

CORPORATE GOVERNANCE AND PERFORMANCE OF SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN SELECTED PRIVATE UNIVERSITIES IN NAIROBI COUNTY, KENYA

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Abstract

The study sought to establish the effect of corporate governance on the performance of savings and credit co-operative societies (SACCOs) in selected private universities in Nairobi County, Kenya, and the corresponding hypothesis was formulated and tested. The study targeted 120 employees of SACCOs in the sixteen selected private Universities in Kenya and 110 of them responded. The study adopted a descriptive research design and purposive sampling design. SPSS Version 21 was used to analyze data using multiple regression analysis. Research findings from the test of hypothesis established that corporate governance positively and significantly affected the performance of SACCOs in private Universities in Kenya. The study findings support Agency theory and stakeholder theory which explain the role corporate governance plays in organizational performance.

Key words: Corporate governance, Performance, private Universities, Agency Theory, Stakeholder Theory

INTRODUCTION

Corporate governance includes customs, laws, policies and processes and institutions that affect how a firm is managed (Knell, 2006) whereas performance includes financial and non-financial indicators that present data relating to level of achievement of objectives and results (Lebans & Euske, 2006). There is empirical evidence that corporate governance contributes to organizational performance (Abdali, 2012; Wasike, 2012; Njagi, 2012). However, most organizations are faced with a myriad of challenges in an effort to meet set goals and objectives.

In order for organizations to overcome the challenges, they should look for administrative means to minimize the detrimental effects of these obvious threats by increasing their orientation towards implementing corporate governance practices and respond to varying alterations as well as be adaptable and responsive to these changing conditions to achieve exemplary performance in the end (Qataweh, 2015). Moreover, most previous studies have operationalized corporate governance and organizational performance differently and have been carried out in different contexts.

Corporate Governance

Parties to corporate governance include the shareholders, board of directors and management, customers, financial institutions, workers, contractors, the government and its agencies (Bharadwaj, 2013). According to McIntyre (2006), corporate governance is multifaceted in SACCOs or co-operative organizations compared with conventional organizations, because the ownership structure is different or varied as a result of the democratic way in which decision making has to be done. This makes corporate governance a sensitive subject especially for development and performance subtleties of credit unions which are referred to as savings and credit co-operatives in Kenya.

For many organizations, corporate governance is a major issue since it represents chances that have value addition benefits and how to cope with threats or risks. Hence, corporate governance practices improve a firm's performance. This gives it a competitive edge, attracts investors and increases lender confidence (Armstrong & Spellman, 2015). Efficiently managed enterprises perform better and are highly valued on global rankings than inadequately governed organizations. Corporate governance practices focus on the board's role, rights of shareholders, ethics based culture and full information disclosure by firms (Mallin, 2012).

Performance of SACCOs

Performance defines the results of a firm's operations and strategic set up (Tjahjadi, 2011). Numerous enterprises observe performance as how a firm achieves its goals, objectives, and

purpose. In addition, many corporations observe how they perform in terms of how efficiently they use their resources to reach a target.

A firm needs to be sustainable in the end, in such a way that it is economically viable and at the same time remain relevant to its customers, employees and other stakeholders and to their evolving needs.

A common measure of performance in Savings Credit and Cooperatives (SACCOs) is in customer satisfaction level in reference to services they have offered. This includes affordability of loans, how member deposits grow, if there is growth in their membership and the availability of innovative loan products. A Sacco's performance is measured in reference to target objectives set up in its by-laws. A Sacco's primary goal is to offer deposits services, providing a financial savings platform and loan services to its members (Wanyama, 2009). It mobilizes the savings from members which it offers as credit to members who repay later depending on agreed terms and conditions set up during specific general meetings. The loaning is administered through loan policies developed by individual SACCOs. According to Pollet and Develtere (2004), a SACCO is deemed a success if it has strong corporate governance practices which harness various business and relation dynamics at play in SACCOS. Existing co-operatives tend to utilize corporate governance practices but there lacks a clear indicator if the practices have realistic effects on performance of SACCOS.

