ISSN: 2278-3369
International Journal of Advances in Management and Economics
Available online at: www.managementjournal.info

RESEARCH ARTICLE

Assessment of Corporate Governance on Performance of Savings and Credit Cooperative Societies in Kakamega County

Godfrey Wafula Munyasia

Business Administration (Accounting), Kabarak University

Abstract

Corporate governance is defined as a system or set of mechanism by which an organization is directed and controlled in order to reach its mission and objectives. The purpose of this study was to assess the effect of corporate governance on performance of savings and credit cooperative societies in Kakamega County. The research design adopted by the study was a descriptive survey. The population of the study was the SACCOs in Kakamega County comprising heads of departments, CEOs, two members of the Board of Directors and ten members from the selected six Saccos. A questionnaire was used to collect data from the respondents. Data analysis was done using descriptive statistics. The findings of the study showed that management assessment of sacco governance has a significant effect on sacco performance. The study concluded that managers were not fully assessing the performance of the Saccos. The study recommended that managers should continuously monitor and assess the sacco performance.

Keywords: *Corporate governance, Saccos, performance.*

Introduction

United States department of agriculture defines cooperatives as a business organization owned and controlled by people known as the members who use its services and whose benefits are shared by the members. The benefits are in terms of the services they receive from the cooperative and the earnings that are located to members based on the amount of business they do with the cooperatives. The key idea behind a cooperative society is to pool the scarce resources, eliminate the middlemen and to achieve a common goal or interest [1].

Tony [2] states that the idea of SACCOs in Africa was brought by a Roman catholic priest in jirapa a town in Ghana by 1955. He helped villagers to form a savings and credit co- operative to assist them to address their financial problems which each individual would not solve on his own. Birchall [3] claims that under the leadership of Friedrich Raiffeisen, financial cooperatives were developed in rural areas which in turn helped to promote the development of other types of cooperatives.

Corporate governance is concerned with the structures and systems of control by which managers are held accountable to those who have a legitimate stake in an organization [4]. According to Thomsen [5] good governance can improve the performance of a SACCO and help assure its long term survival. There are several reasons for governance to be at the forefront of SACCO debate with one being that there have been numerous institutional and legal changes with SACCOs building more and more elaborate networks and turning into shareholder- owned regulated financial institutions. Importance of corporate governance lies in the power that is given to the senior officers to run the affairs of the organization [6].

Armendariz and Morduch [7] established that SACCOs represent one of the most important sources of financing in developing countries and over the last few years SACCOs have experienced the tremendous growth all over the world with their importance increasingly being recognized by academics since they are also increasingly contributing an active role in the micro finance market today.

According to Akinwumi [8] cooperative sector provides the best alternative than all other economic groupings and schemes suggesting that they need to be formalized in line with cooperative principles so that long after project interventions they still remain sustained. Ngumo [9] notes that there has been much progress in the development of SACCOs in the country in the recent years compared to 15 years ago and the future of SACCOs is very bright despite the challenges. Makori et al [10] contend that the SACOO movement in Kenya constitutes a significant proportion of about 20% of the country's savings with over 230 billion in assets and a savings portfolio estimated at ksh 190 billion.

Myers et al [11] state that firms prefer internal sources of finance over external sources due to transaction cost, agency cost and information asymmetry. According to Donaldson et al [12] all groups participate in a business to obtain profits which implies that all SACOO members have pooled their resources together for their mutual gains and these resources should be manned well by managers

Wasike [13] contends that in Kenya, cooperative governance in SACCOs has not been effectively regulated. Against this backdrop, Kabaiya [14] makes a recommendation for SACCOSs to uphold the standards and allowed practices of disclosure with their ranks. To this regard SACCO society's regulatory authority (SASRA) and the ministry of cooperative should always ensure adherence of the requirements for publishing accounts, appointment of external auditors and the availing of information to the membership with the aim of safeguarding shareholders' interest and ensure the growth of SACCOs. Wambura [15] observes that most problems facing cooperatives societies in Kenya arise from bad governance and poor economic mismanagement.

Statement of the Research problem

Good corporate governance shields a firm from vulnerability to future financial distress. Donaldson [16] opines that the governance structure of any corporate entity affects the firm's ability to respond to external factors that have some bearing on its financial performance. Demsetz and Villalonga [17] assert that good governance generates investor goodwill and confidence. Johnson et al [4] observe that cooperate governance is concerned with the structures and systems of control by which managers are held accountable to those who have a legitimate stake in an organization.

