectives. Stakeholder theorists suggest that managers have a network of relationships to serve, which include the suppliers, employees and business partners. Sundaram & Inkpen (2004) contend that stakeholder theory attempts to address the group of stakeholder deserving and requiring management's attention. Donaldson & Preston (1995) suggest that all groups participate in a business to obtain benefits. Nevertheless, Clarkson (1995) concludes that the firm is a system, where there are stakeholders and the purpose of the organization is to create wealth for its stakeholders. Freeman (1984) reveals that the network of relationships with many groups can affect decision making processes as stakeholder theory is concerned with the nature of these relationships in terms of both processes and outcomes for the firm and its stakeholders. Donaldson & Preston (1995) argue that this theory focuses on managerial decision making and interests of all

stakeholders have intrinsic value, and no sets of interests is assumed to dominate the others. This theory will enable the researcher the importance of allowing all stakeholders play their role since they support each other in enhancing the well being of DTS.

(ii) Stewardship Theory

A steward protects and maximizes shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximized (Davis et al., 1997). In this perspective, stewards are managers working to protect and make profits for the shareholders. Therefore, stewardship theory emphasizes on the role of management being as stewards, integrating their goals as part of the organization (Davis et al., 1997). The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained. The theory recognizes the importance of governance structures that empower the steward and offers maximum autonomy built on trust (Donaldson & Davis, 1991). It stresses on the position of employee to act more autonomously so that the shareholders' returns are maximized. Indeed, this can minimize the costs aimed at monitoring and controlling employee behaviour (Davis et al., 1997). Daily et al. (2003) assert that in order to protect their reputations as decision makers in organizations, managers are inclined to operate the firm to maximize financial performance as well as shareholders' profits. In this sense, it is believed that the firm's performance can directly impact perceptions of their individual performance. This theory helps the researcher articulate the importance of management and Board of Directors taking the fore-front and leading by example as far as the running of DTS is concerned.

(iii) Shareholder's Theory

The origin of the ideas shaping shareholder theory are more than 200 years old, with roots in Adam Smith's *The Wealth of Nations*. In general, shareholder theory encompasses the idea that the main purpose of business lies in generating profit and increasing shareholders wealth. Modern proponents of shareholder theory espouse three tenets from Smith, namely the importance of "free" markets; the "invisible hand of self-

regulation;” and the importance of “enlightened self-interest.” Shareholder theorists call for limited government and regulatory intervention in business, believing markets are best regulated through the mechanism of the invisible hand—that is, if all firms work in their own self interest by attempting to maximize profits, society at large will benefit. Some proponents of the shareholder view even believe that the invisible hand checks illegal activity, arguing that the market will punish, or weed out, firms that engage in illegal or unethical behavior. Therefore, they conclude that, in general, excessive oversight and regulation of industry is unnecessary. According to Berle and Means, 1932; and Friedman, 1962 ,shareholders’ theory defines the primary duty of a firm’s managers as the maximization of shareholder wealth (Cunliff, A and Luhman, J 2013). The theory enjoys widespread support in the academic finance community and is a fundamental building block of corporate financial theory. However, the shareholder model has been criticized for encouraging short-term managerial thinking and condoning unethical behavior. According to Smith (2003) most critics believe shareholder theory is geared toward short-term profit maximization at the expense of the long run. On the other hand, Freeman et.al (2004), asserts that shareholder theory involves using the prima facie rights claims of one group shareholders to excuse violating the rights of others. Many proponents of shareholder theory, in a stylized version of the model, exhort managers to maximize the firm’s current stock price (Keown et. al, 2008; Lasher 2008; Jordan et.al 2008; Brealey and Myers 2003; Cornett et al. (2007); Melicher and Norton, 2008). By focusing on the current stock price which can be manipulated in the short-term by unscrupulous managers. This theory helps the researcher articulate the importance of shareholders, management and Board of Directors taking the fore-front and ensuring that the going concern of the sacco is considered and that the interests of all the stakeholders are taken catered for.

2.7 Empirical Literature Review

A number of empirical studies have provided the nexus between corporate governance and a firm’s financial performance (Gompers et al., 2003; Black et al., 2003 and Sanda et al. (2003) with inconclusive results. Bebchuk and Cohen (2004) have shown that well regulated firms have higher firm performance. The main characteristic of regulation that

Sasra requires and can be identified in these studies include board size, board composition, and whether the Chief Executive Officer is also the board chairman. Bhagat and Black (2002) found no significant relationship between board composition and financial performance. Yermack (1996) also showed that, the percentage of directors does not significantly affect firm financial performance. Agrawal and Knoeber (1996) suggest that boards expanded for political reasons often result in too many outsiders on the board, which does not help financial performance. Some recent empirical papers appear to focus on the relationship between corporate governance ratings and firm financial performance: Gompers et al. (2003), Brown and Caylor (2004), for the USA; Drobetz et al. (2003) and Bauer et al. (2004) for Europe; Foerster and Huen (2004) for Canada. Ricart et al. (2005) considered the relationship between corporate governance systems and sustainable development of leading companies. Empirical evidence on the association between outside independent directors and firm financial performance is mixed. Studies have found that having more independent directors on the board improves financial performance (Daily and Dalton, 1994), while other studies have not found a link between independent directors and improved firm financial performance (Hermalin and Weisbach, 1991). The point that can be made from these studies is that there is no clear benefit to firm financial performance provided by independent Directors. Petra (2005) argues that the mixed results may be reflective of a corporate culture wherein corporate boards are controlled by management and the presence of independent directors has no discernable impact on management decisions. As for the association between role duality and financial performance, Rahman and Haniffa (2003) documented that companies with role duality seem not to perform as well as their counterparts with separate board leadership based on accounting performance measurement.

