

**THE EFFECT OF CORPORATE GOVERNANCE ON DEBT MANAGEMENT OF  
DEPOSIT TAKING SAVINGS AND CREDIT COOPERATIVES IN KENYA**

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Requirement of the Award of the Degree of Masters of Business Administration of  
Egerton University**

**EGERTON UNIVERSITY**

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## DECLARATION AND APPROVAL

### DECLARATION

This research project is my original work and has not been presented to any other University or Institution of Higher Learning for examination.

Sign: -----

Date: -----

**Violet Kemunto Nyamari**

CM 11/00696/12

### APPROVAL

This research project has been submitted for examination with my approval as the university supervisor

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## **DEDICATION**

This study is dedicated to my loving husband Reuven Harush who gave me the moral and financial support throughout the process I also dedicate this work to my son David Harush for his enormous support.

## **ACKNOWLEDGEMENT**

I would like to thank Almighty God as my source of all inspiration. Lecturers at Egerton University MBA programme in Faculty of commerce for agreeing to supervise this research project, I am also grateful to my Supervisor Mr Kefah Basweti, lastly but not least I express my sincere thanks to my family for giving the invaluable support to concentrate on this research that was too involving in terms of time and resources.

## ABSTRACT

This study sought to examine the effect of corporate governance on debt management of deposit taking Savings and Credit Cooperatives (SACCOs) licensed by Sacco's Societies Regulatory Authority (SASRA) in Kenya. The objectives of the study was to, determine the effect of board composition on debt management, to establish the effect of CEO duality on debt management, to establish effect of director's remuneration on debt management, to determine effect of board size on management of debt, and establish effect of board meeting on debt management. The study employed a descriptive research design. The target population for this study was 135 deposit taking SACCOs licensed by SASRA in Kenya for the period 2011- 2014. The study employed a purposive sampling method and used a sample size of Twenty seven (27) SACCOs that have been in operation and registered by SASRA since 2011 to 2014. Secondary data for this study was collected from the financial statements reported to SASRA for the period of 2011-2014. Collected data was analyzed using both descriptive and inferential statistics. Mean and standard deviations was used as measures of central tendencies and dispersion respectively. Correlation analysis was used to analyze the degree of relationship between the variables in the study. Further, regression analysis was used to describe the relationship between corporate governance and debt management. Analyzed data was presented using graphs, tables and charts. The findings show that corporate governance explains only a small proportion of changes in debt management as shown by lower coefficient of determination ( $R^2$  of 0.119 for Model 1, 0.164 for Model 2 and 0.030 for Model 3). ANOVA tests and regression analysis of the three models indicated that the impact of corporate governance on debts management as measured by debt ratio, debt/equity ratio and interest cover was not statistically significant at 0.05 level of significance (Model 3,  $p = 0.8154$  with an F value of 0.44, Model 2,  $p = 0.5463$  with an F value of 0.82. Model 1,  $p = 0.7233$  with an F value of 0.57). Therefore, this study fails to reject the null hypothesis that that there is no significant effect of corporate governance on debt management of Deposit taking Sacco's in Kenya licensed by SASRA.

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### **LIST OF ABBREVIATIONS AND ACRONYMS**

<b>ATM</b>	:	Automated Teller Machine
<b>CEO</b>	:	Chief Executive Officer
<b>CMA</b>	:	Capital Markets Authority
<b>DTS</b>	:	Deposit Taking SACCOs

<b>FOSAs:</b>	Front Office Service Activities
<b>KFA :</b>	Kenya Farmers Association
<b>KNFC :</b>	Kenya National Federation of Cooperatives
<b>OECD:</b>	Organization for Economic Cooperation and Development
<b>SACCOs:</b>	Savings and Credit Cooperatives
<b>SASRA:</b>	Sacco Societies Regulatory Authority
<b>SMEs :</b>	Small and Medium Enterprises
<b>USAD:</b>	United States Academic Decathlon

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# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the study**

Most of the problems bedeviling co-operatives arise from bad governance and poor economic management. While leaders direct and control the organizations, and managers run them, members have authority to demand and enforce good governance in their organizations. Corporate governance principles seek to ensure that leaders act in the best interest of the organization that they lead in order to achieve the objectives for which they were founded. As the world moves towards this governance approach, co-operative societies are no exception. If co-operatives have to remain commercially viable and sustainable enterprises for socio-economic development, they must embrace good corporate governance. Co-operatives are governed and managed by elected committees. These committees are entrusted with the management of societies on behalf of members and employ managers and staff to carry out the day-to-day functions of the societies (Wambua, 2011)

Savings and Credit Cooperative (Sacco's) have been playing a key role in improvement of socio economy of citizens of different countries in the world. The Sacco's members are able to save and access cheaper credit. Members are able to expand their businesses with the ultimate goal of elevating their living standards. Thus, corporate governance in cooperative societies is necessary to promote better standards of management through observance of core principles, values and procedures. The success of a cooperative enterprise is positively related to effective leadership (Klapper& Love, 2002).

Corporate governance is defined as the process and structure used to direct and manage business affairs of the Company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholder long term value while taking into account the interest of other stakeholders (CMA Act, 2002). Some SACCOs have faced liquidation because the mechanisms and structures put in place were unethical leading to their collapse sinking with members' money. Deposit-taking SACCOs are prerequisites for savings mobilization among the low income households who have limited access to mainstream commercial banks. They represent a major element of the financial system and provide services to a large number of low income households in Kenya.

Deposit taking SACCOs has a unique advantage in that their clients are also shareholders. They should therefore undertake aggressive deposit mobilization, creation of internal incentives to attractive savings, insurance programmes to cover member's savings and loans. Good corporate governance in these SACCOs would ensure better performance. Good corporate governance practice has been suspected to be the driver of survival of SACCOs in Kenya. Therefore this study is sought to investigate the impact of corporate governance on debt management of deposit taking SACCOs in Kenya.

## **1.2 Statement of the problem**

Corporate governance plays a key role in overall economic performance of an institution. The way management and control are organized in a company affects the company's development and also affects how a company manages its debts. Management of debt protects a firm from future financial distress and enables the firm to be in a position to meet to financial requirement of its members. The relevance of corporate governance remains fairly established following the collapse of several organizations. It is acknowledged to play a major role in the management of organizations in both developing and developed countries (Mulili and Wong, 2011).Velnampy (2013) point's outs that corporate governance is about putting in place the structure, processes and mechanism that ensure that the firm is being directed and managed in a way that enhances long term shareholder value through accountability of managers and enhancing organizational performance. Good corporate governance shields a firm from vulnerability to future financial distress (Bhagat and Jefferis, 2002) Hence enabling a firm to be in a position to meet to its debtors financial requirement at all times. In Kenya several studies have been conducted on corporate governance but have reveled mixed results. Otieno (2013) established that board meeting frequency, audit committee size and audit committee meeting frequency have positive relations to the financial performance. Other hand, Wasike (2013) observed that the size of the board has an impact on the quality of corporate governance and a large board could be dysfunctional and that smaller board sizes are better than larger ones because large boards since they may be plagued with free rider and monitoring problems. However, despite the great potential of cooperative societies as agents for national development in the country, they have performed poorly. This poor performance is attributed in a nutshell, to poor corporate governance practices by the management committees or other bodies entrusted with the responsibility of governing the cooperative

societies,(Anyanga,2014).This therefore necessitated the need to investigate the effect of corporate governance on debt management of deposit taking Sacco's in Kenya .

### **1.3 Main Objective**

To examine the effect of corporate governance on debt management of deposit taking Savings and Credit Co-operatives societies in Kenya.

#### **1.3.1 Specific Objectives**

- i. To determine effect of board composition on debt management of deposits taking SACCOs.
- ii. To establish effect of CEO duality on debt management of deposits taking SACCOs.
- iii. To evaluate the effect of directors remuneration on debt management of deposits taking SACCOs.
- iv. To determine the effect of board size on debt management of deposit taking SACCOs.
- v. To establish the effect of board meetings on debt management of deposit taking SACCOs.

### **1.4 Research Hypothesis**

Ho<sub>1</sub>: Board composition has no significant effect on debt management of deposit taking Savings and Credit Co-operatives societies licensed by SASRA in Kenya.

Ho<sub>2</sub>: CEO duality has no significant effect on debt management of deposit taking Savings and Credit Co-operatives societies licensed by SASRA in Kenya.

Ho<sub>3</sub>: Directors remuneration has no significant effect on debt management of deposit taking Savings and Credit Co-operatives societies licensed by SASRA in Kenya

Ho<sub>4</sub>: Board size has no significant effect on debt management of deposit taking Savings and Credit Co-operatives societies licensed by SASRA in Kenya

Ho<sub>5</sub>: Board meetings have no significant effect on debt management of deposit taking Savings and Credit Co-operatives societies licensed by SASRA in Kenya

H<sub>0</sub>: Corporate governance practices have no significant effect on debt management of deposit taking Savings and Credit Co-operatives societies licensed by SASRA in Kenya.

### **1.5 Scope of the Study**

This study was conducted to determine impact of corporate governance on debt management of deposit taking Savings and Credit Co-operatives societies licensed by SASRA in Kenya. The study looked into board composition, CEO duality, director's remuneration, board size, board committee and debt management practices. This study was carried out between September 2014 and December 2015. The study targeted 135 deposit taking Sacco's out of which 27 were used the study since they are ones that had complete information for the four years of the study.

### **1.6 Justification of the Study**

Corporate governance is increasingly becoming important in organizations as an approach of improving organizational performance. Lack of sound corporate governance has led to poor performance of organizations throughout the world as well as suppressing sound and sustainable economic decisions especially on how debts is managed. The study is important to scholars in management and hence will contribute positively to the academic knowledge. The study will be a basis of reference and will activate more research in the study area by academicians and the business community in Kenya and the world.

