



**THE EFFECT OF CORPORATE GOVERNANCE ON FINANCIAL  
PERFORMANCE OF DEPOSIT TAKING SACCO'S IN KIAMBU COUNTY, KENYA**

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**Abstract**

The Corporate governance practices are important components in the management and control of an organization affairs. It is concerned with the rules and procedures for making decisions on corporate affairs and provides the structure through which the company objectives are set as well as the means of attaining and monitoring the performance of those objectives. The literature on corporate governance has stirred a lot of debate and led to the large body of theoretical and empirical research. The study examined the effect of corporate governance on the financial performance of SACCO's in Kiambu County. The outcomes from this study indicate that board's compensation will positively contribute to farm's performance. The study thus concludes that compensation of the board positively influence the financial performance of deposit taking Sacco's. The study also found out that structure influences the financial performance of deposit taking Sacco's. It was established that structure of the Sacco positively influenced the financial performance of deposit taking Sacco's. The study thus concludes that 'structure of the firm positively influence the financial performance of deposit taking Sacco's. It was also established that structure of the Sacco positively influenced the financial performance of deposit taking Sacco's. The study thus concludes that structure of the firm positively influence the financial performance of deposit taking Sacco's. The outcomes from this study also indicate that board's compensation will positively contribute to firm's performance. As a result, this study recommends that it is necessary or Sacco's to consider an appropriate and competitive compensation level of board's members. The compensation will provide abettor link between shareholders and firm's management and this link will enhance firm's performance to maximize shareholders "value.

**Keywords:** *corporate governance, board composition, board compensation and financial performance.*

## **INTRODUCTION**

### **1.1 Background of the Study**

Over the last three decades, corporate governance has become an interesting topic of discussion worldwide and the history is now well documented. According to Choge (2013), the African continent has not been left behind and corporate governance has assumed highest propositions. This is probably due to the great push from the developed countries such as USA, United Kingdom, and Germany to the African countries including Kenya to embrace good governance in order to attract foreign investors and to improve shareholders value. Mang'anyi, (2011) as well defined Corporate governance as an internal system encompassing policies, processes and people, which serve the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity, accountability and integrity

The need to improve the financial soundness of the Sacco subsector and ensure sound corporate governance explains the need of the prudential regulatory framework that Sacco Societies Regulatory Authority (SASRA) is mandated to implement. The licensed deposit taking Sacco's are required to observe minimum operational regulations and prudential standards in the conduct of

Sacco business (Sacco Supervision Report, 2012).

Many studies have been carried out on corporate governance and firms' performance within and without Kenya, but little has been done on Sacco sector. In Kenya, the studies done in financial services sector have focused on other companies other than Sacco sector. For instance, Jebet (2001) conducted a study of corporate governance practices among the quoted companies in Kenya (Jebet, 2001, Muriithi, 2005, Manyuru, 2005, Matengo, 2008). Manyuru (2005) researched on corporate governance and organizational performance the case of companies quoted at the NSE and Matengo (2008) did a study on the relationship between corporate governance practices and performance: the case of banking industries in Kenya.

#### **1.1.1 Corporate Governance**

It's a set of relationships between company directors, shareholders and other stakeholder's as it addresses the powers of directors and of controlling shareholders over minority interest, the rights of employees, rights of creditors and other stakeholders (Muriithi, 2009). Metrick and Ishii (2002) define corporate governance as both the promise to repay a fair return on capital invested and the commitment to operate a firm efficiently given investment.

Adams & Mehran, (2003) define corporate governance as "the mechanism through which stakeholders (shareholders, creditors, employees, clients, suppliers, the government and the society, in general) monitor the management and insiders to safeguard their own interests." Morin and Jarrel (2001) define it as follows: "It is a framework through which monitors and safeguards the concerned actors in the market (managers, staff, clients, shareholders, suppliers and the board of administration." It is management through which the company is guided and monitored for the purpose of striking a balance between its interests, on the one hand, and the interests of other related parties such as investors, lenders, suppliers and clients in addition to the environment and society."

Corporate governance is important because it promotes good leadership within the corporate sector. Corporate governance has the following attributes; leadership for accountability and transparency, leadership for efficiency, leadership for integrity and leadership that respect the rights of all stakeholders (Institute of Corporate Governance of Uganda, 2000).