According to Muema [18] SACCOs face serious and fundamental problems in managerial as majority of members lack understanding of everything connected with the process by which a particular form of SACCO operates, failure to initiate projects for increasing revenue and inability of members including their administrators to comprehend the problems in question.

Akinwumi [8] states that poor financial management decisions, bad governance and leadership problems are critical elements that affect efficieny of cooperative movement in the whole of African countries. An Inspection report compiled by SACCO Societies Regulatory Authority (SASRA) showed that many SACCOs in Kenya have been involved in mismanagement, fraud and corrupt practices. It is against this backdrop that this study sought to assess the effect of corporate governance on performance of SACCOs in Kakamega County.

Objectives of the study

The main objective of the study was to assess the effect of corporate governance on performance of savings and credit cooperative societies in Kakamega County.

Literature Review

Corporate governance is defined by labie and mersland [19] as a system or set of mechanism by which an organization is directed and controlled in order to reach its mission and objectives. They continue to say that corporate governance describes the rules, laws and processes by which organizations are operated, regulated and controlled. They further say that excellent leadership is one of the most fundamental and critical component of corporate excellence.

They assert that corporate excellence encompasses authority, accountability, stewardship, leadership, direction and control in organization.

Claessens [20] states that corporate governance encompasses the issue of corporate social responsibility including such aspects as the dealings of the firm in respect to culture and the environment. Chaves et al [21] defined good corporate governance as one compatible with the development of the cooperative identity particularly maintaining democratic decision making principles.

Good corporate governance shields a firm form vulnerability to future financial distress. Donaldson opines that the governance structure of any corporate entity affects the firm's ability to respond to external factors that have some bearing on its financial performance. Demsetz and Villalonga [17] assert that good governance generates investor goodwill and confidence. Johnson et al [4] observe that cooperate governance is concerned with the structures and systems of control by which managers are held accountable to those who have a legitimate stake in an organization.

Agumba [22] observes that scholars assert that leaders following the good governance principle whether in SACCOs or other institutions should operate in a democratic way. On the same line Odera [23] concedes that leaders should act as stewards and agents for their clients, they should use the organization resources and make good decisions for the benefit of clients and other stakeholders. Good corporate governance promotes efficient management and so helps maintain the organizations reputation and maintain the clients' trust.

Semin [24] states that in Agency theory, a Principal delegates decision making responsibility to an agent in the case of a company. The agents are the directors/managers. The theory implies entrusting resources to the agent and in turn these agents must usually produce a report regarding the use of resources both in quantitative and qualitative manner-thus those entrusted with decision making authority and generally regarded as having a duty of accountability have to demonstrate how they managed the resources entrusted to them.

According to Branch and Baker [25] as SACCOs become larger and more complex, they require specific knowledge and skills to make a range of specialized decisions. They say that individual owners are not likely to posses the required managerial skills and technical knowledge. On the same line Fama and Jensen [26] contend that managers be hired to make critical management decisions. They further continue to say that specialization of decision management increases the organizations ability to operate in an entrepreneurial manner by hiring professional expertise.

Labie and perilleux [27] assert that corporate governance tends to be more complex in management structures of SACCOS due to their democratic principle for decision-making but also because of their ownership. They contend that there is the conflict between owners and managers. According to Hanif and Mukherjee [28] cooperative societies are usually promoted and run by people who may not have adequate education and professional background on accounting and finance. They assert that it may be extremely useful to get acquainted with the most important provisions of the relevant cooperative societies Act and rules made there under.

Research Methodology

This study adopted a descriptive research design. The population of interest for this study was heads of departments, CEOs, members of the Board of Directors and general members from each of the selected Saccos. The study utilized questionnaires to collect data. Validity of the instruments was determined by research specialists from Kabarak University to ascertain that there was adequate coverage of the content from the topic under study. To test reliability, the test-retest method was used whereby the questionnaires were administered to the same respondents twice. The data was then edited, coded and fed into the computer using the statistical package for social scientist (SPSS). Data was analyzed using descriptive statistics. The presentation of data was done using tables.

Table 1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Staff Members	60	52.63	52.63	52.63
	HODs	36	31.57	31.57	84.2
	CEOs	6	5.26	5.27	89.46
	Member BOD	12	10.52	10.53	100.0
	Total	114	100.0	100.0	

114 respondents were targeted for the study and questionnaires were administered to staff members and HODs who accounted for 84.2% of the total respondent. Of this 52.63% were regular staff members while 31.57 were Heads of departments. Those who were interviewed included CEOs (5.27%) and board members (10.53%). The researcher managed to realize a questionnaire response rate of 100% for all respondents to whom questionnaires were administered to or interviews conducted.