In Kenya, several studies have been done on the effect of corporate governance on financial performance. Muriithi, (2004) investigated the relationship between corporate governance mechanisms and performance of firms and found that the size and the composition of the board of directors together with the separation of the control and the management have the greatest effect on the performance. Ngugi (2007) did a study on the relationship between corporate governance structures and the performance and found that

inside directors are more familiar with the firm's activities and they can act as monitors to top management especially if they perceive the opportunity to advance into positions held by incompetent executives. The study also found that the effectiveness of a board depends on the optimal mix of inside and outside directors concluding that an optimal board composition lead to better performance of the companies.

2.8 Research Gap

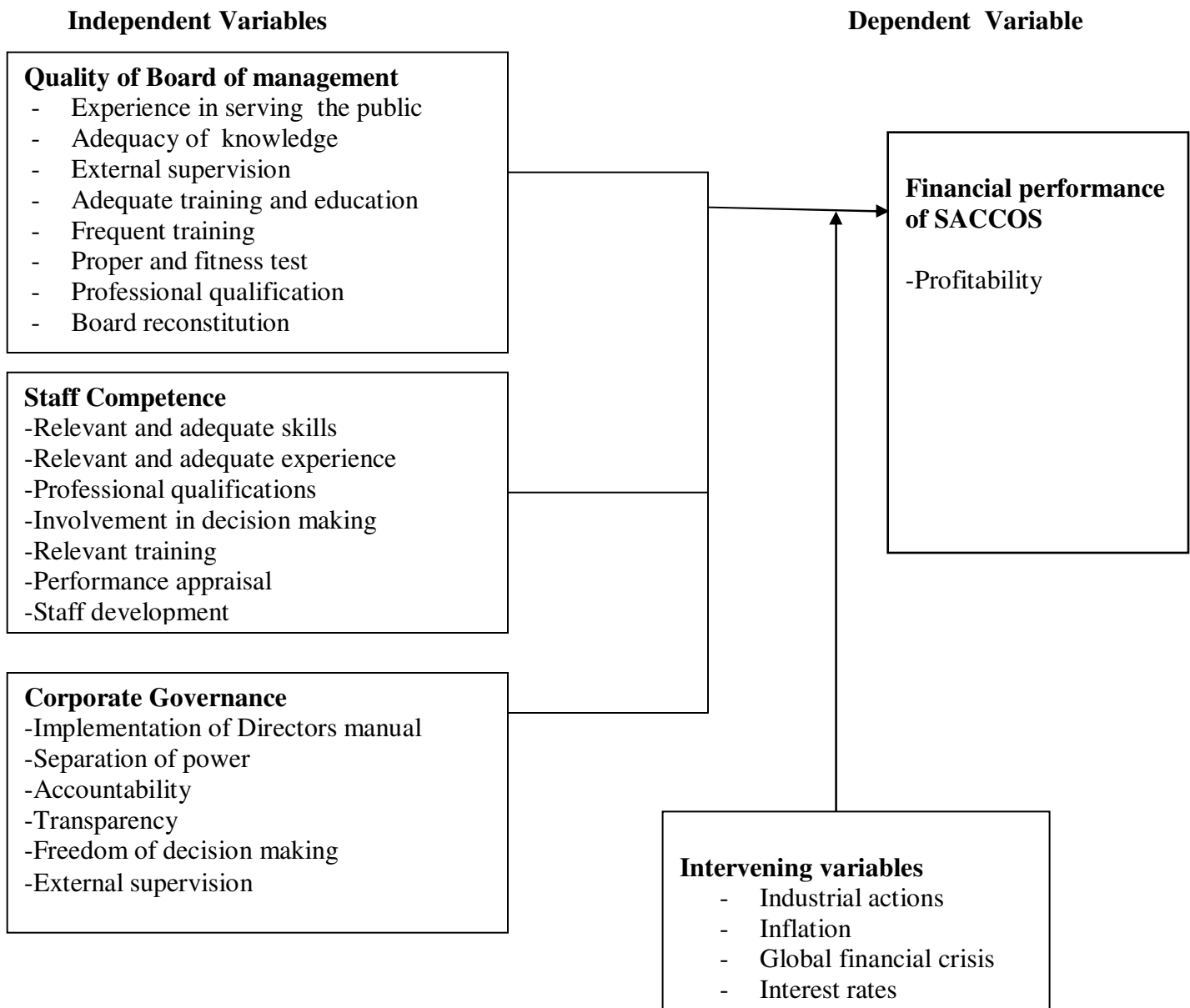
A study by Kioko (2010) aimed to establish the impact of Sasra regulations on the financial performance of Sacco's in Kenya. The study targeted the 98 SACCOs registered by SASRA. The researcher limited himself to investigating the capital requirements and management efficiency but did not investigate the quality of board of directors, staff competence and corporate governance which is the object of this study. This gap is addressed by objective i, ii and iii of this study.

Another study by Odera (2012) aimed to establish Corporate Governance Problems of Savings, Credit and Cooperative Societies. The researcher examined both the corporate governance theories and conflicts of governance associated with SACCOs. The problems that frequently occur in SACCOs due to some reasons like lack of clear and proper rules separating management from decision making, inadequate managerial competitiveness, failure of membership and boards to exercise fiduciary responsibility and the one member one vote system were investigated. The researcher limited himself to corporate governance and did not investigate staff competence and quality of board of directors which is the subject of the object of this study. This gap is addressed by objective no i and ii of this study.

Another study by Muriuki and Ragui (2010), aimed to establish the impact of the Sacco Societies Regulatory Authority (SASRA) Legislation on Corporate Governance in Co-operatives in Kenya. These researchers limited themselves to investigating the impact of the legislation on the corporate governance specifically gender imbalance among top management staff but did not investigate corporate governance as far as the board of directors are concerned which is the object of this study. This gap is addressed by objective iii.