### **1.1.2 Financial Performance**

Performance may be defined as the reflection of the way in which the resources of a company (bank) are used in the form

which enables it to achieve its objectives. According to Heremans, (2007), financial performance is the employment of financial indicators to measure the extent of objective achievement, contribution to making available financial resources and support of the bank with investment opportunities.

### **1.1.3 Corporate Governance and Financial Performance**

Two broadly defined theories co-exist in the corporate governance literature. They are the micro and macro theories of governance. One stresses the discipline of the market, claiming that threat of hostile takeovers and leveraged buyouts in firms was sufficient to ensure full efficiency. Where managers neglect to invest in those projects that add value to the firm and its shareholders but divert resources to their own benefit, the financial markets act to restore good governance. A number of mechanisms have been suggested, such as removing senior managers in poorly performing firms, (George, 2011).

Ameer *et al.* (2010) also found a positive relationship between board independence and firm performance. Adams & Ferreira, (2009) found that women have better board meetings attendance than men; however they found gender to have a negative relationship on firm performance.. Nina *et al.* (2006) found a positive relationship

between number of women on top management and firm performance but performance strongly depend on their qualifications.

#### **1.1.4 SACCO's Regulated by SASRA**

The Sacco Societies Regulatory Authority (SASRA) is a semi- autonomous government agency under the Ministry of Industrialization and Enterprise Development. It is a creation of the Sacco Societies Act 2008 and was inaugurated in 2009 charged with the prime responsibility to license and supervise deposit taking Sacco societies in Kenya, that is, those Sacco's that operate Front Office Saving Activities (FOSA).

The appointment and removal of the CEO of the Sacco is the responsibility of the board of directors, while on the other hand the CEO has the responsibility of ensuring that the board of directors is frequently and adequately appraised of the operations of the Sacco society through presentation of relevant board papers. In addition all officers of the Sacco are expected to comply with governance rules as prescribed by the Ethics Commission for Cooperative Societies established under Public Officer Ethics Act, 2003 (The Sacco Society Act, 2008).

## **1.2 Statement of the Problem**

Despite tight regulatory framework, corporate governance continues to weaken in Kenya (Mang'anyi, 2011). According to Muriithi (2009), many companies have been characterized by scandals. The introduction of corporate governance practices in the Sacco sector by SASRA in Kenya is aimed to provide a mechanism to improve investor confidence and trust in management and promote economic development of the country. However, efficiency of the corporate governance structures and practices on Sacco's operating in the highly competitive environment in Kenya has not been empirically investigated. Therefore, in order to understand the governance practices that contribute in enhancing the value of Sacco's regulated by SASRA, this study will aim at exploring the efficacy of corporate governance practices, which affect Sacco's performance resulting in accountability to shareholder and other stakeholders through appropriate corporate governance practices, which enhances the value of the Sacco's in Kenya.

## **1.3 Objectives of the study**

### **1.3.1 General Objective**

The general objective of the study was to establish the effect of corporate governance practices on financial performance of Sacco's in Kenya.

### **1.3.2 Specific Objectives**

1. To establish the effect of board structure on financial performance of SACCO's in Kiambu County.
2. To assess the effect of board composition on the financial performance of SACCO's in Kiambu County.
3. To determine the effect of board compensation on financial performance of SACCO's in Kiambu County.

### **1.4 Research Questions**

The study was guided by the following questions.

1. What is the effect of board size on the financial performance of SACCO's in Kiambu County?
2. What is the effect of board composition on the financial performance of SACCO's in Kiambu County?
3. How does the frequency of board compensation affect financial performance of SACCO's in Kiambu County?

## **LITERATURE REVIEW**

### **2.1 Introduction**

This chapter focuses mainly on previous studies by various researchers in relation to corporate governance practices and financial performance. This chapter also covers key theoretical consideration from previous studies to inform the general and specific objectives developed for this study that is corporate governance practices and financial performance; their relationships, factors that affect corporate governance practices and the corporate governance practices applied by SACCO's.

### **2.2 Theoretical Framework**

#### **2.2.1 Stewardship Theory**

Davis, Schoorman & Donaldson (1997) defined stewardship theory has its roots from psychology and sociology. Steward protects and maximizes shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximized. In this perspective, stewards are company executives and managers working for the shareholders, protects and make profits for the shareholders. Unlike agency theory, stewardship theory stresses not on the perspective of individualism (Donaldson and Davis, 1991), but rather on the role of top management being as stewards, integrating their goals as part of the organization. The stewardship perspective

suggests that stewards are satisfied and motivated when organizational success is attained.