### **1.7 Significance of the study**

This study aimed at investigating the relationship between corporate governance and management of debt of deposit taking Savings and Credit Cooperatives in Kenya. The study is valuable to the various stakeholders in cooperative movement in Kenya and beyond. This study will enable the management to identify and determine how various aspects of corporate governance practices affect the operations of SACCO societies in Kenya. On the other hand it will enable them to determine the extent to which these factors affect operations of other SACCOs in Kenya. This study will provide information to potential and current scholars with regard to the relationship between corporate governance and leverage of deposit taking SACCO societies. In addition, researchers would be able to gain additional knowledge from the study given that it is focusing on a several SACCOs that involve in deposit taking.



## **1.8 Limitations and Delimitations of the Study**

The major limitation of the study was lack of qualitative evidence on the impact of corporate governance on debt management. The small size of the sample could have limited confidence in the results and this might limit generalizations to other situations. To delimit the limitations, on the first limitation the study put reliability of the available data on published financial statements. On the second limitation on sample size it was not possible to take a complete census hence this could have negative consequence on results and conclusions.

## **1.9 Operational Definitions of Terms**

**Corporate governance-** It is a system by which corporations are directed and controlled. It specifies the distribution of rights and responsibilities among different participants in the corporation and specifies the rules and procedures for making decisions in corporate.

**Creditor-**It is an expression used in accounting to specify a party who has delivered a product, service, or loan, and is owed money by one or more debtors. It is an entity, a company or a person of a Legal nature that has provided goods, services or monetary loan to a debtor.

**Debt Management** –It is any strategy that helps a debtor to repay or otherwise handle debts better. Debt management may involve working with creditors to restructure debt or helping the debtor manage payments more effectively.

**Debtor-**is an entity that owes a debt to another entity. The entity may be an individual, a firm or government.

**Shareholder-**is an individual or company that owns at least one share in a company.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This section presents a review of literature, both theoretical and empirical, and conceptual frameworks for the proposed study. The chapter begins with History of Cooperative societies in Kenya.

#### **2.2 History of Cooperative Societies in Kenya**

The first co-operative in Kenya was initiated by the European settlers in the Rift Valley in 1908. The cooperative was called Lubwa Farmers' Cooperative Society. It was not until 1931 when the cooperative societies' ordinance became law that these societies could formally be registered as cooperatives. The first society to be registered under the new Act was the Kenya Farmers Association (KFA) which started as a company in 1923. A new ordinance was then passed in 1945 and a commissioner of co-operative was appointed the following year. By independence time, there were over 600 primary co-operatives in Kenya. Kenya National Federation of Cooperatives (KNFC) was formed in 1964, and in 1966 a new Act was passed under cap 490 of the laws of Kenya (Maina, and Kibanga, 2004).

SACCOs have registered tremendous growth since mid-1970s and have currently achieved an average growth rate of 25 percent per year in deposits and assets. SACCOS have grown tremendously and currently have about 3.7million members. The 230 SACCOs with FOSAs have diversified into specialized bank- like activities which include deposit taking, saving facilities, debit card (ATM) and money transfers both local and international (Ministry of Cooperative Development and Marketing, 2007).By the year 2010 there were 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 Ksh 230 billion, which is about 31 percent of the national saving and granted loans to the tune of Ksh 210 billion (Ministry of Industrialization and enterprise development ,2016).

SACCOs play an important role of serving the financing requirements need of households, small and medium enterprises (SMEs). They encourage individuals to save thereby creating or accumulating capital which contribute to economic development of the country. Co-operatives

are governed and managed by elected committees. These committees are entrusted with the management of societies on behalf of members and employ managers and staff to carry out the day-to-day functions of the societies. In such instances, the leadership provides the guidance and delegates the powers of implementation to the staff, leaving them to act as members' agents.

Since the co-operative agents are custodians, trustees and stewards of the societies, they are accountable and answerable to members, and are expected to be efficient, effective, responsible, responsive, honest, faithful, diligent and prudent. The firm performance of the SACCOs is greatly affected by the corporate governance practices which are attributed to its committees, directors, CEOs and other stakeholders. It is therefore worth studying the relationship that exists between corporate governance and the performance of the deposit taking SACCOs in Kenya. By December 2013 there were over 6,000 registered non-deposit taking SACCOs in Kenya, 1,995 of which were active. (Active in this context means the SACCOs that filed their audited financial statements with the Commissioner for Cooperative Development as a legal requirement).

By close of 2013, there were 215 deposit taking SACCOs (DTS) out of which one hundred and thirty-five (135) were licensed by SASRA. The remaining 80 SACCOs were still working to satisfy the licensing requirements as they have up to June 17th 2014 to comply or cease deposit taking Sacco business. The 215 DTS account for 78% of the total assets and deposits of the entire Sacco sub-sector. Further, they command 82% of membership in the Sacco industry.

### **2.3 Regulations of Cooperatives in Kenya**

SACCO societies have for a long time been managed under the co-operative societies Act cap 490. However, the rapid growth of the SACCO sub-sector created the need for SACCO specific legislation hence the enactment of the SACCO societies Act 2008 to specifically regulate and supervise their operations. The enactment of the SACCO societies Act, made provisions for licensing, regulation, supervision, promotion of SACCO societies and establishment of the SACCO societies Regulatory Authority (SASRA).

Under the Act, SASRA was given the mandate to provide the guidelines for protection of member's deposits by creating a deposit guarantee fund. The act is intended to enhance transparency, accountability and good corporate governance in the management of SACCOs.

The cooperative movement played a greater role in lobbying for the enactment of the SACCO societies Act 2008, which reflects the wishes and aspiration of the SACCO movement.

SASRA was enacted in to full force in the year 2009. SACCOs operating FOSAs were given up to July 2011 to conform to these regulations. SASRA is now in charge of licensing deposit taking SACCOs, regulating and supervising the SACCOs, holding and managing the general fund of the Authority and levy contributions according to the Act. Basically, SASRA is in charge of licensing, supervising and regulating SACCOs that operates FOSAs. Under the act, SACCOs are required to comply with and maintain minimum capital adequacy requirements, maintain minimum requirement of liquid assets of its member borrowings, engage in businesses as prescribed by authority, conform to financial reporting as per the society.

The Act and regulation include clear standards of capital, liquidity and extend of external borrowing, asset categorization and provisioning, maximum loan size and insider lending. SACCOs are also subject to adhering to monthly (capital adequacy, liquidity and deposits) reporting, quarterly (risk classification of assets and loan loss provisioning investment returns, financial performance) and annual (audited financial statements) reporting requirements to SASRA.

The procedures to identify financial institutions approaching financial distress vary from country to country, they are designed to generate financial soundness ratings and are commonly referred to as the CAMEL rating system (Gasbarro et al.2002).In Kenya the central bank applies the CAMEL rating system to assess the soundness of financial institutions which is an acronym for Capital Adequacy, Asset Quality, Management Quality, Earnings and Liquidity (CBK, 2010).

According to SASRA, CAMEL as an offsite evaluation tool has been adopted to identify SACCOs that are financially vulnerable and therefore need increased supervisory attention. The rating scale is from 1 to 5 with 1 being the strongest and 5 being the weakest. SACCOs with rating of 1 are considered more stable, those with 2and 3 are considered average and those with rating of 4or 5 are considered below average and are monitored to ensure their viability.

## **2.4 Corporate Governance**

Governance is the manner in which power is exercised in the management of economic and social resources for sustainable human development and it has assumed the critical importance in these days of political pluralism. It is vital ingredient in the maintenance of dynamic balance between the need for order and equality in society, the efficient production and delivery of goods and services, accountability in the use of power, the protection of human rights and freedoms, and the maintenance of an organized corporate framework within which each citizen can contribute fully towards finding innovative solutions to common problems.

According to Shleifer and Vishny, (1994) corporate governance is defined as manners in which the power of a corporation is exercised in the stewardship of the corporation's total portfolio of the assets and resources with the objectives of maintaining and increasing shareholders value and satisfaction of other stakeholders in the context of its corporate mission. It is concerned with creating a balance between economic and social goals and between individual and communal goals while encouraging efficient use of resources, accountability in the use of power and stewardship and as far as possible to align the interest individuals, corporations and society. The Cadbury committee (1992) defines corporate governance as the system by which companies are directed and controlled. Corporate governance is about supervising and holding to account those direct and control management. Traditionally, corporate governance has been associated with large companies and the existence of Agency problem.

Agency problem arises as the results of the relationship between shareholders and managers. It comes about when members of an organization have conflict of interest within the firm. This is because of the separation of control of the firm. Well defined and enforced corporate governance provides a structure that at least in theory provides works for the benefits of everyone concerned by ensuring the firm adheres to the accepted ethical standards. Various theories have been advanced on corporate governance which includes agency theory, stewardship theory and stakeholders' theory of which agency theory has had the greatest influence. It holds that managers will not act to maximize the returns to shareholders unless appropriate governance structures are implemented in the large corporation to safeguard the interests of shareholders (Jensen and Meckling, 1976).

## **2.5 Components of corporate governance**

Governance is concerned with the process, systems, practices and procedures (formal and informal rules) that govern institutions, the manner in which these rules and regulations are applied and followed, the relationships that these rules and regulations determine or create and the nature of those relationships. Essentially, governance addresses the leadership role in the institutional framework. The concept of corporate governance evokes the question of corporate performance and higher returns in the case of companies complying with certain rules Brownbridge (2007). 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).

### **2.5.1 Board composition**

It is suggested that higher proportion of non-executive directors in the board helps to reduce the agency cost. Kee et al. (2003) and Hutchinson and Gul (2003) support this view by showing that that higher levels of non-executive directors on the board weaken the negative relationship between the firm's investment opportunities and firm's performance. However, de Jong et al. (2002), Coles et al. (2001), and Weir et al. (2002) dispute it by stating that there is no significant relationship between non-executive directors' representation and performance. In contrast, in the U.K., Weir and Laing (2000) find a negative relationship between non-executive director representation and performance.