2.9 Conceptual Framework

This framework illustrates the relationship between the independent variables and the dependent variable. It shows the relationship between quality of board composition, staff competence, corporate governance and financial performance of DTS in Kenya.



Source: Researcher, 2013

Figure 1: Conceptual Framework showing the relationship between the independent and the dependent variables.

Brief explanation of the variables:-

Board of Directors quality- Will be measured by examining qualification of members of board, whether board members have passed the Proper and fitness test, frequency of board training, examining the number of years board members have been serving the public.

Staff competence- This will be measured in terms of the level of education, experience, adequacy and relevance of their knowledge, Professional qualification, years of experience , frequency of training of staff and membership to professional bodies.

Corporate governance- This will be measured in terms of implementation of Board manuals, independence in decision making, accountability and transparency.

Financial performance-The research will focus on the profitability of Sacco by specifically looking at their profits prior to and after introduction of SASRA.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter contains the research design that was used , the target population, sampling design and sample size, data collection method, data analysis and presentation, validity and reliability of research instruments.

3.2 Research Design

According to Mark *et.al.*,(2009), survey design is a formal or scientific study usually accomplished through the use of a questionnaire that is administered to a sample of the population being studied. Surveys are used when a researcher wants to collect data on phenomena that cannot be directly observed especially where the target population is large. In this study, the researcher used a survey design to carry out the study since data collected was to be standardized thus allowing easy comparison. Data collected was largely be quantitative.

3.3 Target Population

According to Ngechu (2004), a population is a well defined set of people, services, elements, events, group of things or households that are being investigated. The population of interest of this study was all the DTS in Nairobi 34 of which had complied with SASRA regulations by July 2013. A survey was carried out in these DTS to establish effect of compliance to SASRA regulations on financial performance for the period: 2006 to 2009 (prior to SASRA regulations) and 2010 to2013 (after enactment of SASRA regulations). The main respondents were the CEO's and the Chairmen of DTS since they are more familiar with SASRA regulations and they were involved in formation and implementation of SASRA.

3.4 Sample Design

All 34 DTS were involved in this study, thus a census was done. Kothari (2005) indicates that where members of a target population are considered, it becomes more representative of the population of interest. It fulfills the requirements of efficiency, representativeness, reliability and other factors like nature of units, size of the population, size of the questionnaire and the time available for completion of the study.

3.5 Research Instrument

According to Mark et al (2009), a questionnaire is a data collection instrument in which each person is asked to respond to the same set of questions in a pre-determined order. Structured questionnaires were used to obtain data from the respondents for ease of analysis. The questionnaires consisted largely of closed-ended questions for ease of analysis. To be successful, the questionnaires were short and simple (Kothari 2004). The questionnaires were divided into four sections. Section A captured general information of the respondents, Section B covered Financial performance, Section C covered the quality of board of directors, while Section D covered staff competence and finally Section E covered Corporate Governance.

3.6 Validity and Reliability of the research instrument

The questionnaires were pre-tested in 5 Saccos' in Rift Valley Province through a pilot study to prove whether they were valid or not. To ensure that the instrument was valid and reliable, the researcher ensured that the questionnaire was clear and error free. Reliability of the instrument was calculated using Cronbach's Coefficient Alpha for either even and uneven items based on the order of number arrangement of the questionnaire items. According to Fraenkel and Wallen (2000), reliability should be at least 0.70 or higher thus if Coefficient Alpha of 0.7 is obtained, then the instrument is accepted otherwise it will be revised to attain accepted standard i.e ≥ 0.7 .

$$\alpha = \frac{N \cdot \bar{c}}{\bar{v} + (N - 1) \cdot \bar{c}}$$

Here N is equal to the number of items, c -bar is the average inter-item covariance among the items and v -bar equals the average variance. The instruments gave a Cronbach's Coefficient Alpha value of 0.7225 implying that it was above the recommended value and therefore suitable for administration.

3.7 Data Collection and Procedures

A letter of approval was obtained from Kabarak University Business School. To collect primary data, the questionnaires were administered by the researcher with the help of a research assistant. In addition, SASRA reports were used to obtain secondary data for the financial performance variable. The research assistant was trained by the researcher on how to administer the questionnaires to the respondents. Drop and pick later method was used.

3.8 Data Analysis and Presentation

After the data collection, the questionnaires were coded, edited to detect errors and omissions to enhance accuracy and precision. Data analysis was done using both descriptive and inferential statistics to enable the researcher, describe and examine the relationship between the variables. Descriptive statistics involved using mode whereas inferential statistics involved use of correlation and regression analysis. Multiple regression analysis was done to test whether the regression model holds under;

$$y = b_0 + b_1x_1 + b_2x_2 + b_3x_3 + e$$

Where,

Y = Profits of the Sacco

x_1 = Quality of board of directors

x_2 = Staff competence

x_3 =corporate

e =error term.

CHAPTER FOUR

DATA ANALYSIS, DISCUSSIONS AND PRESENTATION

4.1 Introduction

This chapter presents findings of the study. Both descriptive and inferential outputs are presented together with the interpretation of the findings.

4.1.1 Response rate

Table 4.1 gives a summary of the instrument response rate.

Table 4.1: Questionnaire response rate

Number of questionnaires issued	Number of questionnaires returned	Response rate (%)
34	32	94

The study was able to get a response from 32 respondents out of the 34 questionnaires distributed to the Sacco heads in the study area as shown in Table 4.1; this represented a response rate of 94 % which was acceptable (Kothari, 2004).

4.2 Descriptive Statistics

This section presents the results of the descriptive statistical analyses of the data and their interpretations. The descriptive statistics used are the means, modes, medians and standard deviations. The descriptive statistics helped to develop the basic features of the study and form the basis of virtually every quantitative analysis of the data. The results were presented in terms of the study objectives.