In this sense, it is believed that the firm's performance can directly impact perceptions of their individual performance. Indeed, Fama (1980) contend that executives and directors are also managing their careers in order to be seen as effective stewards of their organization, whilst, Shleifer and Vishny (1997) insists that managers return finance to investors to establish a good reputation so that that can re-enter the market for future finance. Stewardship model can have linking or resemblance in countries like Japan, where the Japanese worker assumes the role of stewards and takes ownership of their jobs and work at them diligently. On the other end, Daly *et al.* (2003) argued that in order to protect their reputations as decision makers in organizations, executives and directors are inclined to operate the firm to maximize financial performance as well as shareholders' profits

### 2.2.2 Stakeholder Theory

Stakeholder theory was embedded in the management discipline in 1970 and gradually developed by Freeman (1984) incorporating corporate accountability to a

broad range of stakeholders. Wheeler *et al.*, (2002) argued that stakeholder theory derived from a combination of the sociological and organizational disciplines. Indeed, stakeholder theory is less of a formal unified theory and more of a broad research tradition, incorporating philosophy, ethics, political theory, economics, law and organizational science.

And it was argued that this group of network is important other than owner-manager employee relationship as in agency theory (Freeman, 1999). On the other end, Sundaram & Inkpen (2004) contend that stakeholder theory attempts to address the group of stakeholder deserving and requiring management's attention. Whilst, Donaldson & Preston (1995) claimed that all groups participate in a business to obtain benefits. Nevertheless, Clarkson (1995) suggested that the firm is a system, where there are stakeholders and the purpose of the organization is to create wealth for its stakeholders.

## 2.3 Conceptual framework

The conceptual framework shows the relationship between the independent variables and the dependent variable. The independent variables are the board structure, board composition, board

compensation and audit committee. As shown in the figure 1, the effect of independent variables is linked to the

dependent variable which is financial performance of SACCO's in Kenya.