Enhanced director independence is intuitively appealing because a director with ties to a firm or its CEO would find it more difficult to turn down an excessive pay packet challenge the rationale behind a proposed merger or bring to bear the skepticism necessary for effective monitoring Young et al (2003). In the same vein, Hermalin and Weisbach, (1991); Bhagat and Black (2002) found no correlation degree of board independence and firm value, controlling for a variety of other governance variables, including ownership characteristics, firm and board size and industry.

### **2.5.2 Director's Remuneration**

The empirical work shows that the role of directors' remuneration in coordinating managers' and investors' interests is limited Hutchinson and Gul (2003) report that management share ownership and Directors' remuneration weaken the negative relationship between the firm's investment opportunities and firm's performance. In contrast, Coles et al. (2001) do not find any contribution to performance by managerial ownership. Lisenga (2006) found a positive relationship between listed firms performance and frequency of board meeting, ratio of outside director to total director, percentage of insider share ownership and executive compensation.

### **2.5.3 CEO duality**

Weir & Laing, 2001 observes that Duality occurs when one individual holds the two most powerful posts of Chief Executive Officer (CEO) and Board chairman. The democratic election of the Board of Directors may result into inability to distinguish between roles of decision making and decision-monitoring creating confusion in credit unions (Branch & Baker, 1998). On the other hand Defond and Hung, 2004 observes that CEO can follow and incorporate governance provisions in a firm to improve its value. CEO duality plays an important role in affecting the value of a firm. According to Alexander et al 1993, a single person holding both the chairman role and CEO role improves the value of a firm as the agency cost between the two is eliminated. On the negative side, CEO duality lead to worse performance as the board cannot remove an underperforming CEO and can create an agency cost if the CEO pursues his on interest at the cost of the shareholders (White and Ingrassia, 1992)

### **2.5.4 Board size**

The board is vested with responsibility for managing the firm and its activities. There is no agreement over whether a large or small board does this well. According to Yermack 1996, larger boards are found to be slow in decision making this will in turn have an impact on decision concerning debt management. The monitoring expenses and poor communication in a larger board has also been seen as a reason for the support of small board size (Jensen, 1993). However, it is believed that firms with larger board size have the ability to push the managers to pursue lower costs of debt. Studies by Wen et al. (2002) and Abor (2007) both reported evidence in support of a positive relationship between board size and leverage. Therefore, limiting board size to a particular level is generally believed to improve the performance of a firm because the benefits by large boards of increased monitoring are outweighed by the poorer communication, decision making and management of larger groups. Mak and



Yaunto(2003) found out that firm valuation is highest when board has 5 directors, a number considered relatively small.

### **2.5.5 Board meeting.**

Otieno, (2013) established that Board meeting frequency, Audit Committee size and Audit Committee Meeting Frequency have positive relations to the financial performance. Therefore, number of board meetings plays an important role in the performance of an institution. The frequency of the board meetings and decisions made during the meeting on how to improve the management of organizations is a very important factor on the general performance of an institution.

## **2.4 Theories of corporate governance**

Various theories have been advanced on corporate governance which includes agency theory, stewardship theory and stakeholders' theory of which agency theory has had the greatest influence. It holds that managers will not act to maximize the returns to shareholders unless appropriate governance structures are implemented in the large corporation to safeguard the interests of shareholders (Jensen and Meckling, 1976).

### **2.4.1 Agency Theory**

It was first expounded by Alchian and Demsetz (1972) and was further developed by Jensen and Meckling (1976). In this theory, shareholders who are the owners or principals of the company hire the agents to perform work. They delegate the running of business to the directors or managers who act as agents to the shareholders (Clarke, 2004). According to this theory the shareholders expect the managers (agents) to make decisions in the principal's interest. But on the contrary, the agents may not necessarily make decisions in the best interests of the shareholder (Padilla 2000). Indeed, agency theory can be employed to explore the relationship between the ownership and management structure. Agency theory is a control-based theory in that managers, by virtue of their firm-specific knowledge and managerial expertise are believed to gain an advantage over firm owners who are largely removed from the operational aspects of the firm. As managers gain control in the firm, they may be able to pursue actions that benefit themselves and not the firm owners. Fama and Jensen (1983); Jensen and Meckling (1976) states that the potential for this conflict of interest or battle for control necessitates monitoring mechanisms designed to protect shareholders as owners of the firm. However, where there is a separation, the agency model can be applied to align the goals of the management with that of

the owners. The model of an employee portrayed in the agency theory is more of a self-interested, individualistic and are bounded rationality where rewards and punishments seem to take priority (Jensen & Meckling, 1976)

#### **2.4.2 Stakeholder Theory**

Wheeler et al, (2002) argued that stakeholder theory was derived from a combination of the sociological and organizational disciplines. Stakeholder theory can be defined as any group or individual who can affect or is affected by the achievement of the organization's objectives. Stakeholder theorists suggest that managers in organizations have a network of relationships to serve – this include the suppliers, employees and business partners. And it was argued that this group of network is important other than owner-manager-employee relationship as in agency theory. On the other hand, Sundaram & Inkpen (2004) contend that stakeholder theory attempts to address the group of stakeholders deserving and requiring management's attention. Stakeholders protected by liquid asset markets are uninterested in all but the most substantial of abuses.

According to Keasey et al (1997) Incentive mechanisms, such as share options, are means through which managers can legitimize their abnormal overpayment. 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). Therefore, the only restraint on executive pay seems to be the modesty of executives themselves, and the creation of so-called independent remuneration committees by large companies is not effective. According to (Kay and Silberston, 1995) the independence is generally a sham, not for restraining excess of pay, but for justifying it. The supporters of this model do not believe that the main lines of corporate governance reform, such as non-executive directors, shareholder involvement in major decisions and fuller information about corporate affairs, are suitable monitoring mechanisms (Kay and Silberston, 1995, p. 94). Instead, they propose statutory changes in corporate governance, under which hostile takeovers are not possible to effect, since ownership of shares no longer brings the right to appoint executive management.

### 2.4.3 Shareholder Theory

There are two main theories of shareholder-oriented governance: the principal-agent or finance model and the myopic market model. The principal-agent model starts from an assumption that the social purpose of corporations is to maximize shareholders' wealth (Coelho et al., 2003; Friedman, 1970). The principal-agent model regards the central problem of corporate governance as self-interested managerial behaviour in a universal principal-agent relationship. Agency problems arise when the agent does not share the principal's objectives. Furthermore, the separation of ownership and control increases the power of professional managers and leaves them free to pursue their own aims and serve their own interests at the expense of shareholders (Berle and Means, 1932). There are two problems occurring in the agency relationship with which agency theory is concerned. The first is that because it is difficult or expensive for the principal to verify what the agent is actually doing, the principal cannot verify that the agent has behaved appropriately.

The second problem is that the principal and the agent may prefer different actions because of the different attitudes toward risk (Eisenhardt, 1989). Those two problems bring about a particular type of management cost incurred as principals attempt to ensure that agents act in principals' interests: "agency cost" (Jensen and Meckling, 1976). To solve those problems, agency theory must determine the most efficient contract governing the principal-agent relationship and an optimal incentive scheme to align the behaviour of the managers with the interest of owners. While the principal-agent model agrees upon the failure of corporate internal control, it denies the inherent failure of market mechanisms, insisting that markets are the most effective regulators of managerial discretion, the so-called "efficient market model" (Blair, 1995). The myopic market model shares a common view with the principal-agent model that the corporation should serve the shareholders' interests only, but criticizes that the Anglo-American model of corporate governance because of "competitive myopia"

(Hayes and Abernathy, 1980) and its consequent pre-occupation with short-term gains in return, profit, stock price and other performance measures induced by market pressures. The financial markets often force managers to behave in a way divergent from the maximization of long-term wealth for shareholders (Blair, 1995).

The myopic market view contends that corporate governance reform should provide an environment in which shareholders and managers are encouraged to share long-term performance horizons. Shareholders' loyalty and voice should increase, whereas the ease of

shareholders' exit should reduce. Policy proposals for the reform include the encouragement of “relationship investing” to lock financial institutions into long-term positions, restrictions on the takeover process and on voting rights for short-term shareholders, and the empowerment of other groups such as employees and suppliers that have long-term relationships with the firm (Keasey et al., 1997).

## **2.7 Debt Management**

Debt management builds on capital structure theory which starts with Modigliani and Miller (1958) capital structure irrelevance proposition, showing that the firm value and weighted average cost of capital is unaffected by the financial structure of the firm. However, Modigliani and Miller’s (1958) perfect market assumptions: such as no transaction costs, no taxes, symmetric information and identical borrowing rates, and risk free debt, are contradictory to the operations in the real world. Management of debt is very important to every corporation. According to Healy et al, (2003) the Enron scandal, revealed in October 2001, eventually led to the bankruptcy of the Enron corporation, an American energy company based in Houston, Texas. Enron Corporation was formed in 1985 by Kenneth Lay after merging with Houston natural gas and Inter north. Several years later Jeffrey Skilling was hired and he developed a staff of executives that by the use of accounting loopholes, special purpose entities and poor financial reporting were able to hide billions of dollars in debt from failed deals and projects

Enron’s complex financial statements were confusing to shareholders and analysts. In addition, its complex business model and unethical practices required that the company use accounting limitations to misrepresent earnings and modify the balance sheet to indicate favourable performance. The combinations of these issues later resulted in the bankruptcy of the company and the majority of them were perpetuated by the indirect knowledge or direct action of executives (Healy et al, 2003). Since Kenneth Lay was serving as a chairman and he was approving every actions of Jeffrey Skilling. Skilling therefore focused on meetings and Wall Street expectations, advocated the use of Mark-to-Market accounting (accounting based on market value, which was then inflated) and pressured Enron executives to find new ways to hide its debt this then led to bankruptcy of Enron corporation (Bratton and William w,2002).