4.2.1 Demographic Characteristics of the Respondents

The study sought to determine the demographic characteristics of the respondents as they are considered as categorical variables which give some basic insight about the respondents. The characteristics considered in the study were; range of ages of the respondents; gender and highest level of education attained by them. The findings on these are summarized in Table 4.2

Table 4.2 (a): Gender by age of the Respondents

		AGE			
Gender		29- 39years	40 - 49 years	49 - 59 years	Total
Female	Frequency	2	2	1	5
	Percent (%)	6.25	6.25	3.13	15.63
Male	Frequency	12	12	3	27
	Percent (%)	37.50	37.50	9.38	84.38
Total	Frequency	14	14	4	32
	Percent (%)	43.75	43.75	12.5	100
Chi-square	0.3048				
d.f	2				
P-value	0.8587				

Key: SA=Strongly Agree; A=Agree; N=Neutral; D=Disagree and SD=Strongly Disagree

The findings in Table 4.2(a) reveal that majority of the respondents were male aged between 29- 49years.

Table 4.2 (b): Range of ages by the level of education of the Respondents

		Level of education			
Age		Diploma	Undergraduate	Postgraduate	Total
29-39yrs	Frequency	0	7	7	14
	Percent (%)	0	21.88	21.88	43.76
40-49yrs	Frequency	1	3	10	27
	Percent (%)	3.13	9.38	31.25	84.38
50-59yrs	Frequency	0	11	20	32
	Percent (%)	0	34.38	62.5	100
Chi-square	3.6935				
d.f	4				

P-value 0.4491

Key: SA=Strongly Agree; A=Agree; N=Neutral; D=Disagree and SD=Strongly Disagree

It can be deduced from Table 4.2(b) that the respondents were under graduate and post graduate and also aged between 29-49 years. These findings imply that majority of the respondents were educated and hence were better positioned for better performance prospects in the future. The findings were significant to the financial performance of the Saccos as indicated by the high value of the Chi-square.

Table 4.2(c): Relationship to the Sacco by age of the respondents

Age		Relationship		
		Board member	Staff	Total
29-39yrs	Frequency	0	14	14
	Percent (%)	0	43.75	43.75
40-49yrs	Frequency	0	14	14
	Percent (%)	0	43.75	43.75
50-59yrs	Frequency	1	3	4
	Percent (%)	3.13	9.38	12.5
Chi-square	7.2258			
d.f	2			
P-value	0.027			

Key: SA=Strongly Agree; A=Agree; N=Neutral; D=Disagree and SD=Strongly Disagree

The findings in Table 4.2(c) suggest that most of the respondents were staff members and aged between 29-49 years. The chi-square shows a significant relationship between relationship to the Sacco and age of the respondents.

4.2.2 Quality of SACCOs Board Members in Nairobi County

The first objective of this study was to establish the relationship between the quality of Board of Directors and financial performance of Deposit Taking Saccos in Nairobi County. This objective was achieved by asking the respondents several questions describing the quality of the Board of Directors in their Saccos. The data on this objective was rated on a five point Lickert ranging from 1 = strongly agree to 5 = strongly disagree. The results are summarized in Table 4.3

Table 4.3: Quality of Board of directors

Statements	SA freq (%)	A freq (%)	N freq (%)	D freq (%)	SD freq (%)	χ^2	P- Value
All Board members have more than five years of experience in public service.	21(65.6)	6(18.8)	3(9.4)	2(6.3)	0	29.25	0.0001
All Board members have appropriate training and education.	7(21.9)	22(68.8)	3(9.4)	0	0	18.813	0.0001
All Board of Directors are frequently trained on Sacco management.	15(46.9)	15(46.9)	2(6.3)	0	0	10.563	0.0001
All Board of Directors have passed the proper and fitness test	14(43.8)	12(37.5)	5(15.6)	1(3.1)	0	13.75	0.0001
All Board of Directors have relevant professional qualifications	8(25.0)	13(40.6)	11(34.4)	0	0	1.188	0.0001
Board reconstitution takes place from time to time	13(40.6)	10(31.3)	6(18.8)	1(3.1)	2(6.3)	16.438	0.0001
All Board members have sufficient knowledge of Sacco operations when they join the Board of Directors	8(25.0)	11(34.4)	7(21.9)	6(18.8)	0	1.75	0.0001
All board operations should be supervised by an external body	7(21.9)	10(31.3)	8(25.0)	5(15.6)	0	5.813	0.0001

N = 32

Key: SA=Strongly Agree; A=Agree; N=Neutral; D=Disagree and SD=Strongly Disagree

The results in Table 4.3 suggest that most of the Board members had more than five years experience in public service (65.6%). However, most respondents agree that the board members had appropriate training and education relevant to Sacco management (68%). The findings also show that (62%) respondents agree that all board operations should be

supervised by external body. This means that the though respondents did have some confidence in the Board members in carrying out their duties without undue outside interference there was need for their conduct to be checked from time to time. The findings also show that directors have passed proper and fitness test at (81%) and agree that they have relevant professional qualification (66%). Another interesting finding emerges from the table indicating that the board was reconstituted (71%) implying that the Saccos wanted all Board members to serve in different capacities within the Saccos to give them more exposure at different levels. This will compensate for their lack of specific training in Saccos management and improve the quality of the board.

