ANALYSIS OF CORPORATE GOVERNANCE PRACTICES ADOPTED BY KISUMU TEACHERS SACCO SOCIETY LIMITED, KENYA

BY

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ABSTRACT

Kenyan SACCOs have been growing at a rate of 25% per year. For instance, in the year 2012, the SACCOs industry's total assets grew by 17.8% to Ksh.292.9 billion in 2012 from Ksh.248.7 billion in 2011 contributing 45% GDP. Besides, corporate performance literatures show that corporate governance practices are important in driving firm performance. Previous studies focus on the relationship between corporate governance mechanisms and performance among listed firms failing to analyze corporate adoption governance practices and performance of SACCO societies in Kenya. Therefore, the extent of board composition, inclusion of independent non-executive board members, and extent of board leadership of KITE SACCO society are unknown. Therefore, the purpose of this study is to analyze corporate governance practices and performance of KITE SACCO society, Kisumu City, Kenya. The specific objectives of the study were to: assess the extent of board composition; establish the extent of inclusion of non-executive directors in the board and determine the extent of board leadership of KITE SACCO Society. The study was anchored on agency theory. It adopted descriptive research design. The target population of the study was all the SACCO's 19 employees. Primary data and secondary data were obtained through semi-structured questionnaire and desk review methods respectively. Validity and reliability of the instrument was checked using expert reviewers and test-retest methods on 2 respondents who were excluded from the final sample ($\alpha > 0.701$) implying internal consistency. Data was analyzed using descriptive statistics such as mean and standard deviation while data presentation was done using tables and charts. The study revealed that; board composition had a mean of 4.000 and a standard deviation of 1.2274 implying that board composition was practiced to a very high extent; inclusion of independent non-executive board membership had a mean of 2.000 and a standard deviation of 1.201 implying that it was practiced to a low extent and board leadership had a mean of 4.000 and a standard deviation of 1.546 implying that this was practiced to a high extent. The study concludes that; board composition is practiced to a high extent; inclusion of independent non-executive directors is embraced to very small extent and board leadership is practiced to high extent. The recommendations of the study are that; KITE SACCO should intensify board composition; management of KITE SACCO should improve on the extent of adoption of inclusion of independent non-executive directorship and the Society should intensify adoption of board leadership governance mechanism. The research findings may be significant to SACCO Societies' policy makers in designing appropriate corporate governance mechanisms. In addition, the research will provide new empirical evidence on the corporate governance practices and form a basis for future research in the area.

CHAPTER ONE
INTRODUCTION

This chapter outlines the background to the study, statement of the problem, objectives of the study, research objectives, scope of the study, significance of the study and the conceptual framework.

1.1 Background of the study

In the context of Kenyan SACCOS, corporate governance involves a set of processes, customs, policies, Laws and institutions affecting the way a Sacco is directed, administered or controlled. Corporate governance also includes the relationships among the many players involved (the stakeholders) and the goals for which a SACCO is. The principal players are the shareholders, management and the board of Directors. Other stakeholders include employees, customers, bankers and other lenders, regulators, the environment and the community at large. Muturi (2002) muses that a well functioning corporate governance system helps SACCOs to attract investment, raise funds and strengthen the foundation for their performance. It is believed that good governance generates investor goodwill and confidence as well.

Brownbridge (2007) observes that the concept of corporate governance evokes the question of corporate performance and higher returns in the case of companies complying with certain rules. The research on these relations constitute a substantial proportion of papers in modern management, finance as well as law and economics. Moreover, renewed interest in corporate governance practices of contemporary organizations has arisen mainly in relation to accountability, transparency, disclosure, fairness and effectiveness following the collapse of various large corporations during the years of 2000s, most of which involved accounting fraud. Corporate scandals of various forms have maintained public and political interest in the regulation of corporate governance (Sanda *et al.*, 2003).

Corporate governance practices refer to the principles of governance as highlighted by Cadbury report, Sarbanes-Oxley Act, OECD (as cited in USAD leadership, management, and governance project, 2011) and the center for corporate governance (CCG) the former private sector initiative for corporate governance. Cadbury Report (1992) identifies three dominant governance practices namely board composition, inclusion of non-executive directors and board leadership.

Board composition refers to the size of the board, the mix between executive and non-executive (independent) directors, and other desirable attributes, including gender diversity. Economic value of appropriate board composition has been a subject of scholarly research for more than five decades (Kesner *et al.*, 1986). It refers to a practice of having on board of directors a mixture of proficient individuals who are independent and diverse in terms of gender, firm and industry experience. It has been argued that firms with large proportions of outside directors in the board normally have less agency problems, and therefore, exhibit a better alignment between the interests of shareholders and those of management (Fernandes, 2005). Consequently, this may positively influence share price (Rosenstein & Wyatt, 1990). Yermack (1996) argues that smaller boards are more resourceful than larger ones in terms of obtaining a higher market valuation, improved return on assets and return on sales. It should be noted that larger boards invariably take longer in their deliberations, and often suffer the demerits associated with procrastination. However, too small a board will also deny the organization the requisite diversity and attendant synergy.

Prior studies (McConnell and Serves, 1995; Lasfer, 2002) show that corporate governance practices are important in driving firm performance. While, some studies use correlational research or exploratory research designs to study corporate governance mechanisms and performance of listed firms (Sanda *et. al.*, 2005; Lasfer, 2002), Others (Hermalin and Weisbach, 1991; Hussein and Kiwia, 2009 and McConnell and Servaes, 1995) employ random sampling techniques and regression analysis to investigate board composition and financial performance of firms but fail focus on SACCOs in Kenya using descriptive research design. On the contrary, others (Enobakhare, 2010; Mugenyi, 2010; and Zheka, 2007) study corporate governance, strategy and valuation of SACCOs using correlational research design in the economies of Ukraine, Nigeria and Uganda as opposed to KITE SACCO in Kisumu City. Therefore, the extent of board composition of KITE SACCO Society, Kisumu City is unknown.

The practice of inclusion of independent non-executive directors in the board implies having on board independent members of the board of directors. There are differing, and sometimes conflicting opinions about the impact of outside independent non-executive directors to a company's financial performance (Cho and Kim, 2007). Nicholson and Kiel (2007) argue that given their unparalleled knowledge of the corporation, inside directors are better placed to interrogate management proposals than can their independent counterparts. Similarly, Brennan (2006) argues that independent directors are part-timers and therefore, do not possess requisite inside information about the business, and hence, may not be competent enough to perform tasks assigned to them.

Outside directors are creatures of the chief executive officers and therefore, are likely to forget their main purpose in the organization and align their own interests with those of the top management. This is especially true in jurisdictions where the chief executive is the sole source of information on potential nominees to the board (Bhaghat *et al.*, 1999). When outside directors have control of the board, shareholders tend to benefit more in cases of tender offers for bidders (Byrd and Hickman, 1992) and when the company is threatened with a hostile takeover (Gibbs, 1993). Besides, outside directors are more likely to initiate programs geared towards restructuring of the company when the performance of the company tends to decline (Perry and Shivdasani, 2005). This is because when performance nose dives, it goes southwards with the directors reputations.