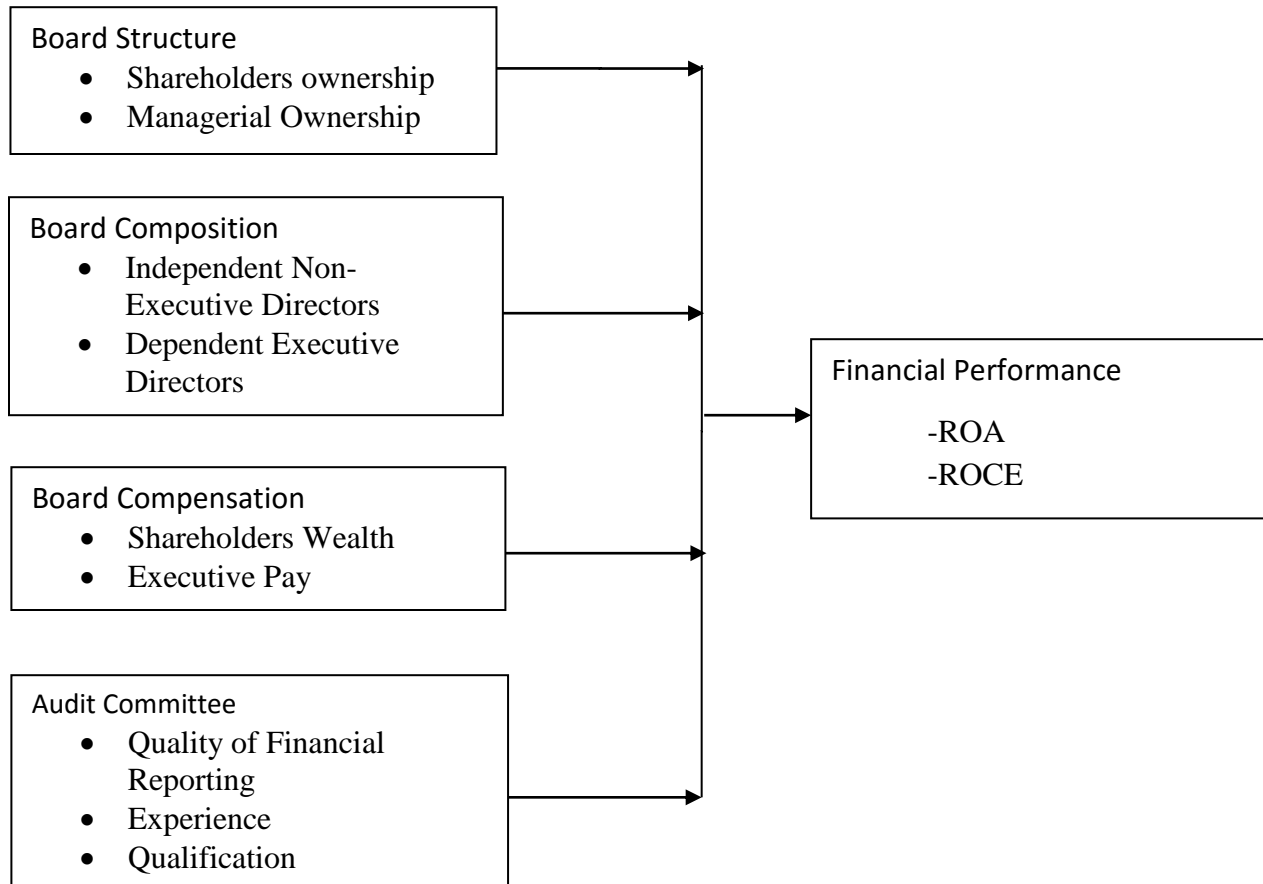


Figure 1, Conceptual Framework

## 2.4 Empirical Literature

This section reviews literature from prior scholars relevant to the variables under study regarding the effect of corporate governance on the financial performance of SACCO's in Kenya.

### 2.4.1 Board Structure and Financial Performance

The Board of directors of an organization is a key mechanism to monitor manager's behavior and to advise them. The largely

shared wisdom regarding the optimal board size is that the higher the number of directors sitting on the board the less is performance. This leans on the idea that communication, coordination of tasks, and decision making effectiveness among a large group of people is harder and costlier than it is in smaller groups, (Belkhir, 2006).

Similarly, Bhagat *et al.* (2004) do not find supporting evidence regarding the positive

association between ownership concentration and firm performance. Limiting board size to a particular level is widely believed to improve the performance of the firm at all levels. Benefits arising from increased monitoring by larger boards are outweighed by poorer communication and cumbersome decision –making. Empirical studies on board size seem to provide the same conclusion: A big board is likely to be less effective in substantive discussions of major issues among themselves in monitoring management.

Generally, Empirical evidence on the relationship between board size and firm performance provide mixed results .While, Ahmadu *et al.* (2005), Chan and Li (2008), De Andres *et al.* (2005) and Mustafa (2006) found that larger boards are associated with poorer performance, Beiner *et al.* (2004), Bhagat and Black (2002) and Limpaphayom and Connelly (2006) found no significant association between board size and firm performance.

#### **2.4.2 Board Composition and Financial Performance**

Globalization and liberalization of financial markets, corporate governance scandals and increasing demands of stakeholders for accountability and transparency of organizations, brought the roles and tasks of

board of directors (BODs) to the center of corporate governance debate (Ingley and Van der Walt, 2005). BODs have various and important roles (Finkelstein and Money, 2003).

Staikouras *et al.* (2007) find that board composition does not affect firm performance although its relationship with performance was found to be positive. According to Jensen and Meckling (1976), boards dominated by outsiders or NEDs may help to mitigate the agency problem by monitoring and controlling the opportunistic behavior of management. The results of previous studies that investigated the relationship between board composition and firm performance are inconsistent. Dehaena *et al.* (2001), Omar (2003) and Rhoades *et al.* (2000) found that NED has a positive relationship with financial performance.

#### **2.4.3 Board Compensation**

There is a growing literature suggesting that U.S. boards of directors are ineffective. For example, Jensen (1993) argues that boards of directors are ineffective because board culture discourages conflict, the CEO determines the agenda and information given the board, there is little equity ownership by managers and non-managers on the typical board, boards are too large, and the CEO and the board chair is frequently the same person. Crystal (1991)



argues that boards of directors are ineffective in setting appropriate levels of compensation because outside directors are essentially hired by the CEO and can be removed by the CEO. As such, board members may be unwilling to take positions adversarial to the CEO, especially concerning the CEO's compensation. Moreover, boards usually rely on the compensation consultants hired by the CEO, and this may lead to compensation contracts that have been optimized not for the firm, but for the CEO.