## **2.7.1 Measures of debt management**

Debt ratios fall under the realm of measuring and understanding financial risk. Financial risk ratios examine a company's ability to meet all liability obligations and the impact of these liabilities on the balance sheet. Debt ratios help you gauge if a company can meet future financial obligations such as interest and debt payments.

### **2.7.1.1 Debt Ratio**

The debt ratio is also called the debt-to-assets ratio. This measures a company's use of leverage: It tells you the percentage of debt used to finance assets. Assets can include both tangible and intangible resources. On the liability side, this ratio normally includes both short- and long-term debt. The formula is total liabilities divided by total assets. A lower debt ratio indicates that a company relies less on borrowing as compared to equity for financing its assets. Generally, the lower the debt-to-assets ratio the better, but acceptable levels will vary across industries and companies. Larger, stable and more established companies can take on more debt without adding too much risk for investors (Hutchinson and Gul, 2004). The more predictable and stable the cash flow, the easier and cheaper it is for firms to borrow. Companies in more volatile industries (like technology) may have a harder time adding debt

### **2.7.1.2 Debt to Equity**

This ratio measures leverage by comparing long-term debt directly to shareholder's equity. The formula is total long-term debt divided by total shareholder's equity. This ratio is similar to the debt ratio but it normally eliminates the use of short-term liabilities that companies use to fund day-to-day operations. Some analysts and investors believe this is a more accurate reading of a company's financial position, as it does not count items such as accounts payable in the calculation of debt. A smaller number means a company is less reliant on debt as compared to equity. Generally, a smaller number also translates to less risk; this is because more debt means more interest payments and more outstanding loans that must be paid. On the other hand, shareholder's equity carries no guarantee of income to investors. Again, acceptable numbers will vary across industries and companies (Brigham and Ehrhardt, 2004).

### **2.7.1.3 Interest Coverage**

The interest coverage ratio, also called times interest earned, measures a company's ability to pay interest on its outstanding debt. The formula is earnings before interest and taxes divided by interest expense for the same period. Because interest on debt must be paid, regardless of

cash flow, a higher number indicates a healthy firm. A ratio below 1.0 indicates that the company is not generating enough earnings to pay its interest obligations. According to Ngugi, (2010) creditors look at this ratio to gauge the likelihood of payment if the company runs into financial trouble. Bond investors can also look at this ratio to judge how risky the debt might be.

#### **2.7.1.4 Credit Terms**

This refers to the conditions under which an MFI advances credit to its customers. The credit terms will specify the credit period and interest rates. Credit period refers to the period of time in which the credit is granted. The length of the credit period is influenced by Collateral value, Credit risk, the size of the account and market competition (Ross, Westerfield& Jordan, 2008). Debt in a particular class will have its own interest rate in accordance with the theory of term structure. The interest rates charged is a cost on borrowed funds and may affect the loan performance.

#### **2.7.1.5 Credit Risk Control**

Credit risk is an investor's risk of loss arising from a borrower who does not make payments as promised. Such an event is called a default. Another term for credit risk is default risk. Investor losses include lost principal and interest, decreased cash flow, and increased collection costs. Credit risk can be mitigated using risk based pricing, covenants, credit insurance, tightening and diversification (Ross et al, 2008).

#### **2.7.1.6 Collection Policy**

There are various policies that an organization should put in place to ensure that credit management is done effectively; one of these policies is a collection policy which is needed because all customers do not pay the firms bills in time. Some customers are slow payers while some are non-payers. The collection effort should, therefore aim at accelerating collections from slow payers and reducing bad debt losses (Kariuki, 2010).

## **2.7 Empirical studies**

Wasike (2012), study on corporate governance practice and performance at Elimu SACCO in Kenya. The objectives were to find out the influence of corporate governance practice on performance and to establish the challenges facing corporate governance practices at Elimu SACCO. The study used both primary and secondary data whereby the primary data was collected using interview guide with open ended questions. She analyzed data collected using descriptive method. The respondents were ten (10) managers drawn from various departments. The findings was that corporate governance helped in defining the relationship between the SACCO and its general environment, the social and political systems in which it operates and also linked the way management and control are organized thus this affects the performance of the SACCO.

Metrick et al (2001), study on corporate governance and Equity prices. The main aim was to investigate the effects of corporate governance on debt ratings and cost of debt financing, they restricted their analysis to a limited set of governance variables. Data was collected from publication of the Investor Responsibility Research Center (IRRC), which is an organization that has tracked provision for about 1500 firms per year. Data studied was on stock returns for the period of September 1990 – December 1999. Data was analyzed using the indexing method. Findings was that credit rating is negatively associated with the number of block holders and CEO powers, and positively related to takeover defenses, accrual quality, board independence, board stock ownership and expertise.

Bhojraj and Sengupta (2003), study to investigate the effect of corporate governance on bond rating and yields by using regression method. By using a sample of 1,005 industrial bond issues over the period of 1991-1996 collected from the Warga fixed income database. Data was analyzed by regression method whereby they investigated the effect of corporate governance on bond yield as;  $\text{Bond yield} = f(\text{governance variable, control variable})$ . Findings were that governance mechanism can reduce default risk by mitigating agency cost and monitoring managerial performance and by reducing information asymmetry between the firm and the lenders. The study also found out that firms with a higher percentage of outside directors on the board and with greater institutional ownership enjoy lower bond yields and higher ratings on their new debt issues.

Cremers et al (2005), study to investigate impact of shareholders governance on bondholders. The main aims were to investigate the impact of interactions of different shareholder governance mechanisms on bondholders and also to highlight the importance of bondholder's governance through the use of bond covenants. Sample was of quarterly trader-quoted bond yields of an average of 1,218 bond issue for the period of 1990-1997. The data collected was analyzed by regression method. The study also investigated how bond covenants help align the interests of shareholders and bondholders, findings was that in the presence of bond covenants shareholders reduces the conflicts between shareholders and bondholders interests. In conclusion, their results show that strengthening shareholders governance does not automatically benefit all bond holders, especially not those bondholders who are exposed to events risk through lack of covenants.

Essawi et al (2011), study to investigate impact of corporate governance on risk management. The study checked on the contribution of corporate governance to Risk management, whereby it integrated both quantitative and qualitative information. For quantitative the study used information from balance sheet while qualitative it used dummy variable that is agency cost. Sample for the study was of 100 US NASDAQ listed companies in ten years (1997 – 2007). Data was analyzed using least square regression method integrating two variables (i.e Leverage and Profitability). Where by the first regression included leverage (computed as debt reported to Equity) while the second regression encompassed Profitability (calculated as Net profit reported to turn over) as dependent variable. Findings showed that Tangibility has a positive impact on gross margin hence perceived positively by creditors. While on the other hand of qualitative information there is a positive coefficient associated with dummy variable.

Irem et al (2012), study on corporate governance and restrictions in debt contracts. The main aims of the study was to investigate the extent to which lenders rely on corporate of the borrower when designing a debt contract and to investigate the impact of corporate governance mechanism on the presence of restriction in bond and syndicated bank loans contracts. Data collection considered three board characteristics which are; Board size, Board independence, Board expertise. The study obtained data for board characteristics from Equilar for the year 2002 to 2006, findings was that debt contracts have fewer restrictions when the board size is larger, when members have more expertise and when the firm has more activist shareholders.

Alexsandro et al (2008), study on interaction between corporate governance, bankruptcy law and firms' debt financing. The aim of study was to investigate the relationship between



corporate governance level and bankruptcy law for such debt variables as firms cost of debt and amount (and variation) of debt. Data was obtained from the public source balance sheet micro data from Brazilian firms and the proprietary index for corporate governance (BCGI). This data was analyzed by regression method by regressing the debt variable on the measure of corporate governance and the bankruptcy reform dummy. Findings was that the higher the corporate governance score on the BCGI the lower the cost of debt and the effect on the changes in the amount of firms' debt considering the bankruptcy law is less significant for firms with higher BCGI scores. Therefore, stronger systems of corporate governance and bankruptcy procedures contribute to reducing cost of debt.

Ozkan et al (2004), study on agency cost and corporate governance mechanism. The aim for the study was to examine the effectiveness of the alternative corporate governance mechanism and devices in mitigating managerial agency problem in the UK market. Data was obtained from a large sample of publicly traded UK firms over the period of 1999 to 2003 from the database which provided financial data for the UK's top 300,000 companies. The study ended up using a sample of 897 listed firms for their empirical studies. The study used a cross sectional regression approach to analyzed determinants of Agency cost. Findings was that high growth firms face more serious agency problem than low-growth firms, However they found out that some governance mechanisms are not homogeneous but vary with growth opportunities.

Wambua (2011), study on Effect of corporate governance on savings and credit cooperation (SACCOs) financial performance. The main aim of the study was to explore the relationship between corporate governance and financial performance of deposit taking savings and credit cooperatives in Kenya. The population of interest was SACCOs that are operating in Nairobi. The study targeted 532 staff workers at the deposit taking SACCOs with their headquarters in Nairobi and more particularly on top, middle and lower level management staff. 10% sample was selected from the 532 target. Data collected involved questionnaires. Data was analyzed using descriptive technique, findings was that the board size and composition did not affect the financial performance in the SACCOs.

Lau et al (2001), study on impact of corporate governance structure on Agency cost of Debt. The main aim was to investigate whether the choice of corporate governance structure plays a role in determining the Agency cost debt. The population of interest was equity financed firms represented by a Bank. Data was obtained from the financial document for the period of 1997-

2001 and a model used to analyze data was a simplified version of the contingent claims pricing model (stochastic continuous model). The findings was that in the absence of informational asymmetries governance structures in which debt holders owning equity stakes in the firm have the right to control, this can effectively reduce the Agency cost of debt or under investment problem providing a rationalization to the existence of such governance structures in the real world.