Empirical evidence (John and Senbet, 1998; Muriithi, 2004) show that independent non-executive directorship in a critical component of corporate governance mechanisms. While, some studies use exploratory research designs to study corporate governance mechanisms and performance of listed firms (Muriithi,2004; Hussein and Kiwia, 2009), Others (Wambua,2011; Ngugi, 2007) employ random sampling techniques and regression analysis to investigate corporate governance, valuation and board characteristics of SACCOs in Kenya but fail focus on KITE SACCO in Kisumu City using descriptive research design. On the contrary, others (Hermalin and Weisbach, 1991; Hussein and Kiwia, 2009) study corporate governance, strategy and valuation of SACCOs using correlational research design in the USA as opposed to KITE SACCO in Kisumu City. Therefore, the extent of inclusion of independent non-executive directors of KITE SACCO Society, Kisumu City is unknown

Board leadership is a practice whereby board of directors offer ethical leadership; provides direction for management and makes well- informed and high quality decisions. According to CMA (2000), every corporation should be headed by an effective BOD, which should exercise leadership, enterprise, integrity and judgments in directing the corporation so as to achieve continuing prosperity and to act in the best interest of the enterprise in a manner based on transparency, accountability and responsibility. Hence the board of directors acts as the intermediary between the principals and their agents, and is charged with four main responsibilities: leadership; stewardship; monitoring; and reporting back to the principals. The effectiveness of the board helps in, among other ways, monitoring and controlling managerial discretion.

Prior studies (Zheka, 2007; Lasfer, 2002) show that corporate governance practices are important in driving firm performance. While, some studies use correlational research or exploratory research designs to study corporate governance mechanisms and performance of listed firms (Sanda *et. al.*, 2005; Lasfer, 2002), Others (Agumba, 2008, Wambua, 2011) employ survey techniques and correlation analysis to assess board leadership and financial performance of firms but fail focus on SACCOs in Kisumu City using descriptive research design. On the contrary, others (Enobakhare, 2010 and Beiner *et al.*, 2004) study corporate governance, strategy and valuation of SACCOs using correlational research design in the economies of Ukraine and Swiss as opposed to KITE SACCO in Kisumu City. Therefore, the extent of board leadership of KITE SACCO Society, Kisumu City is not known.

Statistics indicate that SACCOS have been growing at a rate of 25% per year for the past six years, (GoK, 2011). According to the financial stability report FSR, (2012), the SACCOs industry's total assets grew by 17.8% to Ksh.292.9 billion in 2012 from Ksh.248.7 billion in 2011. In Kenya, SACCOS contribute over 45% GDP, and it is estimated that at least one out of every two Kenyans directly or indirectly derives his /her livelihood from these kinds of cooperative movements (FSR, 2012). There are 5,122 registered Saccos out of the total 12,000 registered co-operatives, which is about 44% of the total number of co-operatives in Kenya. Out of the 5,122 Saccos 150 are rural Saccos (commodity based) while the rest are Urban Saccos (employee based). All Saccos operate Back Office Service Activities and have been able to mobilize over Kshs 230 billion, which is about 31 percent of the national saving and granted loans to the tune of Kshs 210 billion (Ministry of Cooperative Development and Marketing, 2010).

Kisumu County has many Saccos in operation. Some are in the financial services provision sector, agricultural sector and transport industry. Further, Kisumu County has 45 Saccos with 42,183 members spread in Kisumu East, Kisumu west, Nyando, Muhoroni and Nyakach. The Saccos provide financial services of savings and various types of loans for development, school fees and emergencies. However, the current study focuses on one SACCO (KITE Society Sacco Limited) in Kisumu city. The society was registered in 1977 and became operational in 1978. It is occupying a rental office at Re-Insurance plaza (Wedco Center) ground floor Kisumu City. It has front office which offers banking services to customers. The Society has 12 members of staff headed by the chief executive officer. It also has a board of directors composed of executive committee, credit committee, education committee, finance and administration committee and audit committee (Current data KITE Sacco, 2014).

1.2 Statement of the Problem

Statistics indicate that SACCOS have been growing at a rate of 25% per year for the past six years. For instance, in the year 2012, the SACCOs industry's total assets grew by 17.8% to Ksh.292.9 billion in 2012 from Ksh.248.7 billion in 2011. In Kenya, SACCOS contribute over 45% GDP, and it is estimated that at least one out of every two Kenyans directly or indirectly derives his /her livelihood from these kinds of cooperative movements. Besides, corporate performance literatures show that corporate governance practices are important in driving firm performance. Previous studies focus on the relationship between corporate governance mechanisms and performance among listed firms failing to analyze corporate adoption governance practices and performance of SACCO societies in Kenya. Therefore, the extent of board composition, inclusion of independent non-executive board members, and extent of board leadership of KITE SACCO society are unknown. Therefore, the purpose of this study is to analyze corporate governance practices and performance of Kisumu Teachers Sacco Society, Kisumu, Kenya.

1.3 Objectives of the Study

The study's main objective was to analyze corporate governance practices adopted by Kisumu Teachers Sacco Society, Kisumu, Kenya.

Specifically, the study sought to:

i. Assess the extent of board composition of KITE SACCO Society, Kisumu City.

ii. Establish the extent of inclusion of non-executive directors in the board of KITE SACCO Society, Kisumu City.

iii. Determine the extent of board leadership of KITE SACCO Society, Kisumu City.

1.4 Research Questions

The study was guided by the following research questions:

i. What is the extent of board composition of KITE SACCO Society, Kisumu City?

ii. What is the extent of inclusion of non-executive directors in the board of KITE SACCO society, Kisumu City?

iii. What is the effectiveness of board leadership of KITE SACCO Society, Kisumu City?

1.5 Significance of the Study

The study would be invaluable to the various stakeholders in cooperative movement in Kenya and beyond. The management at KITE SACCO Society would identify how various aspects of corporate governance practices affect the operations of SACCO as well as determine the extent to which this and other factors affect operations of other SACCOs in Kenya. They would also identify the impediments that face SACCO societies in approaching various corporate governance practices that affect SACCOs in Kisumu City.

The policy makers would obtain knowledge of the cooperative movements' dynamics and the responses that are appropriate; they will therefore obtain guidance from this study in designing appropriate practices that would regulate the shareholders participation in these SACCOs.

Shareholders always need to have value for money for their association with the entities that they identify with. The same can only be realized in the event of good corporate governance. The study will thus give an insight to the current practice vis a vis the expectations of the shareholders showing how enhanced corporate governance would add value in terms of aiding financial performance of the Saccos thus better returns for the shareholders.

The study would provide information to potential and current scholars with regard to the extent of adoption of corporate governance practices of SACCO societies. In addition, researchers would be able to gain additional knowledge from the study given that it is focusing on a several SACCOs within the City.

1.6 Scope of the study

The study focused on corporate governance practices of KITE SACCO Society, Kisumu. Specifically, the study concentrated on board composition, number of non-executive directors and leadership of KITE SACCO Society in Kisumu City. The study focused on one single SACCO (KITE SACCO Society) in Kisumu City. This is because the SACCO is believed to have experienced several cases of malpractices due to corporate governance issues and the results could explain collapse of other SACCOs in other regions due to corporate governance issues since all SACCOs operate on similar principles and guidelines.