Corporate Governance and Organizational Performance

The study by Kemei (2006) on corporate governance practices and performance of small scale tea industry in Kenya established that small scale tea industries practiced good corporate governance and that good corporate governance had some positive effects on the level of financial performance. In view of the finding by Abu Saleem (2014) on the commitment of Jordanian firms to execute corporate governance policies to attract foreign direct investments. The Jordanian firms were dedicated towards implementing corporate governance in their operations, which enhanced their steadfastness and improved their financial performance. This is crucial while trying to building investor confidence hence making a firm be a global competitor. Further research studies by Ishhadat and Abed Al-Jaleel (2012), on the significance offered by Jordanian institutional investors while implementing corporate governance practices in firms with shareholders when making decisions in investment matters established that firms that impose corporate governance in investment decisions influence organizational investors in Jordan.

According to research done by Brown and Caylor (2004) in regard to correlation between corporate governance practices and company performance, it was established that

poorly managed firms had an indeterminate characteristic, they were less profitable and had low dividend pay outs compared to firms that had strong corporate governance practices.

SACCOS in Kenya

A SACCO is essentially a group of individuals who join forces with similar objectives aimed at financial, economic and social growth (SASRA, 2017). The International Co-operative Association (ICA, 2017) states that, a co-operative is a self-governing group of people who work on a voluntary basis to meet set economic, financial and social needs and aspirations via jointly owned democratically controlled enterprises. The SACCO movement in Kenya was initiated in 1946 due to financial and social challenges that affected the country necessitating forming co-operative associations (Odera, 2012). However, it was not until 1969 that the government allowed SACCOs to be registered to mobilize savings and offer loans to employed personnel. Many Kenyans are reliant on cooperatives that offer savings and credit facilities that meet medical, educational and other development needs. According to the (Ignas, 2009) there are 5,122 SACCOs in Kenya holding over 6.1 million members and savings amounting to Kshs.420 billion with an asset base of Kshs. 500 billion. SACCOs are guided by SACCO Societies Act 2008 that substituted the Co-operative Societies Act (amended 2004).

The instituting and elevation of co-operative societies in Kenya is a significant way of meeting various financial, social and cultural needs (Omondi, 2005). Co-operatives help in jobs creation for unskilled and skilled workers and provide communal development through offering credit to youth and women's groups (Somavia, 2012). In fact, a lot of progress in the sphere of social-economic development has been achieved on a large scale. SACCOs are managed and governed by elected committees (Kobia, 2012). These committees are delegated with the authority to manage the SACCOs on behalf of members and to carry out the day-to-day functions of the SACCOs. The governance structure of a co-operative entails carrying out an Annual General Meeting (AGM), five elected executive committee members, four elected members of board or ordinary directors, three elected supervisory committee members, the executive management and the operational staff members (SACCO, 2008).

The number of members in the committees and management and operational staff differs from one SACCO to another depending on their constitutional structure.

METHODOLOGY

The study adopted a descriptive research design. Primary data was collected from 110 employees of sixteen selected SACCOs of private universities in Nairobi County, Kenya by use of a structured questionnaire. The study targeted 120 employees of sixteen selected SACCOs

who were purposely selected. A pre-test was done, and based on the pre-test results, the instrument was amended accordingly. Data was analyzed using SPSS version 21 through both descriptive as well as inferential statistics.

ANALYSIS AND FINDINGS

The study used both descriptive and inferential statistics to analyze the data. Simple linear regression was used to establish the nature and magnitude of the relationship between the independent and the dependent variable and to test the hypothesized relationship. The Beta value shows the amount of change in the dependent variable caused by the independent variable. The F statistic measures the goodness of fit of the model. The model used was $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$, where Y = performance of SACCOs; β_0 = Intercept; β_1 = Coefficients; X_1 = shareholders rights, X_2 = role of the board, X_3 = full disclosure, X_4 = ethics based culture and ϵ = Error term.

Response Rate

The number of questionnaires issued out was 120 and a total of 110 were properly filled in and brought back as shown in Table 1.

Table 1: Response Rate

Response	Frequency	Percent
Returned	110	91.7
Unreturned	10	8.3
Total	120	100.0

As indicated in Table 1, 110 respondents returned the questionnaire, a response rate of 91.7%. A response rate above 50% is described to be sufficient for a descriptive survey (Mugenda & Mugenda 2003).

Level of Education

The study sought to determine the highest level of education of the respondents. As indicated in Table 2, there is more female staff working in the selected employee based university SACCO based in Nairobi as compared to male staff. Sixty one per cent (68) of the responses were obtained from the female respondents as compared to 38.2% (42) male respondents. The findings imply that the views expressed in these findings are gender sensitive and can be taken as representative of the opinions of both genders. According to Denis and McConnell (2012)

gender diversity significantly influenced performance of modern organizations as gender representation is an important ingredient for diversity views regarding corporate governance situation in any given firm.