4.2.2 Competence of SACCO Staff Members in Nairobi County

The second objective of this study was to determine the relationship between staff competence and financial performance of Deposit Taking Saccos in Nairobi County. This objective was measured with the aid of the following questions posed to the respondents in relation to the competence of their Saccos staff competence. The responses on this objective were rated on a 5-point scale ranging from; 1 = strongly agree to 5 = strongly disagree. The findings on these are summarized in Table 4. 4

Table 4.4: Competence of SACCO Staff Members

Statements	SA freq (%)	A freq (%)	N freq (%)	D freq (%)	SD freq (%)	χ^2	P- Value
Training sessions for staff of Sacco are conducted regularly	16(50.0)	13(40.6)	2(6.3)	1(3.1)	0	21.75	0.0001
The Sacco management encourages Staff development	12(37.5)	16(50.0)	3(9.4)	1(3.1)	0	19.25	0.0001
Performance appraisal for all staff are conducted frequently	7(21.9)	20(62.5)	2(6.3)	2(6.3)	1(3.1)	39.562	0.0001
All Sacco staff have relevant co-operative management skills	5(15.6)	16(50.0)	8(25.0)	2(6.3)	1(3.1)	22.687	0.0001
All Sacco staff have relevant Professional qualification	5(15.6)	22(68.8)	1(3.1)	3(9.4)	1(3.1)	49.25	0.0001
All staff are involved in decision making	3(9.4)	13(40.6)	10(31.3)	5(15.6)	1(3.1)	15.5	0.0001
The Sacco has a mentoring program for all staff	2(6.3)	12(37.5)	9(28.1)	7(21.9)	2(6.3)	12.063	0.0001
All staff members have more than five years experience	5(15.6)	6(18.8)	5(15.6)	12(37.5)	4(12.5)	6.438	0.0001

n=32

Key: SA=Strongly Agree; A=Agree; N=Neutral; D=Disagree and SD=Strongly Disagree

The results in Table 4.4 indicate that majority of the Sacco staff members received regular training organized by the Saccos (90%). This could be attributed to the fact that the Sacco management encouraged staff development (87.5%). Additionally (65.6%) respondents were of the opinion that all Saccos staff had relevant cooperative management skills and also most of the staff had relevant professional qualifications (84%). The findings agreed that performance appraisal was done at (84.4%). The findings reveal that (50%) of respondents agreed that staff were involved in decision making while the rest were either neutral or disagreed. As far as mentoring of staff is concerned most respondents were neutral (28%) while others disagreed (28.2%) about existence of mentoring programs in DTS. Most of them had served less than five years in the Saccos implying that they were either recent recruits into the Saccos or that many Saccos in the area had been in existence for less than five years.

4.2.3 Corporate Governance in SACCOs in Nairobi County

The third objective of this study was to determine the relationship between corporate governance on the financial performance of Deposit Taking Saccos in Nairobi County. To realize this objective, the respondents were asked to react to several statements describing the aspects of corporate governance in their Saccos such as; the Sacco has a Board evaluation manual in place; the Sacco has a documented code of conduct; Board members have autonomy and freedom in decision making; Board of Directors are accountable while undertaking DTS activities; there is separation of power between staff and board operations and; Board of Directors should be supervised by an external body. Corporate governance was described effectiveness, competitiveness and sustainability of the Saccos and was rated on a five point Likert scale ranging from; 1 = strongly agree to 5 = strongly disagree. The findings on this variable are summarized in Table 4.5

Table 4.5: Corporate Governance in SACCOs

SA A N D SD

Statements	freq (%)	freq (%)	freq (%)	freq (%)	freq (%)	χ^2	P-Value
The Sacco has a Board evaluation manual in place	7(21.9)	16(50.0)	2(6.3)	4(12.5)	3(9.4)	20.187	0.0001
Board members have autonomy and freedom in decision making	4(12.5)	23(71.9)	2(6.3)	3(9.4)	0	37.75	0.0001
The Sacco has a documented code of conduct	11(34.4)	21(65.6)	0	0	0	3.125	0.0001
Board of Directors are accountable while undertaking DTS activities	11(34.4)	18(56.3)	3(9.4)	0	0	10.563	0.0001
There is separation of power between staff and board operations	13(40.6)	18(56.3)	1(3.1)	0	0	14.313	0.0001
Board of Directors should be supervised by an external body	17(53.1)	8(25.0)	3(9.4)	4(12.5)	0	15.25	0.0001

n=32

Key: SA=Strongly Agree; A=Agree; N=Neutral; D=Disagree and SD=Strongly Disagree

Looking at the results in Table 4.5 it can be deduced that majority of the respondents strongly agreed that there is separation of powers between Sacco staff and board operations (96%). There was also general agreement that the Saccos has documented cord of conduct (100%) and that the board of directors were accountable while undertaking DTS activities. The findings also revealed that the respondents agreed that board members had autonomy and freedom in decision making (84.4%). This indicates that the Saccos in the area were reasonably compliant with the SASRA regulations regarding Board appointments and performance. The findings also indicated that the Boards regularly used board evaluation manuals to assist them in documenting their code of conduct (72%) hence, raise the standards of corporate governance. However, the evaluation manuals were not supposed to limit the Boards' autonomy in decision making. This is because governance is about the use of power in an organization but to ensure leader's governance to people. It also seeks to ensure that leaders act in the best interest of the organization. It targets members who are the owners of the organization and seeks to ensure that the power of an organization is used in a manner that facilitates independence, responsibility, efficient, fairness, accountable, social responsibility, transparency, efficiency and discipline. As far as the board being supervised by an external body is concerned, the findings reveal that there was general agreement at 78%.

4.3 Inferential statistics

This section presents the results of the correlation and regression analysis done in the study to evaluate the nature of the relationship between the dependent and independent variables.

4.3.1 Correlation Analysis

Correlation analysis was used to determine both the significance and degree of association of the variables. The correlation technique is used to analyze the degree of relationship between two variables. It varies between -1 and + 1 with both ends of the continuum indicating perfect negative and perfect positive relationship between any two variables respectively. The results of the correlation analysis are summarized in Table 4.6

Table 4.6: Summary of Correlations

		Quality of Board	Staff competence	Corporate governance	Financial performance
Quality of Board	Pearson's Correlation	1			
Staff competence	Pearson's Correlation	0.155**	1		
Corporate governance	Pearson's Correlation	0.112**	-0.029**	1	
Financial performance	Pearson's Correlation	0.575**	0.352**	0.318**	1

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

The correlation summary shown in Table 4.6 indicates that there were weak but significant associations between the independent variables save for one which was not significant at the 95% confidence level.