1.7 Conceptual Framework

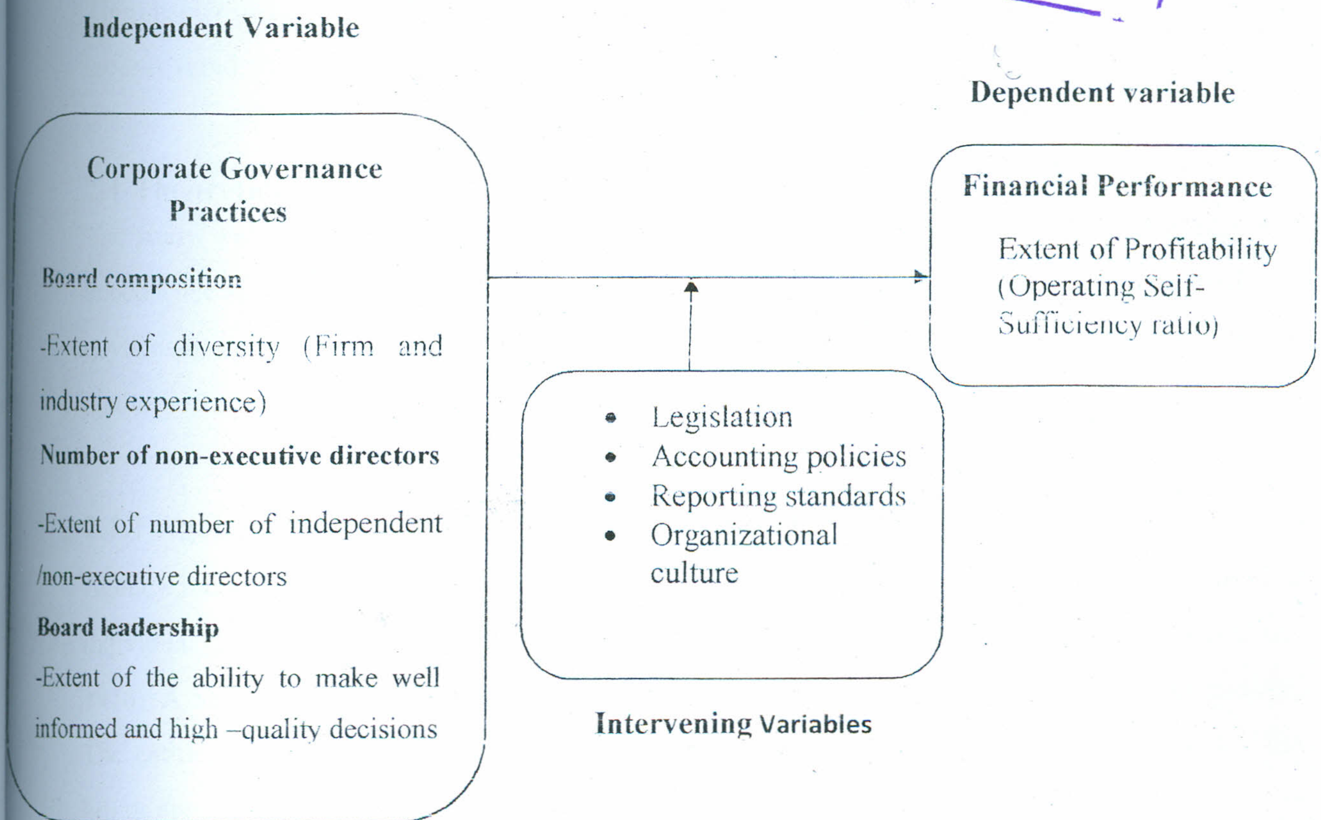

Figure 1.1: Corporate Governance Practices
Source: Adapted from Sanda, *et al.* (2005)

The above conceptual framework shows the relationship between corporate governance practices and financial performance. Corporate governance practices is the independent variable and has three dimensions namely, board composition, number of non-executive directors and board leadership. The dependent variable is the financial performance which has one dimension namely; profitability.The relationship is subject to four intervening variables: legislation, accounting policies, reporting standards and organizational culture.

CHAPTER TWO

LITERATURE REVIEW

This chapter of the study reviews literature on the subject of corporate governance. The specific areas covered are theoretical review and empirical review

2.1 Theoretical Review

The study was guided by the following theories, agency theory, stakeholder theory, resource dependence theory, and the stewardship theory. The four theories identify well with corporate governance structures and the stake holders' theory identifies well with cooperatives which institutions are serving the interests of varying stakeholders in society.

2.1.1 Agency Theory of Corporate Governance

Agency theory revolves around an individual referred to as the principal who hires another individual (the agent) and delegates decision making authority to the agent (Jensen & Meckling, 1976). A Sacco, being an artificial person, interacts and enters into contracts with other entities. The entities could be: suppliers; creditors; employees and the government among others. This brings about an agency relationship between the Sacco and the entities.

Corporate governance is based on agency theory, which is the relationship between agents and principals. Agency theory explains how best the relationship between agents and principals can be tapped for purposes of governing a corporation to realize its goals. Interest on agency relationships became more prominent with the emergence of the large corporation. There are entrepreneurs who have a knack for accumulation of capital, and managers who had a surplus of ideas to effectively use that capital. Since the owners of capital (principals) have neither the requisite expertise nor time to effectively run their enterprises, they hand them over to agents (managers) for control and day-to-day operations, hence, the separation of ownership from control, and the attendant agency problems. In an agency relationship, principals and agents have clearly defined responsibilities: Principals are select and put in place governors (directors and auditors to ensure effective governance system is implemented, while agents are responsible for the day-to-day operations of the enterprise (Solomon and Solomon, 2004)

Some corporate governance scholars (Carter and Lorsch, 2004; Leblanc and Gillies, 2005) argue that at the heart of good corporate governance is not board structure (which receives a lot of attention in the current regulations), but instead board process (especially consideration of how board members work together as a group and the competencies and behaviors both at the board level and the level of individual directors). As a result, the current scholarly discourse about the nature of corporate governance has come to reflect this body of research.

2.1.2 Stakeholder Theory Linking Corporate Governance and Performance

Stakeholder Theory centers on the issues concerning the stakeholders in an institution. It stipulates that a corporate entity invariably seeks to provide a balance between the interests of its diverse stakeholders in order to ensure that each interest constituency receives some degree of satisfaction (Abrams, 1951). However, there is an argument that the theory is narrow (Coleman, 2008) because it identifies the shareholders as the only interest group of a corporate entity. However, the stakeholder theory is better in explaining the role of corporate governance than the agency theory by highlighting different constituents of a firm (Coleman, 2008).

There are two main theories of stakeholder governance: the abuse of executive power model and the stakeholder model. Current Anglo-American corporate governance arrangements vest excessive power in the hands of management who may abuse it to serve their own interest at the expense of shareholders and society as a whole (Hutton, 1995). Supporters of such a view argue that the current institutional restraints on managerial behavior, such as non-executive directors, the audit process, the threat of takeover, are simply inadequate to prevent managers abusing corporate power. Shareholders protected by liquid asset markets are uninterested in all but the most substantial of abuses. Incentive mechanisms, such as share options, are means through which managers can legitimize their abnormal overpayment (viewed by some as a symptom of the breakdown of governance (Keasey*et al.*, 1997). The abuse of executive power is particularly embedded in the problem of executive overpay since executive remuneration has risen far faster than average earnings and there is at best a very weak link between compensation and management performance (Conyon*et al.*, 1995; Gregg *et al.*, 1993).

Communities are interested in SACCO societies governance as key stakeholders as they derive benefit from being employees, suppliers, customers of quality products and beneficiaries of corporate social responsibility policies of SACCOs. Employees would like to get assurance that they are working in a SACCO that will sustain itself thus securing their employment. Suppliers want to be sure of payment after delivery of goods and services. Customers are looking for affordable goods and services (Agumba, 2008).