Lambert *et al.* (1993) find that CEOs receive higher pay when they have appointed a greater proportion of the board. Other empirical research examines whether certain board structures are associated with better firm value and performance. For example, Rosenstein and Wyatt (1990) provides evidence that shareholder wealth is affected by the proportion of outside directors by documenting a positive stock price reaction at the announcement of the appointment of an additional outside director.

Other studies have examined the association between ownership structure and firm performance and value. Morck *et al.* (1988) demonstrate that firm value first rises with increases in inside ownership as the incentive alignment effect of share value

dominates, then falls as the entrenchment effect of insider voting control becomes stronger. Shivdasani (1993) finds that hostile takeovers are more likely when target outside directors own less equity and serve on fewer boards, and when there are unaffiliated outside block holders.

## **RESEARCH METHODOLOGY**

### **3.1 Introduction**

This section describes the research methods used in the collection, presentation and analysis of data. The research design, population of the study, sampling frame, sample and sampling techniques, data collection instruments, data collection procedures, pilot test and data processing and data analysis will be discussed.

### **3.1 Research design**

The study adopted a descriptive survey. The research design helped in analyzing the effect of corporate governance practices on financial performance of SASRA regulated Sacco's in Kenya. The study was used to measure the extent of the relationship between variables over the period of 2010 to 2014, a period when the Sacco Societies Regulatory Authority (SASRA) a state corporation was established under the Sacco Societies Act 2008 (Cap 490B) of the Laws of Kenya to regulate and supervise.

### **3.2 Population of the Study**

The population of the study was 12 Sacco's in Kiambu County regulated by SASRA.

### **3.3 Sample and Sampling Design**

In this study the sampling frame was a list of the SACCO's in Kiambu County. Sampling is the process of selecting a number of individuals for the study in such a way that the individuals represent the larger group from which the sample is selected.

### **3.4 Data and Data Collection Methods**

The study employed both primary and the secondary data. Primary data was collected by administering questionnaires, physically, through the mail and by use of email address of respondents. The questionnaires featured both open and close ended questions administered to the respective staff of the SACCO's in Kenya. The questions were formulated based on the study objectives in order to ensure their validity. Secondary data was collected from the financial statements of the SACCO's in Kiambu County.

### **3.5 Pilot Test**

A pilot study was carried out to test the reliability and validity of the instrument. The questionnaire were pre tested to ensure clarity and content validity prior to it being administered. Literature emphasizes on the importance of pilot tests. A pilot test was

conducted from randomly selected SACCO's from Kiambu County.

#### **3.5.1 Instrument Reliability**

In this study, data collection instrument which is a questionnaire was tested on 5% of the sample of the questionnaires to ensure that it was relevant and effective. Reliability was tested using questionnaire duly completed by ten (10) randomly selected respondents. These respondents were not be included in the final study sample in order to control for response biasness. The questionnaire responses were inputted into statistical package for social sciences (SPSS) and Cronbach's alpha coefficient generated to assess reliability.

#### **3.5.2 Instrument Validity**

This study used both construct validity and content validity. For construct validity, the questionnaire was divided into several sections to ensure that each section assessed information for a specific objective, and also ensured that the same closely ties to the conceptual framework for this study.

### **3.6 Data Analysis and Presentation**

Both descriptive and inferential statistics was used in the analysis of this study. Descriptive statistics included the mean and standard deviation. The inferential statistics included t-value, F-value.

### 3.6.1 Model specification

The Multiple Linear Regression model

$$Y = \beta_0 + \beta_1 BS_1 + \beta_2 BC_2 + \beta_3 BCO_3 + \beta_4 AD_4 + \varepsilon$$

**Where:**

Y= Financial Performance variables which are: Return on Assets and Return on Capital Employed of SACCO's.

BS<sub>1</sub>= Board Structure

BC<sub>2</sub>= Board Composition

BCO<sub>3</sub>= Board Compensation

AD<sub>4</sub> = Audit Committee

$\varepsilon$  = error term or stochastic error

$\beta$  – Parameters to be estimated, while

$\beta_1, \beta_2, \beta_3, \beta_4$  are coefficient of the independent variable.