From the correlation results, it was found that quality of the Board of Directors has a significant effect on the financial performance of the Saccos in the Nairobi County ($r = 0.575$, $\alpha = 0.05$). This shows that there's a significant relationship exists between quality

of board and financial performance thus providing grounds for the rejection of the null hypothesis.

The study also sought to determine whether staff competence has a significant effect on the financial performance of the Saccos in Nairobi County. From the correlation results, it was found that that a low but significant relationship indeed exists ($r = 0.352, \alpha = 0.05$). This leads to the rejection of the null hypothesis.

Finally, the study also sought to determine whether staff competence had a significant effect on the financial performance of the Saccos in the area. The results of correlation analysis in Table 4.6 shows a low significant relationship exists ($r = 0.318, \alpha = 0.05$).

4.3.2 Regression Analysis

Multiple regression analysis was used to determine the significance of the relationship between the dependent variable and all the independent variables pooled together. This analysis was used to answer the questions; how do the independent variables influence the dependent variable collectively; to what extent does each independent variable affect the dependent variable in such a collective set-up, and; which are the more significant factors? The results are given in the model summary in Table 4.7

Table 4.7: Multiple linear regression analysis model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.721 ^a	0.519	0.489	0.458

a. Predictors: (Constant), Financial performance of Saccos

b. Predictors: (Constant), Quality of Board of Directors, Sacco staff competence, Corporate governance

The results in Table 4.7 show that the value obtained for R, which is the model correlation coefficient was $r = 0.721$ which was higher than any zero order value in the table. This indicates that the model improved when more variables were incorporated when trying to analyze the effects of SASRA regulations on the financial performance of

the Saccos in the area. The r square value of, $r = 0.489$, also indicates that when all the variables are combined, the multiple linear regression model could explain for approximately 48% of the variations in financial performance of the deposit taking Saccos in Nairobi county.

4.3.3 ANOVA Results

The results of the ANOVA performed on the independent and dependent variables are summarized in Table 4.8.

Table 4.8: Summary of ANOVA – Based on Financial Performance of DTS

Source of difference	Sum of squares	df	Mean square	F_o	Sig.
Between groups	14.027	3	4.676	3.113	0.005
Within groups	42.055	28	1.502		
Total	56.082	31			

Table 4.9: Multiple linear regression results

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	4.601	1.271		3.62	0.001		
Quality of Board	0.559	0.301	0.567	1.857	0.013	0.864	1.158
Staff competence	0.696	0.085	0.705	8.188	0.000	0.95	1.053
Corporate Governance	0.751	0.261	0.778	2.877	0.019	0.826	1.211

a. Dependent Variable: Financial performance of Saccos

The Anova results shown in Table 4.8 indicate that there is a significant difference between means of factors affecting the financial performance of the Saccos in Nairobi County. ($F_o = 3.113 > F_c = 2.95$; $\alpha < 0.05$; $df = 3, 28$; $p = 0.05$). This finding confirms

the finding suggested by Table 4.9. The study therefore establishes that the SASRA regulations affected the financial performance of the Saccos in the area. All the null hypotheses are therefore rejected. This means that all these factors made a notable difference in the financial performance of Deposit Taking Saccos.

The multiple linear regression results in Table 4.9 indicate that the most important effect of SASRA regulations on the financial performance of the Saccos in the study area was corporate governance followed by staff competence and quality of Board of Directors as shown by the beta values for these variables: 0.778, 0.705 and 0.567 respectively. Therefore, the variables of SASRA regulations are seen to influence the financial performance of the Saccos in Nairobi County.

4.4 Hypotheses testing

In this section the hypotheses are tested and implications discussed.

H₀₁ : There is no significant relationship between quality of Board of Directors and financial performance of Deposit Taking Saccos in Nairobi County.

Regression results revealed that quality of board significantly influenced financial performance ($\beta = 0.567$; p value = 0.013 and t value = 1.857) and thus the null hypothesis was rejected. The implication of this is that whenever a board is constituted its quality must be a key consideration. This means that experience of the board in public service, training, professional qualifications and integrity of the board has to be taken into account. Ignoring the factors mentioned above when constituting the board means that the SACCO will have a board that's of poor quality thus compromise financial performance.

H₀₂ : There is no significant relationship between staff competence and financial performance of Deposit Taking Saccos in Nairobi County.

Regression results revealed that there staff competence significantly influenced financial performance ($\beta = 0.705$; p value = 0.000 and t value = 8.188) and therefore the null hypothesis was rejected. The implication of this is that staff competence is a key

consideration as far as financial performance of Sacco is concerned. This means that DTS should ensure that staff members are trained regularly, encourage staff development, conduct performance appraisal frequently and involve staff in decision making to enhance staff competence. Ignoring the factors mentioned means that the SACCO will have staff are incompetent thus compromise financial performance.

Ho₃ : There is no significant relationship between corporate governance and financial performance of Deposit Taking Saccos in Nairobi County.