2.1.3 Stewardship Theory

Stewardship Theory argues and looks at a different form of motivation for managers drawn from organizational theory. This theory stipulates that a manager's objective is first to maximize the firm's performance because a manager's need of achievement and success are met when the firm is doing well (Coleman, 2008). The dominant motive, which directs managers to accomplish their job, is their desire to perform excellently.

The stewardship theory is based on the human relations perspective. It places the burden of stewardship on the managers and has them as effective stewards of the organizations resources. The management is more or less corrupted into ownership of programs to forge a partnership. This ensures that members are selected on the basis of their expertise and previous wealth of experience that they bring to the organization so as to add value and aids grow the profile of the organization. The theory has an emphasis on training and induction which ensures that the managers and board members lead the organization into heights of growth. The cooperatives movement on the other hand is volatile in terms of having long competitive elections processes whereby the leadership is appointed not on the basis of experience and merit but the influence they have over the members. This thus negates the input of the stewardship theory in the cooperative movements.

2.1.4 The Concept of Corporate Governance Practices

Brownbridge (2007), states that, the concept of corporate governance evokes the question of corporate performance and higher returns in the case of companies complying with certain rules. The research on these relations constitute a substantial proportion of papers in modern management, finance as well as law and economics. Researchers have investigated relationships between company performance and corporate governance practices such as ownership structure (concentration, shareholder identity), board structure (composition, turnover, proportion of independent, insider/outside or affiliated members), structure and functioning of board committees, structure and size of executing compensation (fixed salary vs incentives programs and stock options), structure and size of debt (long vs short term, private vs public). Although, the research findings remain relatively mixed, many results do reveal clear relations between governance characteristics and performance.

Moreover renewed interest in corporate governance practices of contemporary organizations has arisen mainly in relation to accountability, transparency, disclosure, fairness and effectiveness following the collapse of various large corporations during the years of 2000s, most of which involved accounting fraud. Corporate scandals of various forms have maintained public and political interest in the regulation of corporate governance (Sanda et al., 2003).

Corporate governance practices refer to the principles of governance as highlighted by Cadbury report, Sarbanes-Oxley Act, OECD (as cited in USAD leadership, management, and governance project, 2011) and the center for corporate governance (CCG) the former private sector initiative for corporate governance. Cadbury Report (1992) identifies three dominant governance practices namely board composition, inclusion of non-executive directors and board leadership.

2.1.5 The Concept of Board Composition

Board composition refers to the size of the board, the mix between executive and non-executive (independent) directors, and other desirable attributes, including gender diversity. Economic value of appropriate board composition has been a subject of scholarly research for more than five decades (Kesner *et al.*, 1986). It refers to a practice of having on board of directors a mixture of proficient individuals who are independent and diverse in terms of gender, firm and industry experience. It has been argued that firms with large proportions of outside directors in the board normally have less agency problems, and therefore, exhibit a better alignment between the interests of shareholders and those of management (Fernandes, 2005). Consequently, this may positively influence share price (Rosenstein & Wyatt, 1990). Yermack (1996) argues that smaller boards are more resourceful than larger ones in terms of obtaining a higher market valuation, improved return on assets and return on sales. It should be noted that larger boards invariably take longer in their deliberations, and often suffer the demerits associated with procrastination. However, too small a board will also deny the organization the requisite diversity and attendant synergy.

Regarding gender diversity on boards, Burke and Nelson (2002) note that corporations are now beginning to experience significant changes in pools of potential candidates as women begin to compete for higher positions in corporations, leading to diversity at the board level. Erhardt et al.(2003) however, contend that board diversity, in essence, is a deliberate effort to demonstrate a lack of discrimination, but it is really unclear whether it affects organizational financial performance in any way. This argument would amount to an affirmative action, which is largely political, and aimed at improving gender balance in decision making in corporations. This paper takes the position that gender diversity should be embraced and celebrated in corporations because of the synergistic advantages associated with diversity in group decision making processes.

2.1.6 Non- executive Independent Board Members

There are differing, and sometimes conflicting opinions about the impact of outside directors to a company's financial performance (Cho and Kim, 2007). Nicholson and Kiel (2007) argue that given their unparalleled knowledge of the corporation, inside directors are better placed to interrogate management proposals than can their independent counterparts. Similarly, Brennan (2006) argues that independent directors are part-timers and therefore, do not possess requisite inside information about the business, and hence, may not be competent enough to perform tasks assigned to them.

Outside directors are creatures of the chief executive officers and therefore, are likely to forget their main purpose in the organization and align their own interests with those of the top management. This is especially true in jurisdictions where the chief executive is the sole source of information on potential nominees to the board. Recent studies have tried to bring out the importance of outside directors in a corporation. For example, Bhaghat *et al.* (1999), has shown that outside directors who have a substantial stake in the ownership of the company, may be more at will to exercise their authority to safeguard their own interests as shareholders and those of other shareholders and hence contributing to a better performance. Agency Theory argues that outside directors are necessary in order to create an effective monitoring and control system over management to minimize agency costs. When outside directors have control of the board, shareholders tend to benefit more in cases of tender offers for bidders (Byrd and Hickman, 1992), and when the company is threatened with a hostile takeover (Gibbs, 1993). Besides, outside directors are more likely to initiate programs geared towards restructuring of the company when the performance of the company tends to decline (Perry and Shivdasani, 2005). This is because when performance nose dives, it goes southwards with the directors reputations.

2.1.7 Board Leadership

According to CMA (2000), every corporation should be headed by an effective BOD, which should exercise leadership, enterprise, integrity and judgments in directing the corporation so as to achieve continuing prosperity and to act in the best interest of the enterprise in a manner based on transparency, accountability and responsibility. Hence the board of directors acts as the intermediary between the principals and their agents, and is charged with four main responsibilities: leadership; stewardship; monitoring; and reporting back to the principals. The effectiveness of the board helps in, among other ways, monitoring and controlling managerial discretion.

Broadly speaking, there are two sources of influences on managerial discretion. Apart from the internal influences (imposed by the board) there are external influences that pertain to the role of markets in monitoring and disciplining managers (Jensen, 1989). The most significant market related constraints arise from managerial labor markets, product markets and financial markets. Managerial labor markets pose multi-dimensional threat to inept managers in the form of imminent take-over or absorption by better- managed firms, replacement of the management team or simply being black-listed.

Managerial ineptitude, more often than not, leads to poor financial management and erodes confidence of potential creditors (Brown Governance, Inc., 2004). These constraints impose on managers extra vigilance as they exercise their discretion. Other factors that moderate managerial discretion include intangible (idiosyncratic) resources, firm leverage, size, and industry structure. In this study, board leadership is operationalized as a practice whereby board of directors offer ethical leadership; provides direction for management and makes well-informed and high quality decisions.

2.2. Empirical Literature

2.2.1 Extent of Board Composition

McConnell and Servaes (1995) studied the link between corporate values, debt and equity ownership by investigating the performance of three samples of firms for the years 1976, 1986,and 1988, respectively. The results reveal a negative correlation between corporate value and leverage for high-growth companies and a positive correlation between the two variables for low-growth firms. That is, relationship between firm value and leverage is negative for high growth firms and positive for low-growth firms. In other findings the study documents that the extent of corporate governance values was great. However, the study did not cover SACCOs in Kenya, used exploratory research design.