Table 2: Gender of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	73	64.03	64.03	64.03
	Female	41	35.97	35.97	100.0
	Total	114	100.0	100.0	

The frequency table shows that male respondents were 64.03% while female respondents were 35.97%. The gender representation indicates that there are still low levels of employment of females in SACCO institutions in Kakamega County.

Table 3: Position in the Sacco

Department worked in		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Credit section	18	18.62	18.62	18.62
	Finance	16	16.67	16.67	35.29
	ICT	8	8.82	8.82	44.11
	FOSA	16	16.67	16.67	60.78
	Marketing	15	15.68	15.68	76.46
	Auditing	23	23.52	23.54	100
	Total	96	100.0	100.0	

The researcher also sampled the representation of the respondents as per the departments that they were working in and the position they held. The sampled population for this variable was 96 excluding the 12 members of the board of governors and 6 CEOs. The sections from which the data was collected included credit section, finance, ICT, FOSA, marketing and Audit sections. Findings showed that most data was collected from the Audit section (23.54%). The least department in terms of respondents was ICT with only 8% of the respondents.

Table 4: Highest academic qualification attained

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Diploma	46	40.35	40.35	40.35
	Degree undergraduate	32	28.07	28.07	68.42
	Masters	15	13.15	13.15	81.57
	Others (o-level)	21	18.43	18.43	100.0
	Total	114	100.0	100.0	

The table above shows that majority of the respondents hold a Diploma certificate (40.35%) followed by undergraduate workers at 28%, masters at 13% while those with other grades comprised 18%. This shows that although most of the respondents meet minimum qualification for hoIding their positions, there is need for staff members to pursue further education to improve their skills and competen

Table 5: Duration of working

Duration of serving in the Sacco					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 5 years	53	46.49	46.49	46.49
	6-10 years	38	33.33	33.33	79.82
	10 - 15 years	19	16.67	16.67	96.49
	16 years and above	4	3.51	3.51	100
	Total	114	100.0	100.0	

As per the table above, most workers have been with the institution for less than 5 years followed by those who have worked with the institution for between 6-10 years. This shows that cumulatively majority of the respondents had worked with the institution for less than 10 years.

Table 6: Role of manager in corporate governance showing mean and standard deviation

	N	Min	Max	Mean	Std. Deviation
Consideration of the role of manager in good governance	96	0	4	2.00	1.20
Manager understands principles of good governance	96	0	4	2.56	1.491
Bad governance is associated with poor performance	96	0	4	2.27	1.159
Structures are in place for holding managers accountable	96	0	4	2.86	1.085
Managers identify changes that have occurred in the firm	96	0	4	2.53	0.677
Managers are competent in assessing sacco performance.	96	0	4	3.07	.878
There is preference for quality leadership at the sacco	96	0	4	2.00	.977
Valid N (listwise)	95				

The table above shows that there is moderate consideration of the role of manager in good governance as the mean is 2.00. On whether managers understand principles of good governance the table shows that the respondents are slightly varied in their opinions (sd=1.491) but overall the respondents are not sure with the managers' competence in assessing sacco performance. This shows that the managers have not been fully assessing the sacco performance.

Table 7: The extent of management assessment on SACCO performance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No extent at all	11	11.45	11.45	11.45
	Little extent	22	22.91	22.91	34.36
	Moderate extent	42	43.75	43.75	78.11
	Great extent	18	18.75	18.75	96.86
	Very great extent	7	3.12	3.12	100
	Total	96	100.0	100.0	

The above findings demonstrate that management assessment of Sacco governance has a significant effect on Sacco's performance [29-35].

Conclusions

The study concluded that managers were not fully assessing the performance of the SACCOS. The study also concluded that there was moderate consideration on the role of manager in good governance of the SACCOS.

Recommendations

To ensure the effectiveness of SACCOS, managers should continuously monitor and assess the SACCO performance. More emphasis and consideration should be put on the role of manager in good governance.

References

1. Ministry of Co-operative Development 2007 Annual Review Report.
2. Tony E (2003) History of Saccos in Kenya Economics.
3. Birchall J (1997) The international co-operative movement Manchester: Manchester University Press.
4. Johnson G, Scholes K, Whittington R (2008) Exploring Corporate Strategy, London, Pearson Education Limited publishers
5. Thomsen S (2008) An Introduction to Corporate Governance- Mechanisms and Systems. Copenhagen :DJOF Publishing.
6. Lynch R (2009) Strategic Management, London, Pearson Education Publishers.
7. Armendariz B, Morduch J (2005) The Economics of Microfinance MIT Press, Cambridge Massachusetts, London.