$\beta_0$  is a constant (intercept)

## RESULTS AND DISCUSSION

### Introduction

This section describes the research findings of the study, it discuss the findings in tables, charts and figures of the data that was collected from the Sacco's in Kiambu County. Profile data from each of the respondent was compiled. The results are presented in tables of frequency distribution.

### 4.1 Instrumental Return Rate

The sample group that was administered with questionnaires in the study consisted of 143 accounting for 71.5% responsive rate.

### 4.2 Demographic Information

General information considered important included the position held, the experience and the level of education .The study covered respondents in categorized groups of years of experience to establish degree of loyalty and its contribution to financial performance. The results from the study shows that high degree of loyalty with managers having a minimum experience of six years (82 respondents) out of which 10 have more than ten years' experience . Majority of other respondents have a high length of service whereby 52 have an experience of six and above years and only 11 are in 2-5 years bracket.

A good number of the respondents (101 respondents) were reported to be university degree graduates making 67.7 % out of which 12.8% represents post graduates.30.3 % were college graduates consisting of respondents with professional courses certificates or diplomas. for firms to be productive they need employees equipped with the necessary skills and knowledge about the tasks they are supposed to perform and achieve this, management and staff should have good educational background (Werther and Davis, 1993).Therefore all the respondents are well educated hence they are expected to perform and achieve tasks hence better financial performance.

### 4.3 Board Composition

In this section several comparison questions were asked to establish the contribution of board composition on financial performance as summarized on table 1. The study revealed that 48.9% (70 respondents) strongly agreed the main roles of BODs are control, service and strategy. While 36.4% (52 respondents) agreed, while 7.6% (11 respondents) were neutral on roles of BODs. While 6.99% (10 respondents) feel that control, strategy and service are not the roles of BODs. On whether the NON-executive directors are important monitors of management and providers of relevant expertise that is central to effective resolution of agency problems between managers and shareholders the study revealed that 11.2 % (16 respondents) strongly agreed, 60.2% (86 respondents) agreed and 22.4% (32 respondents) were neutral that NON-executive directors are important monitors of management and providers of relevant expertise that is central to effective resolution of agency problems

between managers and shareholders. The study also revealed that 12.6% strongly agreed that the board composition does not affect firm performance. While 77.6% (111 respondents) agreed on the issue and 15.4% (22 respondents) were neutral that the board composition does not affect firm performance by the board while 6.99% (10 respondents) disagreed. On the variable of boards dominated by outsiders or NEDs may help to mitigate the agency problem by monitoring and controlling the opportunistic behavior of management the study revealed that 2.94% (42 respondents) strongly agreed that boards dominated by outsiders or NEDs may help to mitigate the agency problem by monitoring and controlling the opportunistic behavior of management while 58.04 % (83 respondents) were agreed on that the board is well represented and only 6.99% (10 respondents) disagreed while 5.6% (8 respondents) were neutral on the matter. The effectiveness of the board may also depend on its composition.

**Table 1 Board Composition**

<b>Variables</b>	<b>Agreement</b>	<b>Neutral</b>	<b>Disagreement</b>
The main roles of BODs are control, Service and strategy	122	11	10
NON-executive directors are important monitors of management and providers of relevant expertise that is central to effective resolution of agency problems between managers and shareholders	102	32	9

Board composition does not affect firm performance.	111	22	10
On the variable of boards dominated by outsiders or NEDs may help to mitigate the agency problem by monitoring and controlling the opportunistic behavior of management	125	8	10

#### 4.4 Board Structure

The study revealed that the BODs of an organization is a key mechanism to monitor manager's behavior and advise them at 15.4 % (22 respondents) strongly agreed while 67.13% (96 respondents ) while 7.7%( 11 respondents) were neutral on the BODs of an organization is a key mechanism to monitor manager's behavior and advise them while 9.8% (14 respondents) disagreed. On the effects of outside ownership dominate the entrenchment effects over low ranges of managerial ownership 12.6% (18 respondents) strongly agreed, 65.7% (94 respondents) agreed that the On the effects of outside ownership dominate the entrenchment effects over low ranges of managerial ownership while 9.7% (14 respondents) were neutral on the effects of outside ownership dominate the entrenchment effects over low ranges of managerial ownership while 11.9% ( 17 respondents) disagreed with the matter. The research revealed that 11.2% (16 respondents) strongly agreed that managerial ownership and firm performance are determined by a common set of characteristics. Further 54.5 % ( 78 respondents) agreed while 35.7% (58 respondents) agreed while 9.5% (37 respondents) were neutral on managerial ownership and firm performance are determined by a common set of characteristics and 8.4% (12 respondents) disagreed. Further the research revealed that 13.8% (20 respondents) of the respondents strongly feel limiting board size to a particular level is widely believed to improve the performance of the firm at all levels 56.6% agreed (81 respondents) that the firm's 31.5% (45 respondents) were neutral on the firm setting aside resources and time to appraise performance and 15.4% (22 respondents) disagreed.