Table 1: Gender of the Respondents

Gender	Frequency	Percentage
Male	42	38.2
Female	68	61.8
Total	110	100.0

Designations of Respondents

The study sought to assess the designation of respondents. The results of the analysis are presented in Table 3.

Table 2: Designations of the Respondents

Designations	Frequency	Percentage
Executive Committee	46	41.8
Ordinary Director/member of board	37	33.6
Supervisory Committee	27	24.5
Total	110	100

Table 3 shows that forty one (41.8%) of the respondents were working as executive committee members. The next category comprised of ordinary directors/members of board making up 33.6% (37) of the responses while 24.5% (27) of the respondents were working as supervisory committees at private universities employee based SACCOs in Nairobi County. These results indicate that majority of the participants of this study were the well conversant with the issues sought and their views are essential in this study for conclusions and recommendations. This finding agrees with that of Gompers and Metrick (2013) who found out that the various designations, functions, roles and responsibilities of stakeholders play varying roles in execution of corporate governance in organizations.

Length of time

The study further sought to ascertain the length of time that the private universities employee based SACCOs have been in operation in the County. The findings are contained in Table 4.

Table 3: Age of the Private Universities Employee Based SACCOs

Length of Operation	Frequency	Percent
1-5yrs	25	22.7
6-10yrs	50	45.5
11-15yrs	35	31.8
Total	110	100

As shown in Table 4, 50 (45.5%) of the respondents unanimously indicated that their SACCOs have been in operation for a period of between 6 to 10 years. Further, 31.8% (35) of them reported that their SACCOs have been in existence for a period of 11 to 15 years while 22.7% (25) of them reiterated that their SACCOs have been operational for a period of between 1 and 5 years. This is a clear indication that most of the firms sampled had been operating in the industry for a long time hence are better placed to respond to the issues sought by this study concerning the effects of corporate governance practices on performance of selected private universities SACCOs in Nairobi County. The results of the analysis agree with Block's (2003) who asserted that firm age is a relevant indicator of expected growth opportunities.

Highest Level of Education

The study sought to establish the highest level of education of the respondents. Table 5 contains the results of the analysis.

Table 5: Highest Level of Education

	Frequency	Percent
Diploma	7	5
Graduate	73	56
Post Graduate	51	39
Total	131	100

From the results in Table 5, the respondents who had their highest level of education being graduates comprised of 56% of the total respondents, while those who had post-graduate qualifications comprised of 39% of the total respondents ; the rest of the respondents had their highest education level as diploma qualification which comprised of 6% of the respondents. The study required the respondents to understand the questions in the questionnaire and give valid answers. The results show the complexity of banking industry in Kenya with most of their

workforce possessing a first or second degree. Perhaps, this may be the reason as to why most banks have been recording good results.

Test of the Hypothesis

The study sought to determine the effect of corporate governance on the performance of SACCOs in Private Universities in Nairobi County, Kenya. A corresponding hypothesis was formulated and tested using multiple regression analysis. The results of the analysis are as depicted in Table 6.

Table 6: Effect of Corporate Governance on SACCO Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.908 ^a	.825	.789	0.752	

ANOVA					
Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.135	1	0.135	.828	.032
Residual	1.7604	108	0.01630		
Total	1.8954	109			

Regression of Coefficients					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.376	0.415		3.316	0.002
Shareholders rights	0.471	0.224	0.172	1.602	0.012
Role of the board	0.426	0.198	0.236	1.528	0.023
Full disclosure	0.362	0.183	0.151	1.447	0.032
Ethics based culture	0.338	0.151	0.615	1.219	0.041

Predictor Variable: Corporate governance Dependent Variable: SACCO Performance

CONCLUSION

The study aimed at determining the effect of corporate governance on the performance of SACCOs in private universities in Kenya. The study was conducted through a descriptive design. The study adopted both descriptive and inferential statistics to analyze the data. The study tested and confirmed the hypothesis that corporate governance has a positive and significant effect on the performance of SACCOs in private universities in Nairobi County, Kenya. This implies that SACCOs in Private universities that embrace corporate governance

expect positive and significant effect on their performance.

Further studies can be done to determine the effects of corporate governance on the performance of SACCOs in Public Universities or other organizations.

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