Another study by Lasfer (2002) investigated corporate governance mechanisms adopted by firms listed on the London Stock Exchange and found that board structure was an important corporate governance mechanism and that it was the most dominant corporate governance with a mean of 4.00, followed by board leadership with a mean of 3.98 and lastly inclusion of independent board members with a mean of 2.87. Also the study found that, while low growth firms are less likely to have an independent board, i.e., to split the roles of the chairman and CEO, to have a high proportion of non-executive directors and to appoint a nonexecutive as a chairman, their value is positively related to these board structure variables. In contrast, for high growth firms, the relationship between board structure and firm value is weak, suggesting that board structure does not always mitigate the agency conflicts. The results suggest that imposing the same board structure for all companies independently of their specific characteristics is likely to reduce the value of firms that may be forced to depart from optimal corporate governance structures which have been successful. On the contrary, the study focused on listed firms as opposed to SACCO societies, used correlational research design as opposed to a case study.

Beiner, Drobetz, Schmid and Zimmerman (2004) studied the corporate governance and firm valuation by using a broad corporate governance index and additional variables related to ownership structure, board characteristics, and leverage to provide a comprehensive description of firm-level corporate governance for a broad sample of Swiss firms. The study used Tobin's Q for growth and found a positive relationship between corporate governance and growth. An increase in our corporate governance index by one point caused an increase of the market capitalization by roughly 8.6%, on average, of a company's book asset value. However, The study concentrated on the relationship between corporate governance and firm value using correlational research design, fails to interrogate the extent of board composition among SACCO Societies in a developing country context.

Another study by Zheka (2007) on the effect corporate governance on performance constructed an overall index of corporate governance and shows that it predicts firm level productivity in Ukraine. The results imply that a one-point-increase in the index results in around 0.4%-1.9% increase in performance; and a worst to best change predicts a 40% increase in company's performance. However, the study did check on the extent of board composition among SACCO Societies in Kenya.

Wambua (2011) conducted a study on the effects of corporate governance on the financial performance of Sacco's in Kenya. The study found that 59% of the respondents indicated that the board composition affected the financial performance in the Sacco to a little extent. The number of nonexecutive directors affected the performance of the Sacco was a challenge the board faced to a great extent as shown by a mean of 4.20. The study showed that respondents strongly agreed that the board was actively involved in shaping Sacco strategy; this was shown by a mean of 4.80. The study revealed that 50% of the respondents indicated that the number of non-executive directors affected the financial performance of the Sacco to a little extent. However, the study focused several SACCOs in Kenya as opposed to an in depth study on one SACCO, used correlational research design, did not cover SACCOs in Kisumu City.

Another study by Mugenyi (2010) on Corporate governance and strategy in Sacco's in Uganda using qualitative approach and focus group discussions found that the board committees are either dysfunctional or kept no records. Another observation made is the increasing political interference in the affairs of the Sacco's characterized by increasing patronage from the political elite hence distorting the ownership and governance principles. The ability of the board in terms of the skills mix and commitment to move the Sacco forward attracts a lot of attention. The study showed that most of the boards are manned by individuals that lack the appropriate skills to govern a financial institution ranging from peasant farmers to primary school teachers. On the contrary, the study did not check the extent of board composition, used exploratory research design as opposed to descriptive research design and did not cover KITE SACCO Society in Kenya.

A study by Enobakhare (2010) on corporate governance and bank performance in Nigeria for the period 2003-2008 using agency theory while employing correlational research design found that the Nigerian banking sector is affected by the level of corporate governance culture being embraced. The corporate governance variable was ownership styles and proved to have an impact on a bank's profitability. It has also been proved in the Nigerian context that the ownership style of the banks is bound to have an effect on the banks' profitability. Also, a fall out of this research is that it further re-emphasizes that the past bank crisis in Nigeria must have been fuelled by ignoring corporate governance measures in the day to day running of the banks. However, the study did check on the extent of board composition among SACCO Societies in Kenya. It covered banking sector as opposed to SACCO sector, used correlational research design as opposed to descriptive research design and did not interrogate KITE SACCO Society

Hermalin and Weisbach (1991) studied the effect of board composition on the financial performance of listed companies in the United States. They defined board composition in terms of the percentage of board members who are employees of organizations (internal board members) and of board members who are outsiders. The findings were that there was no strong relationship between board composition and firms' financial performance implying that board composition simply does not matter. Inside and outside directors are equally bad (or possibly good) at representing shareholders' interests. However, the study covered listed firms in the USA, did not cover SACCOs in Kisumu City, employed correlational research design as opposed to case study, did no interrogate the extent of board composition among SACCOs in Kenya.

In a study by Sanda, *et al.* (2005) on corporate governance mechanisms and the financial performance of companies listed on the Nigerian Stock Exchange that board composition were found to partially and positively influence organizations' financial performance. They also reported that small size was effective up to certain numbers, after which it becomes ineffective. This implies that large boards (with more than ten members) are not very efficient. They further found that organizations with international CEOs who are part of the board outperformed those which did not have international CEOs. However, the study covered listed firms in the Nigeria, did not cover SACCOs in Kisumu City, employed correlational research design as opposed to case study, did not interrogate the extent of board composition among SACCOs in Kenya.

Hussein and Kiwia (2009) studied the relationship between female board members and the performance of 250 US firms from 2000 to 2006 and found a positive relationship between firm performance and the level of female representation inside the boardroom. They further show that organizations that perform well tend to appoint more females to their boards so as to concede to government pressure, especially in developed countries. However, their study did not look at the extent of board composition of SACCOs using descriptive research design with reference to KITE Sacco Society in Kisumu City.

Prior studies (Mc Connel and Serves, 1995; Lasfer, 2002) show that corporate governance practices are important in driving firm performance. While, some studies use correlational research or exploratory research designs to study corporate governance mechanisms and performance of listed firms (Sanda *et. al.*, 2005; Lasfer, 2002), Others (Hermalin and Weisbach, 1991; Hussein and Kiwia, 2009 and McConnell and Servaes, 1995) employ random sampling techniques and regression analysis to investigate board composition and financial performance of firms but fail focus on SACCOs in Kenya using descriptive research design. On the contrary, others (Enobakhare, 2010; Mugenyi, 2010; and Zheka, 2007) study corporate governance, strategy and valuation of SACCOs using correlational research design in the economies of Ukraine, Nigeria and Uganda as opposed to KITE SACCO in Kisumu City. Therefore, the extent of board composition of KITE SACCO Society, Kisumu City is unknown.

2.2.2 Extent of inclusion of Non-executive Directors in the Board

John and Senbet (1998) studied corporate governance and board effectiveness using descriptive research design and found that boards of directors are more independent as the proportion of their outside directors increases. Though it has been argued that the effectiveness of a board depends on the optimal mix of inside and outside directors, there is very little theory on the determinants of an optimal board composition. The study also found that inclusion of non-executive independent board members among firms in the sample was adopted to moderate extent. However, the study did not cover SACCOs in Kenya, fails to interrogate the extent of inclusion of non-executive directors in the board in KITE SACCO Society.

Another study by Muriithi (2004) on the relationship between corporate governance mechanisms and performance of firms quoted on the Nairobi Stock Exchange and found that the size and the composition of the board of directors, the separation of the control and the management, inclusion of independent non-executive board members were practiced to a very great extent and had the greatest effect on the performance. However, the study focused on listed firms as opposed to SACCOs in Kenya, fails to interrogate the extent of inclusion of non-executive directors in the board in KITE SACCO Society, Kisumu City, Kenya.

A study by Ngugi (2007) on the relationship between corporate governance structures and the performance of insurance companies in Kenya 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. However, the study focused on insurance companies contrary to SACCOs in Kenya, fails to study the extent of inclusion of non-executive directors in the board in KITE SACCO Society.