Regression results revealed that corporate governance significantly influenced financial performance ($\beta_3 = 0.778$; p value = 0.019 and t value = 2.877) which was significant therefore the null hypothesis was rejected. The implication of this is that corporate governance is a key consideration as far as financial performance of Sacco is concerned. This means that DTS should ensure that the Sacco should have in place a board evaluation manual, have autonomy and freedom in decision making, have a documented code of conduct, be accountable while undertaking DTS activities and should be supervised by an external body. Ignoring the factors mentioned means that the SACCO will not meet the required standards thus compromise financial performance.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a detailed summary of the major findings of the actual study; it then draws conclusions and discusses implications emanating from these findings. Finally, it makes some recommendations and suggestions on areas of further study. The general objective of this study was to examine the effect of compliance to SASRA regulations on the financial performance of the Deposit Taking Saccos in Nairobi County. In particular, the study sought to establish the relationship between quality of Board of Directors, staff competence and corporate governance on the financial performance of Deposit Taking Saccos in Nairobi County

5.2 Summary of Major Findings

The findings reveal that all the variables combined can explain approximately 52% of the variations in financial performance of the deposit taking Saccos in Nairobi County while 48% may be attributed to other factors not explained by the model or the variables.

The findings on the relationship between quality of Board of Directors and the financial performance of Deposit Taking Saccos in Nairobi County reveal that the quality of the Board of directors was a significant factor in the financial performance of the Saccos. It was established that most Saccos' Boards were composed of members who had more than five years of public service prior to appointment, had sufficient working knowledge of Sacco operations prior to joining the Boards and had appropriate training and education implying that the appointments to the Boards in the area was competitive and required sound academic background. The findings also revealed that the Board members were frequently trained on Sacco management and that Board reconstitution from time to time was often practiced in the Saccos in the area. This was done to expose the Board members to other roles and also for the purposes of replacement due to several factors including natural attrition and inability to forge a sound working relationship with each other. This meant that the SASRA regulations needed to upgrade the roles and qualifications of the Board members in order for them to play a more influential role in improving the financial performance of the Saccos.

The second objective to be investigated in the study was to determine the relationship between staff competence and financial performance of Deposit Taking Saccos in Nairobi County. Data analyzed on this variable revealed it had a significant relationship with the financial performance of the Saccos in the area. Regression results showed that it had a linear relationship and that it was the second most important factor in the multiple regression model, hence needed to be taken into account in order to achieve better financial performance. The findings also reveal that only half of the staff members did not have more than five years experience in the Saccos although majority were in possession of relevant professional qualifications. It was also determined that half the Saccos staffs in the area were somehow involved in decision making at a higher level within their Saccos as about two thirds of them had relevant co-operative management skills since the Saccos management in the area encouraged staff development. Performance appraisal for all staff in these Saccos was also conducted frequently. The regression results also show that Sacco staff competence as required by SASRA regulations had a strong influence on the financial performance of the Saccos in the area.

Finally, the study also sought to determine the relationship between corporate governance on the financial performance of Deposit Taking Saccos in Nairobi County. According to the findings, there was a significant association between the two variables implying that it was a factor affecting the financial performance of Saccos. Multiple regression results indicated that it was the most important factor in the model and therefore, needed to be given priority when addressing financial performance of the Saccos in the area. It was also revealed that majority of the Saccos had Board evaluation manuals in their possession indicating that the Saccos in the area were reasonably compliant with the SASRA regulations regarding Board appointments and performance. The study also established that majority of the Board members of the Saccos in the area enjoyed autonomy and freedom in decision making and were accountable when undertaking DTS activities. Separation of power between staff and board operations in the Saccos in the area was also practiced implying that the Board members understood their roles and functions of their powers within the Saccos and were careful to delimit them. However, most of the respondents were of the opinion that the Boards should also be subject to

external supervision by external bodies according to the SASRA regulations to curb any form of malpractice. These results confirm those of studies done by Daily and Dalton, (1994) which found that having more independent directors on the board improves financial performance.

5.3 Conclusions

The study findings have revealed that the quality of the Board of Directors was an important aspect in improving the Saccos financial performance as per the SASRA regulations although compared to the other two variables it was weaker. In particular, most Saccos' Boards were composed of members who had more than five years of public service prior to appointment, had sufficient working knowledge of Sacco operations prior to joining the Boards. They were also frequently trained on Sacco management. The findings also revealed that Sacco staff competence as required by SASRA regulations had a strong influence on the financial performance of the Saccos in the area. It was also determined that half of Saccos staffs in the area were somehow involved in decision making at a higher level within their Saccos as about two thirds of them had relevant co-operative management skills since the Saccos managements in the area encouraged staff development. Finally, they identified corporate governance as a the most significant effect of SASRA regulations on the Saccos financial performance in the study area, hence, needed to be emphasized in order to strengthen the operations of the Saccos in the area. Hence, based on this findings, the study concludes that all of them were important variables of the study that needed to be addressed beginning with the most crucial which was in this case corporate governance.

5.4 Recommendations

In line with the study findings above the following recommendations are made;

The SASRA regulations should be modified to upgrade the roles and qualifications of the Board members in order for them to play amore influential role in improving the financial performance of the Saccos. In order to enhance the quality of the board of directors, all the board members should have more than five years of experience in public service. Also, in order for an individual to be a member of the board, they should have passed the

proper and fitness test. Finally, all board members should have the appropriate training and education. In addition, they should also have sufficient knowledge of the Sacco operations once they join the board.

The staff competence should also be enhanced. Therefore, the Sacco should have a mentoring program for all staff. Also, there should be performance appraisal for all staff and it should be conducted frequently. More staff should be involved in decision making at higher levels at some point in their careers in order to develop their potential as future managers and directors of the Saccos. Finally, all the Sacco staff should have relevant co-operative management skills which will in effect improve the financial performance of the Sacco.

Corporate governance in the area need to be strengthened in the area Saccos particularly in terms of increasing the autonomy and freedom of the Board members during decision making to avoid having them serve external interests. A board evaluation manual should be in place and the board members should have freedom and autonomy in making decisions. Also the board of directors should be accountable while undertaking DTS activities so that they act in the interest of the organization. Further, there should be separation of power between staff and board operations.