Lishenga (2006), study on corporate governance reaction to declining performance. The aim of the study was to assess the sensitivity of corporate governance structure and practices to performance declines. The study targeted all companies quoted on the NSE for the period of eight years from beginning 1998 through 2005 whereby the number of companies declined from 54 to 47 because of delisting matched by new listings. From the total population the sample was drawn as follows. The Tobin's Qs( or book-to-market ratio) of all listed companies at the end of the end of the calendar year 1998,1999,2000,2001,2002,2003 and 2004. Data was analyzed using least square regression method. The finding for the study was that companies respond to declining firm's performance by changing their governance structures and practices in diverse ways. Hence, there is positive relationship between listed firms performance and frequency of board meeting, ratio of outside director to total director, percentage of insider share ownership and executive compensation.

Otieno (2013), study on effects of corporate governance on insider trading. The main aim for the study was to determine the effects of corporate governance on insider trading. Target population for the study consisted of 59 listed firms on NSE whereby the researcher sampled 29 participants from the listed 55 companies at NSE. The sample composed of 50% of the total population. Data was collected using a questionnaire and analyzed using statistical package for social science (SPSS). The findings for the study concluded that corporate governance affects insider trading based on the findings that board size, board independence, institutional ownership affected insider trading to a very great extent.

Munyao (2012), study on the effect of corporate governance practices on financial performance of Forex bureaus in Kenya. The main aim for the study is to determine the effect of corporate governance on financial performance. Targeted population consisted of 111 Forex bureaus. The researcher applied a stratified random sampling technique to obtain the sample from the main population. The sample that was used for the study was 24 Forex bureaus. Data used was a secondary data obtained from Central Bank of Kenya (CBK) and also from Kenya

Forex Bureau Association (KFBA). Data collected was analyzed using regression method. His finding from the analysis concluded that there is a positive relationship between corporate governance and financial performance.

Gathua (2013), study on executive compensation and risk among commercial banks in Kenya. The main aim for this study is to determine whether the executive remuneration has an impact on risk in commercial banks in Kenya. The targeted population for this study was a list of licensed commercial banks and mortgage financial institutions in Kenya as at December 2011. The study used both stratified sampling and simple random sampling method to group respondent in three strata which are Executive management, senior management and middle management. The respondents were issued with questionnaire to respond to the research statements. Data on the remuneration of respondent was on the four year years (2008-2011) while data on the dependent variable was collected through questionnaire from July 2012 to August 2012. Data was analyzed by least square regression method and the findings for the study concluded that the executive remuneration does not contribute to risk taking.

Muriithi (2004) studied the relationship between corporate governance mechanisms and performance of firms quoted on the NSE and found that the size and the composition of the board of directors together with the separation of the control and the management have the greatest effect on the performance.

Ngugi (2007), study on the relationship between corporate governance structures and the performance of insurance companies in Kenya. Findings for the study was 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.

Gatauwa (2008), study on the relationship between corporate governance practices and stock market liquidity for firms listed on the Nairobi Stock Exchange. The study found that greater disclosure enhances stock market liquidity, thereby reducing the cost of capital. The commitment of management teams to increase the level of disclosure also lower the information asymmetry between managers and shareholders and lower the cost of capital. The study also found that the commitment of management teams to increase the level of disclosure

also lower the information asymmetry between managers and shareholders and lower the cost of capital.

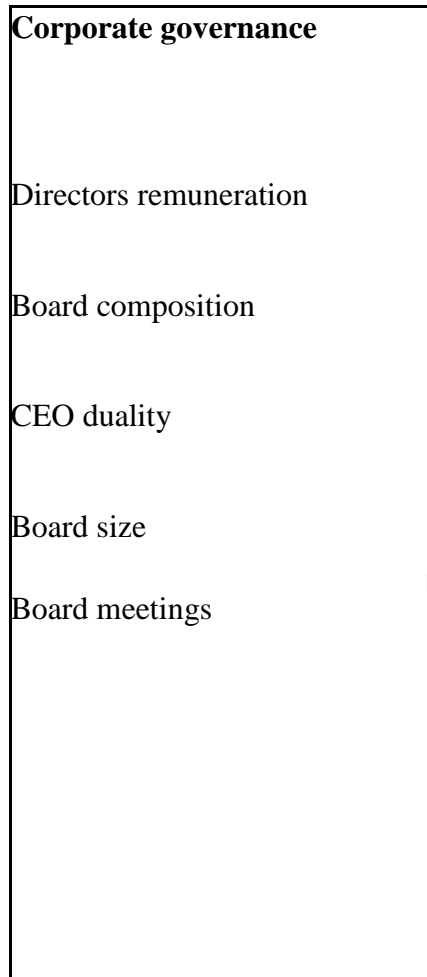
Matengo (2008) also conducted a study on the relationship between corporate governance practices and performance the case of banking industries in Kenya. The study found that good corporate governance will lead to lower firm risk and subsequently to a lower cost of capital. The study also found that separation of ownership and control maximizes shareholders wealth

Aduda (2011), study on the relationship between executive compensation and firm performance in the Kenya banking sector, case study of commercial banks listed in NSE. Main aim of the study is to examine the relationship between compensation and performance of commercial banks. The study adopted a casual research design. Target population comprised of nine commercial banks listed in NSE as at December, 2008. Data was obtained from the financial statements of the commercial banks and used multiple regression models to analyze the data. Finding was that there is a negative non-significant relationship between executive compensation and performance of commercial banks in Kenya.

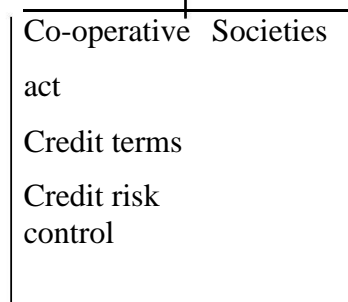
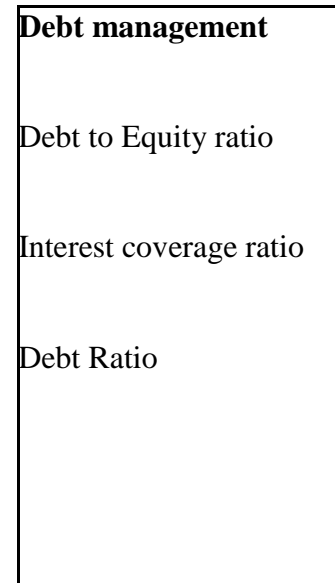
Mutegi (2014), study on effects of corporate governance activities on organizational performance of selected occupational retirement schemes in Kenya. The study adopted cross sectional survey design. The target population for the study is the employees of 1,353 occupational pension schemes registered with the retirement benefit authority. The sample used for the study was 27 registered occupational pension schemes and respondents were executive, managers and supervisors. Data was collected using questionnaires and others from secondary data. Data analysis was done using Chi-square model and found that board composition has a positive impact on organizational performance.

## 2.8 CONCEPTUAL FRAMEWORK

### Independent variable



### Dependent variable



### Moderating variables

**Figure 1. Conceptual Framework**

**Source; reviewed literature 2015**

Conceptual framework shows the interplay between the major variables of the study that is the independent, dependent and intervening variables. The dependent variable was the debt

management that was broken down into three ratios that is debt-equity, debt –asset and interest cover ratio. The independent variable was corporate governance that was broken down into five sub-variables as indicators of measuring corporate governance. These are the board size, director’s remuneration, board meetings frequency, CEO duality and board composition. The intervening variables were credit terms and cooperative societies act. These are also expected to influence debt management in deposit taking Sacco’s apart from cooperative governance.

The study was guided by the impact of corporate governance on debt management. Corporate governance was evaluated in terms of board composition, board size, CEO duality, director’s remuneration and board meetings. However, debt management will be measured by debt to equity ratio. The moderating variable was Co-operative society act. Strong corporate governance is expected to improve debt management.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This section provides information on the research design that will be adopted for the Study. It gives the target population, data collection, sample selected for the study. Furthermore it discussed data analysis and presentation techniques that were used in the study.

#### **3.2 Research Design**

A descriptive research design was undertake in order to ascertain reliability of data collected. A research survey was undertaken to guard the study against errors. This research design was adopted because it is cost effective and rapid in data collection as compared to other research designs. The study investigated the effect of corporate governance on debt management.

#### **3.3 Target Population**

The population of this study was 135 deposit taking SACCOs licensed by SASRA in Kenya as at 31st December 2014. According to SASRA (2014) there are 215 deposits taking SACCOs in Kenya where by only 135 were licensed by end of December 2014. This formed the population of study.

#### **3.4 Sample Design and Sample Size**

Since not all the 135 deposit taking SACCOs have been registered and in operation since 2011-2014 therefore the study employed a purposive sampling method and used a sample size of Twenty seven (27) SACCOs that have been in operation and registered by SASRA since 2011 to 2014.

#### **3.5 Data Collection**

In order to establish the effect of corporate governance on management of debts only SACCO's secondary data was required. SACCOs Secondary data was collected from the financial statements reported to SASRA for the period of 2011-2014.

#### **3.6 Data Analysis**

Both descriptive and inferential statistics was used to analyze the data. The descriptive statistics included mean, standard deviations, frequency and percentages. In this study mean

and standard deviation was used as measures of central tendencies and dispersion respectively. Correlation analysis was used to analyze the degree of relationship between the variables in the study. Further, regression analysis was used to show the impact of corporate governance practices on debt management. The study was based on the following multiple regression models

**Model 1**       $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$

Where:

Y -represents debt/equity ratio variable which was measured by long-term debt divided by shareholders equity.

X<sub>1</sub> - represents Board Composition which was measured by; non-executive divided by Executive directors.