**Table 2 Board Structure**

Variables	agreement	neutral	disagreement
The board of Directors of an organization is key mechanism to monitor manager's behavior and to advise them.	118	11	14
The effect of insider ownership dominate the entrenchment effects over low ranges of managerial ownership	112	14	17
Managerial ownership and firm performance are determined by a	94	37	12

common set of characteristics.

Limiting board size to a particular level is widely believed to improve the performance of the firm all levels	76	45	22
Large boards are less effective and are easier for CEO to control	113	18	12
Firms with the smallest boards are better informed about the better the earnings	111	22	10

#### 4.5 Board Compensation

The study revealed that the BODs are ineffective in setting appropriate levels of compensation at 11.9 % (17 respondents) strongly agreed on the issue while 51.7% (74 respondents) agreed while 24.5% (35 respondents) were neutral on BODs are ineffective in setting appropriate levels of compensation while 11.88% (17 respondents) disagreed on the issue.

On the compensation is unrelated to percentage of outside directors on board 11.2% (16 respondents) strongly agreed, 67.8% (97 respondents) agreed that the compensation is unrelated to percentage of outside directors on board while 11.2% (16 respondents) were neutral on the compensation is unrelated to percentage of outside directors on board 9.88% (14 respondents) disagreed on the issue. The research revealed that 8.4% (12 respondents) strongly agreed that the compensation is higher at firms with interlocked outside directors. Further 69.9 % ( 100 respondents) agreed while 14.7% (21 respondents) neutral while 6.99% (10 respondents) were

disagreed on that compensation is higher at firms with interlocked outside directors.

Further the research revealed that 12.6% (18 respondents) of the respondents strongly feel that the shareholder wealth is affected by the proportion of outside directors. 69.2% agreed (99 respondents) while 12.6.1% (18 respondents) were neutral on shareholder wealth is affected by the proportion of outside directors and 5.6% (8 respondents) disagreed. On whether receive marginally the managers who are majority shareholders in publicly held corporation higher salaries than other officers.11.18% (16) of the respondents strongly felt that managers receive marginally the managers who are majority shareholders in publicly held corporation higher salaries than other officers while 73.4% (105 respondents) agreed and 10.5% (15 respondents) were neutral on the issue while 4.89% (7 respondents) disagreed on the matter. The study also revealed that 81.8 % (117 respondents) agreed that CEOs receive higher pay when they have appointed a greater proportion of the board.12.6 % ( 18

respondents) of were neutral on the issue and 5.6.9 % (8 respondents) disagreed.

**Table 3 Board Compensation of Sacco's**

<b>Variables</b>	<b>Agreement</b>	<b>Neutral</b>	<b>Disagreement</b>
Boards are ineffective in setting Appropriate levels of compensation	91	35	17
Compensation is unrelated to the Percentage of outside directors on the board	113	16	14
Compensation is higher at firms with interlocked outside directors shareholders wealth is affected by the proportion of outside directors.	112	21	10
Managers who are majority shareholders In publicly held corporations receive Marginally higher salaries than other Officers.	121	15	7

**Table 4 Relationship between Board structure and financial performance**

		<b>Board structure</b>	<b>Return on Assets</b>
<b>Board structure</b>	Pearson	1	.086
	Correlation		
	Sig. (2-tailed)		.584
<b>Return on Assets</b>	N	143	143
	Pearson	.086	1
	Correlation		
	Sig. (2-tailed)	.584	
	N	143	143

CEOs receive higher pay when they have appointed a greater proportion of the board	117	18	8
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The correlation reported in the table 4 is positive and significantly different from 0 because the p-value of 0.584 is greater than 0.10. This suggests that SACCO's should to some extent focus its efforts on building up their Board structure because there is some level of effect of the Board structure on the number of customers, customer loyalty and

quality services that SACCO's offer to the industry. In an attempt to understand the relationship between the Board composition and financial performance of SACCO's in Kiambu County, the researcher conducted a correlation test and the results were summarized in table 5