Beiner, *et al.* (2004) studied the corporate governance and firm valuation and board characteristics by using a broad corporate governance index for a broad sample of Swiss firms. The study used Tobin's Q for growth and found a positive relationship between corporate governance and growth. An increase in our corporate governance index by one point caused an increase of the market capitalization by roughly 8.6%, on average, of a company's book asset value. However, the study concentrated on the relationship between corporate governance and firm value using correlational research design, fails to interrogate the extent of inclusion of independent non-executive board members among SACCO Societies in a developing country context.

Another study by Wambua (2011) conducted a study on the effects of corporate governance on the financial performance of Sacco's in Kenya. The study found that the number of independent nonexecutive directors was practiced to a very great extent posting a mean of 4.20. The study also revealed that 50% of the respondents indicated that the number of non-executive directors affected the financial performance of the Sacco to a little extent. However, the study focused several SACCOs in Kenya as opposed to an in depth study on one SACCO, used correlational research design, did not investigate the extent of inclusion of independent non-executive directors among SACCOs in Kisumu City.

Hermalin and Weisbach (1991) studied the effect of board composition on the financial performance of listed companies in the United States. They defined board composition in terms of the percentage of board members who are employees of organizations (internal board members) and of board members who are outsiders. The findings were that the extent of inclusion of independent non-executive members was embraced to a very small extent. However, the study covered listed firms in the USA, did not cover SACCOs in Kisumu City, employed correlational research design as opposed to case study, did not interrogate the extent of inclusion of independent non- executive board members of KITE SACCO Society in Kisumu City, Kenya.

Hussein and Kiwia (2009) studied the relationship between female board members and the performance of 250 US firms from 2000 to 2006 and found a positive relationship between firm performance and the level of female representation inside the boardroom. They further show that organizations that perform well tend to appoint more females to their boards so as to concede to government pressure, especially in developed countries. However, their study did not look at the extent of inclusion of independent non-executive board members of KITE Sacco Society in Kisumu City using descriptive research design.

Empirical evidence (John and Senbet, 1998; Muriithi, 2004) show that independent non-executive directorship in a critical component of corporate governance mechanisms. While, some studies use exploratory research designs to study corporate governance mechanisms and performance of listed firms (Muriithi,2004; Hussein and Kiwia, 2009), Others (Wambua,2011; Ngugi, 2007) employ random sampling techniques and regression analysis to investigate corporate governance, valuation and board characteristics of SACCOs in Kenya but fail focus on KITE SACCO in Kisumu City using descriptive research design. On the contrary, others (Hermalin and Weisbach, 1991; Hussein and Kiwia, 2009) study corporate governance, strategy and valuation of SACCOs using correlational research design in the USA as opposed to KITE SACCO in Kisumu City. Therefore, the extent of inclusion of independent non-executive directors of KITE SACCO Society, Kisumu City is unknown

2.2.3 Extent of Board Leadership

Agumba (2008) studied the effectiveness of the Sacco governance model and found out that the community needed to re-assure itself that: cooperative business enterprises are viable, sustainable and competitive; cooperatives comply with legal framework and remain relevant and legitimate in society. The study also found that board leadership had to moderate extent provided direction to management and made high-quality decisions. However, the study did not focus on KITE SACCO and fails to interrogate then extent of board leadership in rural SACCO societies in Kisumu City.

Another study by Lasfer (2002) investigated corporate governance mechanisms adopted by firms listed on the London Stock Exchange and found that board structure was an important corporate governance mechanism and that it was the most dominant corporate governance with a mean of 4.00, followed by board leadership with a mean of 3.98 and lastly inclusion of independent board members with a mean of 2.87. On the contrary, the study focused on listed firms as opposed to SACCO societies, used correlational research design as opposed to a case study, did not cover KITE SACCO society in Kisumu City.

Beiner, Drobetz, Schmid and Zimmerman (2004) studied the corporate governance and firm valuation by using a broad corporate governance index and additional variables related to ownership structure, board characteristics, and leverage to provide a comprehensive description of firm-level corporate governance for a broad sample of Swiss firms. The study found that an increase in our corporate governance index by one point caused an increase of the market capitalization by roughly 8.6%, on average, of a company's book asset value. It also found that board management structure which is an aspect of board leadership was practiced to a very small extent with a mean of 2.56. However, the study used correlational research design, fails to interrogate the extent of board leadership of KITE SACCO society in Kisumu city, Kenya.

Another study by Zheka (2007) on the effect corporate governance on performance constructed an overall index of corporate governance and shows that it predicts firm level productivity in Ukraine. The results imply that a one-point-increase in the index results in around 0.4%-1.9% increase in performance; and a worst to best change predicts a 40% increase in company's performance. However, the study did check on the extent of board leadership among SACCO Societies in Kenya.

Wambua (2011) conducted a study on the effects of corporate governance practices on the financial performance of Sacco's in Kenya. The study found that 47% of respondents strongly agreed that the board was actively involved in shaping Sacco strategy; this was shown by a mean of 4.80 indicating that board offered leadership to a moderate extent. However, the study focused several SACCOs in Kenya as opposed to an in depth study on one SACCO, used correlational research design, did not cover SACCOs in Kisumu City.

A study by Enobakhare (2010) on corporate governance and bank performance in Nigeria for the period 2003-2008 using agency theory while employing correlational research design found that the Nigerian banking sector is affected by the level of corporate governance culture being embraced. However, the study did check on the extent of board composition among SACCO Societies in Kenya. It covered banking sector as opposed to SACCO sector, used correlational research design as opposed to descriptive research design and did not interrogate the extent of board leadership at KITE SACCO Society. In a study by Sanda, *et al.* (2005) on corporate governance mechanisms and the financial performance of companies listed on the Nigerian Stock Exchange that board composition were found to partially and positively influence organizations' financial performance. They also reported that small size was effective up to certain numbers, after which it becomes ineffective. This implies that large boards (with more than ten members) are not very efficient. However, the study covered listed firms in the Nigeria, did not cover SACCOs in Kisumu City, employed correlational research design as opposed to case study, did not study the extent of board leadership at KITE SACCO society.

Prior studies (Zheka, 2007; Lasfer, 2002) show that corporate governance practices are important in driving firm performance. While, some studies use correlational research or exploratory research designs to study corporate governance mechanisms and performance of listed firms (Sanda *et. al.*, 2005; Lasfer, 2002), Others (Agumba, 2008, Wambua, 2011) employ survey techniques and correlation analysis to assess board leadership and financial performance of firms but fail focus on SACCOs in Kisumu City using descriptive research design. On the contrary, others (Enobakhare, 2010 and Beiner *et al.*, 2004) study corporate governance, strategy and valuation of SACCOs using correlational research design in the economics of Ukraine and Swiss as opposed to KITE SACCO in Kisumu City. Therefore, the extent of board leadership of KITE SACCO Society, Kisumu City is not known.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter presents the research methods adopted for the study and discusses the techniques and activities undertaken to actualize the study objectives.

3.1 Research Design

Research design refers to the way the study is designed, that is, the method used to carry out a research (Nyororo, 2006). This research problem was studied through the use of descriptive research design. Descriptive research design is used to establish the extent of application of a given phenomenon. Case studies are commonly used in descriptive research designs because they are best suited to determine the extent to which a given phenomenon is adopted or used.