5.5 Recommendations for Further Research

This study main objective is to examine the effect of compliance to SASRA regulations on the financial performance of the DTS in Kenya. From the study findings, the findings were only limited to financial performance. Thus, more research and studies should be carried out to determine the effect of other mitigating effects other than quality of board, staff competence. This would enable the researchers to mitigate effects of such factors and hence enhance financial performance of the DTS in Kenya.

Further research can be conducted on the financial performance using PEARL. Additionally, other areas of further research can be on the effect of SASRA regulations on the organizational culture of Saccos.

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APPENDICES

APPENDIX 1: QUESTIONNAIRE

My name is Serah Wangui Wanyoike, a post graduate student at Kabarak University. I am currently undertaking a research proposal about the effects of Sasra regulations on financial performance of Saccos' which is a partial requirement in fulfillment for award of my course. The information that will be provided through filling of this questionnaire will be of great value to this study and will be treated with confidentiality.

INSTRUCTIONS:

1. Do not write your name on the questionnaire.
2. Please respond to all the questions accurately and honestly.
3. You should respond by ticking (√) the appropriate spaces and filling the spaces that have been provided.

SECTION A: General Information (To be filled by the CEO)

1. Kindly your age bracket

Between 18years and 28 years ()
Between 29 years and 39 years ()
Between 40 years and 49 years ()
Between 50 years and 59 years ()
Above 60 years..... ()

2. Gender

Male () Female ()

3. Highest level of education attained

Secondary ()
Certificate ()
Diploma ()
Undergraduate degree ()
Postgraduate degree ()
Other (specify) ()

4. Relationship with the Sacco

Board Member ()

Staff ()
 Other (specify)..... ()

SECTION B: Profitability of the Sacco (To be filled CEO)

1. Kindly the Sacco Net profits before paying out dividends and tax from 2006 to 2013 in Kshs. (000)'

Year	Kshs. (000)'
2006	
2007	
2008	
2009	
2010	
2011	
2012	
2013	

2. Number of members from 2006 to 2013.

Year	Members
2006	
2007	
2008	
2009	
2010	
2011	
2012	
2013	

3. Number of branches since 2006 to 2013.

Year	Number of Branches
2006	

2007	
2008	
2009	
2010	
2011	
2012	
2013	

SECTION C: Quality of Board of directors (To be filled by the Chairman of the Board)

	SA	A	N	D	SD
All Board members have more than five years of experience in public service.					
All Board members have appropriate training and education.					
All Board of Directors are frequently trained on Sacco management.					
All Board of Directors have passed the proper and fitness test					
All Board of Directors have relevant professional qualifications					
Board reconstitution takes place from time to time					
All Board members have sufficient knowledge of Sacco operations when they join the Board of Directors					
All board operations should be supervised by an external body					

Key: SA=Strongly Agree; A=Agree; N=Neutral; D=Disagree and SD=Strongly Disagree

SECTION D: Sacco staff Competence (To be filled by the CEO)

	SA	A	N	D	SD

Training sessions for staff of Sacco are conducted regularly					
The Sacco management encourages Staff development					
Performance appraisal for all staff are conducted frequently					
All Sacco staff have relevant co-operative management skills					
All Sacco staff have relevant Professional qualification					
All staff are involved in decision making					
The Sacco has a mentoring program for all staff					
All staff members have more than five years experience					

Key: SA=Strongly Agree; A=Agree; N=Neutral; D=Disagree and SD=Strongly

Disagree

SECTION E: Corporate Governance (To be filled by the CEO/ Chairman)

	SA	A	N	D	SD
The Sacco has a Board evaluation manual in place					
Board members have autonomy and freedom in decision making					
The Sacco has a documented code of conduct					
Board of Directors are accountable while undertaking DTS activities					
There is separation of power between staff and board operations					
Board of Directors should be supervised by an external body					

Key: SA=Strongly Agree; A=Agree; N=Neutral; D=Disagree and SD=Strongly

Disagree

APPENDIX 2:- INTRODUCTION LETTER

KABARAK UNIVERSITY

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

RE: INTRODUCTION LETTER

Serah Wangui Wanyoike, Reg. No. GMB/NE/0743/05/12, is a Master's student in the School of Business (Finance Option) at Kabarak University. In partial fulfillment of the requirements of the Masters of Business Administration ; Finance Option , she is conducting a study entitled :-The effects of Sasra regulatory framework on financial performance of Savings and Credit Co-operatives.

Your Sacco has been selected to form part of this study. The data collected will be used for academic purpose only and will be treated with utmost confidentiality.

Any assistance accorded to her is highly appreciated.

Thanking you,

APPENDIX 3: LIST OF DEPOST TAKING SACCOS IN NAIROBI COUNTY

1. AFYA SACCO
2. AIRPORTS SACCO
3. ASILI SACCO
4. CHAI SACCO
5. CHUNA SACCO
6. COMOCO SACCO
7. FUNDILIMA SACCO
8. HARAMBEE SACCO
9. HAZINA SACCO
10. JAMII SACCO
11. KENPIPE SACCO
12. KENVERSITY SACCO
13. KENYA BANKERS SACCO
14. KENYA POLICE SACCO
15. KINGDOM SACCO
16. MAGEREZA SACCO
17. MAISHA BORA SACCO
18. MWALIMU NATIONAL SACCO
19. MWITO SACCO
20. NACICO SACCO
21. NAFKA SACCO
22. NAKU SACCO

23. NASEFU SACCO
24. NATION STAFF SACCO
25. ORTHODOX SACCO
26. SAFARICOM SACCO
27. SHERIA SACCO
28. STIMA SACCO
29. TEMBO SACCO
30. UKULIMA SACCO
31. UNITED NATIONS SACCO
32. WANAANGA SACCO
33. WANANDEGE SACCO
34. WAUMINI SACCO