8. Akinwumi U (2006) Re-engineering Cooperative Societies for Sustainable Small and Medium Enterprises in Nigeria. Africa Journal, 4(2):23-24.
9. Ngumo M (2006) Cooperative Movement in Kenya: The Eagle that Won't Fly. A Publication of the Cooperative Bank of Kenya,15(2):55.
10. Makori J,Munene C, Muturi W (2013) Challenges Facing Deposit Taking SACCOs. Regulatory Compliance in Kenya. Interdisciplinary Journal of Contemporary Research in Business, Vol. 4, No.12.
11. Myers SC, Majiluf N (1984) Corporate financing and investment decisions when firms have informations that investors do not have. Journal of Financial Economics, 13:221.
12. Donaldson L, Preston LE (1995) The Stakeholder Theory of Corporation: Concepts, Evidence and Implications. Academy of Management Review, 20(1):65-91.
13. Wasike JT (2012) Corporate governance practices and performance at Elimu Sacco in Kenya. MBA Project. University of Nairobi, Kenya.
14. Kabaiya FM (2012) The relationship between corporate governance practices and financial performance of Saccos in Murang'a County. Master thesis. University of Nairobi, Kenya.
15. Wambua KP (2011) The Effects of corporate governance on Saccos financial performance in Kenya.MBA Thesis KCA university, Kenya.
16. Donaldson W (2003) Congressional testimony concerning the implementation of the Sarbanes-Oxley Act of 2002", available at:www.sec.gov/news/testimony/090903tswhd.
17. Demsetz H, Villalonga B (2002) Ownership structure and corporate performance, Journal of Corporate Finance, Vol. 7
18. Muema PM (2016) Eeffects of external auditing on financial performance of savings and credit cooperative societies. International Journal of Business and Management, 4(5):61-84.
19. Labie & Mersland R (2011) Corporate Governance, challenges in micro finance, credit unions.
20. Claessens S (2003) Corporate Governance and Development Global Corporate Governance Forum Focus 1 Washington: World Bank.
21. Chaves R, SolerR, Sajardo A (2008) Co-operative governance; the case of Spanish co-operative, journal of cooperative studies, University of Valencia, Spain
22. Agumba N (2008) Effectiveness of the SACCO Governance Model. Presented By KUSCCO Limited, Nairobi-Kenya at AFRACA Microfinance Conference-Benin, 2008.
23. Odera O (2012) Corporate Governance Problems of Savings, Credit and Cooperative Societies. International Journal of Academic Research in Business and Social Sciences, 2(11).
24. Semiu A (2011) Stakeholders' Perception of Audit Performance Gap. Department of Accounting, University of Lagos, Nigeria.
25. Branch B, Baker C (1998) Overcoming Governance Problems: What does it take? Paper presented at the Inter-American Development Bank (IDB) Conference on credit unions, Washington DC: IDB.
26. Fama E, Jensen M (1983) Separation of Ownership and Control. Journal of Law & Economics 26 :301-325.
27. Labie, M. & Périlleux, A. (2008). Corporate Governance in Microfinance: Credit Unions, Working Papers CEB.
28. Hanif M, Mukherjee (2000) Modern Accountancy, 2nd ed. New Delhi: Tata McGraw-Hill publishing company.
29. Daily CM, Dalton DR, Canella AA (2003) Corporate Governance: Decades of Dialogue and Data. Academy of Management Review 28(3):371-382.
30. Davis JH, Schoorman, FD, Donaldson L (1997) Toward a Stewardship Theory of Management. Academy of Management Review 22:20-47.
31. Donaldson L, Davis J (1991) Stewardship Theory or Agency Theory: CEO Governance and Shareholder Returns. Academy Of Management Review 20(1):65.
32. Lukwago J (2012) Corporate Governance and Financial Performance/Growth of Microfinance Institutions in The Case of Microfinance Institutions under the Association of Microfinance Institutions Uganda. Unpublished Bachelor Thesis, University of Makerere.
33. SASRA Report (2012) Performance of SACCOs**.** Nairobi: SASRA
34. USDA (1997) An Introduction to Cooperatives. Cooperative Information Report 55.
35. Zyi G (2015) Saving and Credit Cooperatives: A New Conceptual Approach.https://www.google.co.ke/#q=origin+of+savings+and+credit+cooperatives