3.2 Study Area

The study area for this study is Kisumu City. Kisumu City lies on the latitudes 0^{0} 5' 30'' South and longitudes 34^{0} 46' 4'' East. Kisumu City has many Saccos in operation. Some are in the financial services provision sector, agricultural sector and transport industry. Further, Kisumu City has 45 Saccos with 42,183 members spread in Kisumu East, Kisumu west, Nyando, Muhoroni and Nyakach. The Saccos provide financial services of savings and various types of loans for development, school fees and emergencies. However, the current study focuses on one SACCO (KITE Society Sacco Limited) in Kisumu city. The society was registered in 1977 and became operational in 1978. It is occupying a rental office at Re-Insurance plaza (Wedco Center) ground floor Kisumu City. It has front office which offers banking services to customers. The Society has 12 members of staff headed by the chief executive officer. It also has a board of directors composed of executive committee, credit committee, education committee, finance and administration committee and audit committee (KITE Sacco Data, 2014).

3.3 Target Population

Target population can be defined as a complete set of individuals, cases/objects with some common observable characteristics of a particular nature distinct from other population Mugenda and Mugenda (2003). A population is a well-defined set of people, services, elements, events, and group of things or households that are being investigated. This definition ensured that the population of interest was homogeneous. The target population of the study was all the 14 staff members and all the 5 board members at KITE SACCO were targeted of which two among the 14 formed the pilot part of the study remaining with 17 respondents.

3.4 Sampling Design

Sampling refers to the procedure a researcher uses to gather people, places or things to study (Kombo *et al*, 2006). The study applied census sampling technique that is from a total population of 19 respondents the researcher considered all of them which is in accordance with the recommendation by Oso & Onen (2009) that with a small target population, the whole target could be used for the study of which two among the sample formed part of the pilot study.

3.5 Data Collection Instruments

The researcher developed the instruments with which to collect the necessary information. The researcher used a questionnaire to collect primary data. Questionnaires are commonly used to obtain important information about the population. According to Cooper and Schindler (2003), a self-administered questionnaire is the only way to elicit self-reports on people's opinion, attitudes, beliefs and values. The choice of this tool of data collection was guided by the time available and the objectives of the study. Questionnaire provided a high degree of data standardization and adoption of generalized information amongst any population (Mugenda and Mugenda, 1999).

3.5.1 Data Collection Procedures

It took a period of two weeks to collect the data required as all the respondents were within close proximity to each other, domesticated by the nature of their employment and positively acquainted to the researcher. The respondents were required to complete questionnaire as honestly and as completely as possible. The researcher used drop and pick method so as to give the respondents enough time as possible to fill the questionnaire.

3.5.2 Reliability Test for Data Collection Instrument

Reliability of research instrument is the ability of the instrument to give out the same results at different places (Kothari, 2007). This is the consistency of your measurement or the degree to which the instrument measures the same way each time it is used under the same condition with the same subject. It is the repeatability of your measurement. Reliability was factored through test-retest method to the two respondents and these were excluded in the final sample and the responses analyzed using Cronbach's Alpha coefficient. The instrument is deemed to be reliable at Cronbach's Alpha of .701 (Norland, 1990).

Table 3.1: Summary of Cronbach's Alpha Reliability Test Results

Constructs	No. of Items	Cronbach's Alpha
Board composition	2	0.750
Inclusion of independent non executive members	2	0.719
Board leadership	2	0.711

Source: Field Data, 2016

Board composition, inclusion of independent non-executive members and board leadership had alpha of 0.750, 0.719, 0.711, and 0.814 respectively indicating strong internal consistency among measures of variable items.

3.5.3 Validity Test for Data Collection Instrument

Validity is the ability of the research instrument to measure and generate the intended or desired results of the study. Cooks and Campbell (1979) defines it as the best available approximation to the truth or falsity of a given inference proposition or conclusion. This is the most critical criterion that indicates the extent to which differences found with a measuring instrument reflect true differences among those being tested. Validity was established using a panel of experts /academic advisers. The basic principle for establishing validity is the same as for corroborating audit observations and conclusions generally, that is, compared to evidence from different sources and of a different nature.

3.6 Data Analysis and Presentation

Analysis of data was done in order to answer the three research questions of this study. Data collected was sorted, classified and coded then tabulated for ease of analysis. The data was summarized and categorized according to common themes. The SPSS (version 17) computer software aided the analysis as it is more user friendly and most appropriate for analysis of Management related attitudinal responses (Martin and Acuna, 2002). Descriptive statistics was employed to analyze the data. Tables and other graphical presentations as appropriate were used to present the data collected for ease of understanding and analysis. Tables were used to summarize responses for further analysis and facilitate comparison. This generated quantitative reports through tabulations, percentages, and measure of central tendency.

CHAPTER FOUR
RESULTS AND DISCUSSIONS

This chapter presents the analysis of information collected in relation to the analysis of corporate governance practices of KITE SACCO Kisumu City.

4.1 Response Rate

The researcher administered the questionnaires in person to the respondents via drop and pick method. All the respondents filled the questionnaires and were collected later. Out of the 17 questionnaires administered to the respondents, all of them were returned constituting a response rate of 100 % of the administered questionnaires.

4.2 Demographic information on the Respondents on the Sample

The study sought to establish the background of the respondents in the study in terms of gender, duration worked in the organization and education levels. The results were as shown in following sections.

Table 4.1: Gender of the respondents

	Frequency	Percent	Valid Percent
Male	9	47.4	52.9
Female	8	42.1	47.1
Total	17	100.0	100.0

Source: Field Data, 2016

Table 4.1 indicates that 47.4 % of the respondents are males while 42.1 % of them were females. This implies that majority of employees and board members of KITE SACCO society are males, hence the data obtained was gender biased.

Table 4.2: Duration worked in the organization

	Frequency	Percent	Valid Percent
0-2 years	3	15.8	17.6
2-4 years	4	21.1	23.5
4-6 years	6	31.6	35.3
Over 6 years	4	21.1	23.5
Total	17	100	100.0

Source: Field Data, 2016

Table 4.2.2 shows that majority 31.6 % of respondents had worked in their respective sections for a period between 4-6 years indicating of low labor turnover, 15.8 % had worked for a period less than 2 years. This implies that the data was obtained from respondents who had gotten experience on the operations of the SACCO.