X<sub>2</sub>- represents CEO Duality which was measured dummy variable that **1** was showed that CEO is different from chairman while **0** showed that chairman is CEO

X<sub>3</sub> represents director's remuneration which was measured by log of total annual remuneration

X<sub>4</sub>- represents board size which was measured by log of number of board members

X<sub>5</sub> represents board meetings which was measured by log of number of board meetings

E -represents error term

$\alpha$  = intercept

$\beta_1, \beta_2, \beta_3, \beta_4$  and  $\beta_5$  are the coefficient of independent variables

**Model 2**       $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$

Where:

Y -represents interest cover ratio variable which was measured by earnings before interest and taxes divided by interest expense for the same period



**Model 3**  $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$

Where:

Y-represents debt ratio variable which was measured by long-term debt divided by shareholders contribution

### **3.7 Data Presentation**

Data was presented in the form of frequency distribution tables for description. This generated quantitative reports through tabulations, percentages, and measure of central tendency.

## CHAPTER FOUR

### DATA ANALYSIS, RESULTS AND INTERPRETATION

#### 4.1 Introduction

This chapter presented the findings of the study and critical analysis of the results. The study sought to analyze the relationship between corporate governance and debt management of Deposit taking Sacco's registered by SASRA. The research findings were computed from secondary data collected from SASRA and Sacco's website. A total of 27 Sacco's were used in the study after one of the sampled Sacco did not have enough data for analysis hence it was left out. The findings were presented analyzed beginning with descriptive statistical analysis followed by inferential statistical analysis in terms of research objectives.

#### 4.2 Descriptive Analyses

The aim of the descriptive statistics was to describe the general distributional properties of the data, to identify any unusual observations (outliers) or any unusual patterns of observations that may cause problems for later analyses to be carried out on the data. Thus initial exploration of the data using simple descriptive tools was provided to describe and summarize the data generated for the study. This section provides the descriptive statistics as per the objectives of the study.

##### 4.2.1 Board size

The researcher wanted to establish the frequency distribution of board size among the 27 selected Sacco's registered by SASRA. The results are presented in table 4.1.

**Table 4.1: Frequency Distribution Table on Board of Directors Size**

Lower	Upper	Frequency	percent
6	7	1	3.7
7	8	3	11.1
8	9	5	18.5
9	10	8	29.6
10	11	7	25.9
11	12	1	3.7
12	13	2	7.4
		27	100.0

The researcher collected data about the board size of 27 deposit taking Sacco's licensed by SASRA. Majority of Sacco's had a Board size of members between (9-11) shown by frequency of 21 (74.3%). Sacco's having board size of between 6-8 were only 4 (14.8%). Generally most Sacco's had a board size between 6-12 members since the licensing authority (SASRA) requires a minimum of five members of the board including the chairperson, the treasurer, the secretary, vice-Chairperson and a member.

#### 4.2.2 CEO Duality

The researcher attempted to establish the CEO duality from the data collected from SASRA about the sampled 27 deposit taking Sacco's. The findings were represented using frequency, percentages, measures of central tendency and distribution in table 4.2

**Table 4.2: Frequency Distribution Table for CEO Duality**

Lower	Upper	Frequency	Percent
0	1	1	3.7
1	2	26	96.3
		27	100.0

From the data collected and presented in table 4.2, it was evident enough that only one of the Sacco's sampled had a Chief executive offices also acting as the board chair person with the rest of Sacco's having the CEO and board chairpersons as being different people. This may be attributed to the fact that all licensed Sacco's under SASRA are required to meet minimum requirements in terms of board structure. To improve transparency and accountability SASRA requires all deposit taking Sacco's licensed by it to have chairperson and CEO as different people.

#### 4.2.3 Board Composition

Board composition is the proportion of non-executive directors to executive directors (Kee et al. (2003) and Hutchinson and Gul (2003)). The researcher also purposed to find out the

composition of the board for Sacco's licensed by SASRA .The information collected is presented in table 4.3a) and 4.3 b).

**Table 4.3: Frequency Distribution of Average Board Composition**

Lower	Upper	Frequency	percent
0.0000	0.5000	1	3.8
0.5000	1.0000	11	42.3
1.0000	1.5000	13	50.0
1.5000	2.0000	0	0.0
2.0000	2.5000	1	3.8
		27	100.0

Board composition was measured by dividing non-executive board members by executive board members .From the data collected and presented in table 4.3, it was evident enough that majority of boards of the sampled deposit taking Sacco's had a composition of one and above (1<). This is shown by a frequency of 14 (53.8 %).Those with board size less than one was about 12 (46%). From this composition it is clear that most of the boards of sampled Sacco had more non-executive members to executive members

#### **4.2.4 Board remuneration and compensation**

The researcher also sought to collect data about the remuneration of board members of the sampled Sacco's licensed by SASRA. Board remuneration includes the fixed and performance based compensations like stock ownership (Kavulya, 2011).The average directors remuneration in million Kenyan shillings was calculated by getting the average of directors remuneration for each Sacco for the four years (2011-2014).The results is presented in table 4.4.

**Table 4.4: Frequency Distribution Table on Directors Remuneration**

Lower	Upper	Frequency	percent
10	40	18	66.7
40	70	7	25.9
70	100	1	3.7
100	130	0	0.0
130	160	0	0.0
160	190	1	3.7
		27	100.0

From the table 4.4 above, it is evident that most Sacco's board members earn less than 50 million Kenyan shillings annually as shown by a frequency of 25 (92.6 %). Very few boards had members earning a annual salary of 150 million and above as shown by a frequency of (3.7%).Most boards members earn salary of less than 50 million due to relatively small income levels that Sacco's generate as compared to banks.

#### **4.2.5 Board meeting**

Otieno (2013) described board meetings as the frequency of Board meeting, Audit Committee meetings frequency and investment Committee Meeting Frequency. The researcher wanted to establish the number of meetings held by the board of directors of respective deposit taking SACCOs Licensed by SASRA. Board meetings was the number of meetings held by the directors of respective Sacco's in a year. The average board meetings was established by getting the mean for of board meetings for each Sacco's for the four years(2011-2014).The findings are represented in table 4.5 a) below.

**Table 4.5: frequency distribution on board meetings**

Lower	Upper	Frequency	Percent
4	5	1	3.7
5	6	2	7.4
6	7	8	29.6
7	8	1	3.7
8	9	4	14.8
9	10	1	3.7
10	11	4	14.8
11	12	1	3.7
12	13	5	18.5
		27	100.0

The table 4.5.shows that a majority of boards of sampled Sacco's had between 6-7 board meetings annually as shown by a frequency of 8 (29.6%).This is followed by Sacco's having approximately 12-13 per year shown by a frequency of 5 (18.55%). This is then followed by Sacco's holding approximately 8-9 and 10 -11 meetings annually with equal frequencies of 4 (14.8 %).This is then followed by about two (2) (7.4%) Sacco's holding about 5-6 meetings annually .This results shows that majority of boards of sampled Sacco's hold board meetings either every two months of the year as show by equal frequency of 8 (29.6 %) or once every month as shown by a frequency of five(5) (1.5%). It is a requirement of SASRA that board directors should come up with Sacco's constitutions that ensures that Sacco's board of directors have as any meetings as possible to deliberate on issues affecting the running of Sacco's on a daily basis by coming up with policy documents to guide the management of respective Sacco's.

**Table 4.6) Measures of Central Tendency and Dispersion on Corporate Governance**

	B.O.D Meeting	Board size	Directors remuneration	Board composition
Count	27	27	27	27
Mean	8.19	9.04	36.784037	1.03756
sample standard deviation	2.57	1.45	32.385219	0.34949
sample variance	6.62	2.11	1,048.802423	0.12214
Minimum	4	6	11.876986	0.2
Maximum	12	12	165.676876	1.5
Range	8	6	153.79989	1.3
Skewness	0.25	0.09	2.612835	-0.71657
Kurtosis	-1.32	0.06	9.109881	-0.26965
coefficient of variation (CV)	31.43%	16.09%	88.04%	33.68%

From table 4.6, the mean of board meetings was 8.19 suggesting that most SACCOs have average of eight (8) per year. The standard deviation for the board composition meetings was 2.57 demonstrating that of the 27 deposit taking Sacco's, their board meetings spreads around the mean with about 3 meetings per year. The minimum board meetings frequency was 4 and the maximum was 12. The range for board meetings frequency was 8 demonstrating that the difference between board with the highest frequency of meetings and one with the smallest frequency of board meetings was 4.

The mean of board size was 9.04 suggesting that most Sacco's have average board size of nine (9) members. The standard deviation for the board size was 1.45 demonstrating that out of the 27 deposit taking Sacco's. Their board sizes spreads around the mean with about two members. The minimum board size was six(6) and the maximum was twelve (12) members .the range was six(6) demonstrating that the difference between largest board size and smallest board size was six. The median for board size was nine (9).

The mean of board composition was 1.037566 suggesting that most Sacco's have average board composition of one and above meaning that most Sacco's sampled had more non-executive members of the board as compared to executive members. The standard deviation for the board composition was 0.349492 demonstrating that of the 27 deposit taking. Sacco's, their board sizes spreads around the mean with about 0.35 units. The minimum board

composition was 0.2 and the maximum was 1.5. The range was 1.3 demonstrating that the difference between largest board Composition and smallest board composition was 1.3.

The mean of directors' remuneration was 36.784037 suggesting that most Sacco's directors earn an average annual remuneration of a proximately 37 million Kenyan shillings per year. The standard deviation for the director's remuneration was 32.385219 demonstrating that of the 27 deposit taking Sacco's, annual directors remuneration spread around the mean with about thirty two (32) million Kenya shillings hence the deviation was very large. The minimum director's remuneration was 11.876986 which was approximately twelve (12) million Kenyan shillings and the maximum remuneration was 165.676876 which was approximately 165 million Kenyan shillings .The range was 153.79989 demonstrating that the difference between largest directors remuneration and smallest directors remuneration was about 154 million Kenyan shillings.

#### 4.2.7 Debt Management

Debt ratios fall under the realm of measuring and understanding financial risk. Financial risk ratios examine a company's ability to meet all liability obligations and the impact of these liabilities on the balance sheet. The debt management was measured using Debt ratio, debt to equity ratio and interest cover ratio. The debt ratio is also called the debt-to-assets ratio. The researcher sought to measure the debt ratio, debt to equity ratio, and interest cover ratio of the 27 sampled deposits taking Sacco's licensed by SASRA and operated between 2011-2014. The information generated is presented in tables 4.6-4.8 below.