**Table 5 Relationship between Board composition and financial performance**

		<b>Board composition</b>	<b>Return on Assets</b>
<b>Board composition</b>	Pearson	1	-.645**
	Correlation		
	Sig. (2-tailed)		.000
	N	143	143
<b>Return on Assets</b>	Pearson	-.645**	1
	Correlation		
	Sig. (2-tailed)	.000	
	N	143	143

The correlation reported in the Table 5 is negative and the value of  $-0.645$  is significantly different from 0 because the p-value of 0.000 is less than 0.05. This suggests that the company should not focus their efforts on board composition because there isn't an appreciable effect on the financial performance of the SACCO's.

In an attempt to understand the relationship between the Board Compensation and financial performance of SACCO's in Kiambu County, the researcher conducted a correlation test and the results were summarized in table 6.

**Table 6 Relationship between Board Compensation and Financial performance**

		<b>Board Compensation</b>	<b>Return on Assets</b>
<b>Board Compensation</b>	Pearson	1	.609**
	Correlation		
	Sig. (2-tailed)		.000
	N	143	143
<b>Return on Assets</b>	Pearson	.609**	1
	Correlation		
	Sig. (2-tailed)	.000	
	N	143	143

The correlation reported in the table 6 above is positive and the value of 0.609 is significantly different from 0 because the p-value is less than 0.05. This suggests that the Saccos should focus more on board

compensation because there is a significant level of effect board compensation on financial performance. In an attempt to understand the relationship between the Audit committees and financial performance



of SACCO's in Kiambu County, the researcher conducted a correlation test and

the results were summarized in table 7.

**Table 7 Relationship between Audit committees and financial performance**

		Audit committees	Return on Assets
<b>Audit committees</b>	Pearson Correlation	1	-.048
	Sig. (2-tailed)		.000
	N	143	143
<b>Return on Assets</b>	Pearson Correlation	-.048	1
	Sig. (2-tailed)	.000	
	N	143	143

Correlation analysis is used to describe the strength and direction of the linear relationship between two variables. A Pearson product-moment correlation coefficient was used to determine the relationship between audit committees and financial performance. The correlation reported in the Table 7 is negative and the value of -.048 is significantly different from 0 because the p-value of 0.000 is less than 0.05. This therefore means that audit committees do not always have a strong impact on financial performance. The organization has to add some other corporate governance measures instead of relying structuring of audit committees

### 5.1 Conclusion

From the findings on the effects of composition, compensation and structure on the financial performance of deposit

taking Sacco's, the study found that these aspects affect the financial performance of Sacco's positively. From the regression analysis, board structure was found to negatively affect the financial performance of Sacco's.

The outcomes from this study also indicate that board's compensation will positively contribute to farm's performance. The study thus concludes that compensation of the board positively influence the financial performance of deposit taking Sacco's.

The study found out that structure influences the financial performance of deposit taking Sacco's. It was established that structure of the Sacco positively influenced the financial performance of deposit taking Sacco's. The study thus concludes that structure of the firm positively influence the financial performance of deposit taking Sacco's.

## 5.2 Policy Recommendation

This study aimed to provide empirical evidence for Sacco's in enhancing their understanding in relation to the development of a corporate governance mechanism's result, Sacco's are now provided with evidence to set up flexible, dynamic and efficient corporate governance. The study recommends that the board structure, composition and compensation be considered since they affect the financial performance of the deposit taking Sacco's. The study found that structure of the board is another factor that affects financial performance. It therefore recommends that, there should not be too many members on the board because a larger board's size will contribute negatively to firm's performance. Large board makes decision making process to be slow and hence critical decision may take

too long to be passed, and by the time they are passed it may be too late realize the benefits.

The outcomes from this study also indicate that board's compensation will positively contribute to firm's performance. As a result, it is necessary or Sacco's to consider an appropriate and competitive compensation level of board's members. The compensation will provide abettor link between shareholders and firm's management and this link will enhance firm's performance to maximize shareholders "value.

The study also recommends to the government through the Authority-SASRA to use the level of corporate governance existing in Sacco's as basis of promotion.

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