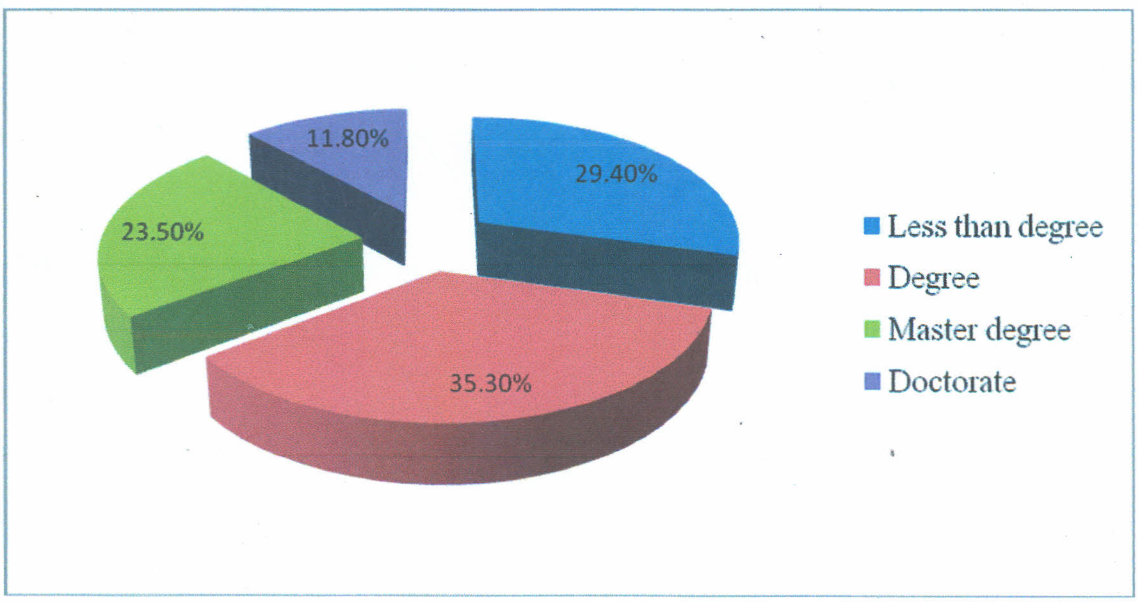

Figure 4.1: Educational level of respondents

Figure 4.1 indicates that 29.4% of the respondents were professionals, 35.3% were degree graduates, and 23.5 % were master graduates, while the remaining 11.8% had PhD. This implies how literate the respondents were and thus could easily interpret the questionnaire items, therefore enabled achievement of the research objectives.

4. 3 Extent of Board Composition of KITE SACCO Society

To achieve this objective, descriptive statistics were computed and the results are summarized in the Table 4.3.

Table 4.3: Descriptive Statistics on Extent of Board Composition of KITE SACCO Society

Board Composition	5	4	3	2	1	Mean	Std. Dev
a. Inclusion of board members who are gender diverse	4(23.5%)	7(41.2%)	2(11.8%)	3(17.6%)	1(5.9%)	4.000	1.22774
b. Board diversity in terms of firm and industry experience	6(35.3%)	4(23.5%)	2(11.8%)	3(17.6%)	2(11.8%)	4.000	1.46277

Key: *Very high=5, High =4, Moderate=3, Low=2, Very low=1*

Source: Field data, 2016

Table 4.3 indicates that board composition had a mean of (4.000) and a standard deviation of 1.2274 implying that majority of respondents believed that board composition was practiced to a very high extent. This result is consistent with the findings of Lasfer, 2002 and McConnell and Servaes (1995) who found that board composition was practiced to great extent. However, the study findings are at variance with those of Wambua (2011) who found that 59 % of the respondents indicated that the board composition affected the financial performance in the Sacco to a little extent.

4. 4 Extent of Inclusion of Independent Non-Executive Board Members in KITE SACCO Society

To achieve this objective, descriptive statistics were computed and the results are summarized in the Table 4.4.

Table 4.4: Descriptive Statistics on Extent of Inclusion of Independent Non-Executive Board Members of KITE SACCO Society

Inclusion of Independent Boards	5	4	3	2	1	Mean	Std. Dev
a. Independent directors are included in the board	1(5.9%)	1(5.9%)	5(29.4%)	4(23.5%)	6(35.3%)	2.000	1.201
b. Inclusion of non-executive directors in the board	6(35.3%)	4(23.5%)	2(11.8%)	3(17.6%)	2(11.8%)	4.000	1.46277

Key: *Very high=5, High =4, Moderate=3, Low=2, Very low=1*

Source: Field data, 2016

Table 4.4 indicates that inclusion of independent non-executive board membership had a mean of (2.000) and a standard deviation of 1.201 implying that majority of respondents believed that inclusion of independent board members was practiced to a low extent. This result is consistent with the findings of Wambua (2011) who found that 85 % of the respondents indicated that the inclusion of independent non-executive board membership was practiced to a little extent. However, the results are contradict the findings of Muriithi, 2004; Lasfer, 2002 and McConnell and Servaes (1995) who found that inclusion of independent non-executive board membership was practiced to great extent.

4. 4 Extent of Board Leadership of KITE SACCO Society

To achieve this objective, descriptive statistics were computed and the results are summarized in the Table 4.5.

Table 4.5: Descriptive Statistics on Board Leadership of KITE SACCO Society

Board Leadership	5	4	3	2	1	Mean	Std. Dev
a. Makes well informed and high-quality decisions	6(35.3%)	5(29.4%)	1(5.9%)	2(11.8%)	3(17.6%)	4.000	1.546
b. Provides direction for management	7(41.2%)	4(23.5%)	3(17.6%)	2(11.8%)	1(5.9%)	4.000	1.286

Key: *Very high=5, High =4, Moderate=3, Low=2, Very low=1*

Source: Field data, 2016

Table 4.5 indicates that board leadership had a mean of 4.000 and a standard deviation of 1.546 implying that majority of respondents believes that board leadership practiced to a high extent.

This result is consistent with the findings of Lasfer, 2002 and Agumba, 2008) who found that board leadership was practiced to great and moderate extent. The results are at variance with the findings of Beiner *et al.* (2004) who report a very small extent of adoption of board leadership.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This chapter presents a summary of study findings, conclusions and recommendations based on the major findings.

5.1 Summary of findings

Based on descriptive statistics, objective one, board composition had a mean of 4.000 and a standard deviation of 1.2274, objective two, inclusion of independent non-executive board membership had a mean of 2.000 and a standard deviation of 1.201. Lastly, based on objective three, the findings were that board leadership had a mean of 4.000 and a standard deviation of 1.546.

5.2 Conclusions of the Study

The study conclusions are outlined as per the objectives as follows:

From the findings of objective one, it can be concluded that board composition is practiced by KITE SACCO Society to a high extent. Based on objective two findings, it can be concluded that the inclusion of independent non-executive directors in the board of KITE SACCO Society is embraced to very small extent. Lastly, from the findings of objective three, it can be concluded that board leadership corporate governance mechanism is practiced by KITE SACCO Society to high extent.

5.3 Recommendations

Based on conclusion of objective one, KITE SACCO Society, should intensify continue enhancing board composition. From the conclusion of objective two, management of KITE SACCO Society should improve on the extent of adoption of inclusion of independent non-executive directorship as this was found to be practiced to very small extent. Similarly, from conclusion of objective three, KITE SACCO Society should intensify adoption of governance practice of board leadership as this was rated as applied to high extent.

5.4 Limitations of the Study

The outcome of the study cannot be generalized to all SACCOs in Kenya since the study was limited to KITE SACCO in Kisumu City and did not incorporate all SACCOs in Kenya. The study adopted a descriptive research design. The use of predetermined questions may have forced respondents to respond to questions even without properly understanding them.

5.5 Suggestions for Further Research

An exclusive study on the corporate governance challenges facing SACCOS in Kenya should be carried out. Future research should be conducted on determinants of corporate governance compliance in Kenya and compare the outcomes over a period of time using more robust research designs such as correlational and longitudinal research designs.

Further research could be conducted based on county regions in Kenya since such areas represent a variation in target contexts could provide a great variety in terms of diversity. This study provides quantitative evidence for the relevance of proper corporate governance practices. The application of adequate governance practices positively influences board composition, number of non-executive directors, and Sacco leadership, which in turn may affect financial performance. Thus, there is a need to insist on application of adequate governance practices. Besides, this study was only carried out in Kisumu specifically at Kite Sacco and thus implying that the findings are only limited to this Sacco. Further study needs to be done on the same topic but in other institutions both nationally and in the international arena. The study as well suggests that other findings could be done specifically on corporate governance and board size.

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