**Table 4.7 frequency distribution of debt asset ratio**

Lower	Upper	Frequency	percent
0.2	0.4	0	0.0
0.4	0.6	2	7.4
0.6	0.8	16	59.3
0.8	1.0	9	33.3
		27	100.0

Table 4.6 shows the frequency distribution of debt asset ratio. The debt asset ratio was computed by dividing the total deposits and advances by total assets of the Sacco's. Table 4.6 demonstrates that majority of sampled Sacco's had a debt asset ratio of between 0.6- 0.8 as shown by a frequency of 16 (59.3%) followed by a debt to asset ratio of between 0.8 to 1.0 as



shown by a frequency of 9(33.3%) with the rest having low frequency. With most Sacco's having debt asset ratio of between 0.6 to 1.0 signifying that most Sacco's rely much on debts as compared to other sources of funds.

**Table 4.8 frequency distribution of debt equity ratio**

Lower	Upper	Frequency	percent
0	40	11	40.7
40	80	10	37.0
80	120	2	7.4
120	160	2	7.4
160	200	0	0.0
200	240	1	3.7
240	280	1	3.7
		27	100.0

Table 4.7 shows the frequency distribution of debt equity ratio. The debt equity ratio was computed by dividing the total deposits and advances by total equity of the Sacco's. Table 4.7 demonstrates that majority of sampled Sacco's had a debt asset equity ratio of between 0-40 as shown by a frequency of 11 (40.7%) followed by a debt ratio equity ratio of 40 to 80 as shown by a frequency of 10 (37.0%). With most Sacco's having debt equity ratio of between above one signifying that most Sacco's rely much on debts(customer deposits) as compared equity financing hence most Sacco's are highly leveraged .

**Table 4.9: frequency distribution of interest cover ratio**

Lower	Upper	Frequency	percentage
0	2	11	40.7
2	4	12	44.4
4	6	2	7.4
6	8	0	0.0
8	10	0	0.0
10	12	0	0.0
12	14	1	3.7
14	16	1	3.7
		27	100.0

Table 4.8 shows the frequency distribution of interest cover ratio. The interest cover ratio was computed by dividing the total operating income before interest and depreciation by total interest expense of the Sacco's for the four year period (2011-2014). Table 4.8 demonstrates that majority of sampled Sacco's had an interest cover ratio of between 2- 4 as shown by a frequency of 12 (44.4%) followed by an interest cover ratio of between 0 to 2 as shown by a frequency of 11 (40.7%). With most Sacco's having interest cover ratio of above one signifying that most Sacco's are able to meet their interest expenses when they fall due. Majority of interest expenses arise due to deposits received from customers and members who need interest on money deposited in the Sacco.

**Table 4.10: Measures of central tendency and dispersion of Debt Management**

	debt/asset ratio	debt/equity	interest cover
Count	27	27	27
Mean	0.728412	66.961290	3.344639
sample standard Deviation	0.093040	62.380429	3.105702
sample variance	0.008656	3,891.317896	9.645385
Minimum	0.519155235	5.329764	0.317460317
Maximum	0.861479159	272.9684983	14
Range	0.342323924	267.6387343	13.68253968
Skewness	-0.506248	2.020269	2.605289
Kurtosis	-0.339638	4.325691	7.073195
coefficient of variation (CV)	12.77%	93.16%	92.86%

From the table 4.9 the mean for debt asset ratio was (0.72). A debt Asset ratio of less than one (1 >) is favorable but since the mean debt asset ratio is 0.72, it means that assets (loans and advances) of the Sacco's are financed by debts (deposits of Sacco's) to the tune of 72% with the rest financed by other sources finances. The mean debt equity ratio for the sampled Sacco's was (66.96), a debt equity ratio of above one signifies that Sacco's rely much on debt finance as compared to equity financing. The mean interest cover ratio was (3.34). Mean

interest cover of above one ( $1 <$ ) is favorable as the concerned Sacco can pay for interest outstanding on borrowed funds with minimal difficulty when they fall due.

### **4.3 Correlation Analysis**

The researcher wanted to establish the relationship between corporate governance and debt management of deposit taking Sacco's that have been licensed by SASRA. The relationship between corporate governance and debt management was analyzed using Pearson's correlation coefficient. The researcher carried out correlations to assist explains the relationship between corporate Governance and debt management of the 27 sampled Sacco's licensed by SASRA. The researcher used Pearson's Bivariate Correlation. Corporate governance was the independent variable. Corporate governance was broken down into five sub variables including board composition, CEO duality, director's remuneration, and board size and board meetings while debt management was the dependent variable. Debt management was Brocken down into three ratios of debt management including debt asset ratio, debt equity ratio and finally interest cover ratio.

**Table 4.11: Summary of Bivariate Pearson correlation analysis and two tailed test**

		Comp	CEOD	DRem	Bsize	Bmeet	D/A	INT	D/E
<b>Comp</b>	Pearson Correlation	1							
	Sig. (2-tailed)								
	N	27							
<b>CEO D</b>	Pearson Correlation	.124	1						
	Sig. (2-tailed)	.356							
	N	27	27						
<b>Director Rem</b>	Pearson Correlation	-.115	-.329	1					
	Sig. (2-tailed)	.696	.150						
	N	27	27	27					
<b>Board Size</b>	Pearson Correlation	.218	-.360	.195	1				
	Sig. (2-tailed)	.001	.070	.234					
	N	27	27	27	27				
<b>Board meeting</b>	Pearson Correlation	.311	.285	.075	-.412	1			
	Sig. (2-tailed)	.076	.166	.534	.952				
	N	27	27	27	27	27			
<b>D/A</b>	Pearson Correlation	.069	.201	.085	.112	-.013	1		
	Sig. (2-tailed)	.575	.396	.645	.678	.658			
	N	27	27	27	27	27	27		
<b>INT</b>	Pearson Correlation	.056	-.246	.343	.245	-.016	.076	1	
	Sig.(2-tailed)	.784	.926	.567	.872	.765	.640		
	N	27	27	27	27	27	27	27	
<b>D/E</b>	Pearson Correlation	.069	-.009	.151	.147	.274	.190	.645*	1
	Sig.(2tailed)	.659	.674	.356	.870	.254	.050	.177	
	N	27	27	27	27	27	27	27	27

**\*.correlation is significant at the 0.05 level (2-tailed)**

**Independent Variables:** board size (Bsize), board composition (Comp), board meetings (Bmeet), CEO duality (CEOD) & director’s remuneration (DRem)

**Dependent variable:** Debt/asset ratio (D/A), debt equity ratio (D/E) and interest cover ratio (INT)

### **4.3.1 Board composition and debt management**

Board composition was calculated by getting the ratio of non-executive to executive directors. Pearson's correlation ( $r$ ) indicates the correlation between the independent variable (Board composition) and dependent variable (debt management). According to table 4.10, there was a weak positive correlation between board composition and debt ratio ( $r= 0.069$ ,  $p =0.575$  and  $\alpha = 0.05$ ). However, the relationship was not statistically significant ( $p>0.05$ ). Board composition was also positively but weakly correlated with interest cover ( $r= 0.056$ ,  $p =0.784$  and  $\alpha = 0.05$ ) however it was not statistically significant ( $p>0.05$ ) and finally board composition was positively correlated with debt/equity ratio ( $r= 0.189$ ,  $p = 0.659$  and  $\alpha = 0.05$ ), but the relationship was not statistically significant ( $p>0.05$ ).

With board composition being positively and weakly correlated with debt management ratios; this suggests that an increase in board composition (increase in number of non-executive directors to executive directors) their slight increase in debts usage as shown by increasing debt ratios. This could be explained by the fact that the non-executive board members are not involved in day to day running of the Sacco's hence if they are the majority in the board, they will not be involved closely in the implementation of deliberations at the board, leading to increasing usage of debts and risks of the Sacco's. Based on correlation the study thus concludes that board composition has weak impact on debt management of deposits taking SACCOs. This finding is in conflict with studies by (Kee et al, 2003; Hutchinson and Gul, 2003). It is suggested that higher proportion of non-executive directors in the board helps to reduce the agency cost.

### **4.3.2 CEO duality and Debt Management**

According to table 4.10, there was a weak positive correlated between CEO duality and debt asset ratio ( $r= 0.020$ ,  $p =0.396$  and  $\alpha = 0.05$ ). However, the relationship was not statistically significant ( $p>0.05$ ). CEO duality was negatively but weakly correlated with interest cover ( $r= -0.246$ ,  $p =0.926$  and  $\alpha = 0.05$ ) however it was not statistically significant ( $p>0.05$ ) and finally CEO duality was also negatively correlated with debt/equity ratio ( $r= -0.009$ ,  $p =0.674$  and  $\alpha = 0.05$ ) but the relationship was not statistically significant ( $p>0.05$ ). This suggests that when the CEO's and board chairperson are one and the same people; usage of debts increases and when CEO and board chairperson are different individuals, the usage of debts reduces. This can be explained by the facts that when CEO and board chairperson are the same people, the board decisions tend to be dominated by the CEO who is also the chairperson of the board due to

their ability to vote twice in board decisions when there is a tie during voting on various decisions. CEO duality lead to worse performance as the board cannot remove an underperforming CEO and can create an agency cost if the CEO pursues his on interest at the cost of the shareholders (White and Ingrassia, 1992).study therefore concludes that there is a weak negative insignificant relationship between CEO duality and debt management.

#### **4.3.3 Board size and Debt Management**

The empirical results of the study indicated that there was a positive but a weak correlation between board size and debt management ratios. This is given by  $r$  values of 0.147, 0.245 and 0.12 between board size and (debt/equity, interest cover and debt/Asset ratios) respectively. However, the relationship between board size and debt management ratios (Debt/equity ratio, Interest cover ratio and debt asset ratio) was not statistical significant ( $p>0.05$ ). Hence, the size of the board has no significant impact on the debt management of the Sacco's.

This further suggests that an increase in board size leads to slight increase in usage of debts in Sacco's. This could be due to fact that big boards are associated with no meaningful deliberation on debt management policies. The study thus concludes that there is insignificant weak positive relationship between board size and debt management. This finding is supported by Yermack 1996, that states that larger boards are found to be slow in decision making this will in turn have an impact on decision concerning debt management.

#### **4.3.4 Directors Remuneration and Debt Management**

Pearson correlation results indicated that there was a weak positive relationship between directors remuneration and debt asset ratio ( $r= 0.069$ ,  $p =0.645$  and  $\alpha = 0.05$ ) however it was not statistically significant ( $P > 0.05$ ).The correlation between directors remuneration and interest cover ratio was also a weak positive one ( $r= 0 .056$ ,  $p = 0.567$  and  $\alpha = 0.05$ ) although it was not statistically significant ( $P > 0.05$ ). Finally the correlation between directors remuneration and debt equity ratio was also positive one ( $r=0.189$ ,  $p = 0.356$  and  $\alpha = 0.05$ ), However the relationship was too not statistically significant ( $p>0.05$ ). Findings suggest that an increase in the director's remuneration leads to increased usage of debts. This could be explained by the fact that increased directors remuneration adds up to expenses of the Sacco's and makes the directors take to leisure or spend much time on their own private investments as compared to work at the Sacco. Hence they dedicate less time to Sacco meetings in to deliberate on policies affecting debts management and to reduce unnecessary debts that might lead to increased risks in the Sacco's licensed by SASRA. The study thus concludes that there is a weak positive insignificant relationship between director's remuneration and debt management of Sacco's.

#### **4.3.5 Board meetings and debt management**

Furthermore, correlation results indicated that there was a weak negative relationship between board meetings frequency and debt asset ratio ( $r= -0.013$ ,  $p = 0.658$  and  $\alpha = 0.05$ ) however it was not statistically significant ( $P > 0.05$ ).The correlation between board meeting frequency and interest cover ratio was also negative one ( $r= - 0.016$ ,  $p =0.765$  and  $\alpha = 0.05$ ) although it was not statistically significant ( $P > 0.05$ ). Finally the correlation between Board meeting frequency and debt equity ratio was a positive one ( $r=0.274$ ,  $p =0.254$  and  $\alpha = 0.05$ ), However the relationship was too not statistically significant ( $p>0.05$ ).

Findings suggest that an increase in the number of board meetings leads to reduced usage of debts. This could be explained by the fact that increased number of meetings enables the board to have enough time to deliberate on policies affecting debts management and to reduce unnecessary debts that might lead to increased risks in the Sacco's licensed by SASRA. This finding is in agreement with Otieno, (2013) who established that Board meeting frequency, Audit Committee size and Audit Committee Meeting Frequency have positive relations to the financial performance. The study thus concludes that there is a weak

negative insignificant relationship between frequency of board meetings and debt management.

#### 4.4 Regression Analysis

Regression analysis was multiple in nature as there were five independent variables. The independent variable was corporate governance which was further broken down into five independent variables (board composition, board meetings frequency, director’s remuneration, CEO duality and board size) and the dependent variable was debt management which was measured using debt asset ratio, interest cover and Debt equity ratio. Multiple regression analysis involved calculation of coefficient of determination, Analysis of Variances (ANOVA) and regression coefficients

##### 4.4.1 Model 3

**Table 4.12: Analysis of coefficient of determination**

R <sup>2</sup>	0.095		
Adjusted R <sup>2</sup>	0.000	N	27
R	0.308	K	5
Std. Error	0.098	Dep. Var.	<b>debt/asset ratio</b>

##### **Dependent variable:** debt/asset ratio

The overall correlation coefficient (R) between corporate governance and debt management (debt asset ratio) value was 0.308 as shown in table 4.11. This means that there is a weak positive relationship between corporate governance and debt management (debt asset ratio) as (R < 0.5). Furthermore, tables 4.11 indicate that corporate governance explains only 9.5 % of the variations in debt management (debt asset ratio) as shown by the coefficient of determination (R<sup>2</sup>) value of 0.095 %. Hence 90.5% Variations in debt management (debt/equity ratio) are explained by other factors not included in the model. It can thus be concluded that corporate governance has no impact on debt management of Sacco’s licensed by SASRA as corporate governance only explains a very small variation in debt management (debt asset ratio) with the rest of variation explained by other factors not in the model.



**Table 4.13 Analysis of variances (ANOVA)**

ANOVA TABLE					
Source	SS	Df	MS	F	p-value
Regression	0.0214	5	0.0043	0.44	.8154
Residual	0.2037	21	0.0097		
Total	0.2251	26			

According to table 4.12 the overall significance of model 3 was 0.8154 with an F value of 0.44. The level of significance was higher than 0.05 and this means that corporate governance practices do not show statistically significant relationship with debt Asset ratio.

**Table 4.14: Regression Coefficients**

Regression output		confidence interval						
Variables	Coefficients	std. Error	T (df=21)	p-Value	95% Lower	95% upper	std. coeff.	VIF
Intercept	0.3075	0.4587	0.670	.5099	-0.6464	1.2613	0.000	
B composition	0.2578	0.4220	0.611	.5478	-0.6198	1.1354	0.199	2.459
CEO D	-0.0895	0.0863	-1.038	.3113	-0.2690	0.0899	-0.336	2.438
D remuneration	0.0694	0.1570	0.442	.6629	-0.2571	0.3960	0.105	1.304
B size	0.1515	0.1306	1.160	.2589	-0.1200	0.4231	0.313	1.693
B meetings	0.0417	0.0674	0.619	.5425	-0.0985	0.1820	0.138	1.159
								1.811
								mean
								VIF

Table 4.13 further shows that there is no statistical significant effect of corporate governance practices (board size, directors remuneration, board meetings, board composition, and CEO duality) on debt asset ratio as all **p** values for the independent variables were greater than 0.05 ( $p > 0.05$ ). The values of coefficients of independent variables were all positive with exception of CEO duality. This shows that corporate governance generally has positive effect on debt-asset ratio even though the effect is not significant. The multi-collinearity tests indicated that none of the Variance of inflation factor was around or equal to 5. This signifies

that there was no multi-collinearity between the independent variables. Model 1 can thus be estimated as follows

$$\text{Model 3} \quad Y = 0.307 + 0.2578 X_1 - 0.0895 X_2 + 0.0694 X_3 + 0.1515 X_4 + 0.0417 X_5$$

#### 4.4.2 Model 2

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Where Y = interest cover ratio

**Table 4.15: Analysis of coefficient of determination for model 2**

Analysis of coefficient of Determination (R <sup>2</sup> )	
<b>Mode</b>	<b>2</b>
<b>1</b>	<b>R<sup>2</sup></b>
	Adjusted R <sup>2</sup>
	R
	Std. Error
	n
	k
	Dep. Var.
	0.164
	0.000
	0.405
	2.817
	27
	5
	<b>interest cover</b>

The correlation coefficient(R) value was 0.405 as shown in table 4.12. This means that there is a moderate relationship between corporate governance and interest cover (R<0.5). Furthermore, tables 4.14 indicate that corporate governance explains only 16.4 % of the variation in interest cover ratio as shown by the coefficient of determination value (R<sup>2</sup>) of 0.164.

**Table 4.16 analysis of variances (ANOVA) for model 2**

		ANOVA		TABLE	
Source	SS	df	MS	F	p-value
Regression	32.7069	5	6.5414	0.82	.5463
Residual	166.6268	21	7.9346		
Total	199.3337	26			

According to table 4.15 the overall significance of **model 2** was 0.5463 with an F value of 0.82. The level of significance was higher than 0.05 and this means that corporate governance practices do not show statistical significant relationship with interest cover ratio.

**Table 4.17: Regression Coefficients for model 2**

Regression output		confidence interval						
Variables	Coefficients	std. error	t (df=21)	p-value	95% lower	95% upper	std. coeff.	VIF
Intercept	-20.8208	17.7662	-1.172	.2543	57.7676	16.1260	0.000	
Duality	-1.4887	3.4098	-0.437	.6669	-8.5798	5.6023	-0.103	1.411
log of size	5.0725	8.6989	0.583	.5660	13.0179	23.1629	0.131	1.268
Log Of meeting	-0.6333	4.5161	-0.140	.8898	10.0250	8.7585	-0.031	1.256
Log of pay	2.7826	2.0653	1.347	.1922	-1.5124	7.0776	0.295	1.208
Composition	0.6052	1.6003	0.378	.7091	-2.7227	3.9332	0.084	1.237
								1.276
								mean
								VIF

Table 4.16 further shows that there is no statistical significant relationship between corporate governance practices (board size, directors remuneration, board meetings, board composition, and CEO duality) and debt management based on interest cover ratio ( $p > 0.05$ ). Most values of coefficients of the independent variable were positive with exception of CEO duality. These shows that corporate governance has positive effect on interest cover ratio. The multi-collinearity tests indicated that none of the Variance of inflation factor was around or equal to 5. This signifies that there was no multi-collinearity between the independent variables. Model 2 can thus be estimated as shown below

$$\text{Model 2 } Y = -20.8208 + 0.6052 X_1 + -1.4887 X_2 + 2.7826 X_3 + 5.0725 X_4 + -0.6333 X_5 + e$$

#### 4.4.3 Model 1

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Where Y = Debt equity ratio

**Table 4.18: Analysis of coefficient of determination for model 3**

Analysis of coefficient of determination				
	3			
Model	R <sup>2</sup>	0.119	n	27
	Adjusted R <sup>2</sup>	0.000	k	5
	R	0.345	Dep. Var.	<b>debt/equity</b>
	Std. Error	92.279		

The overall person's correlation coefficient (R) value was 0.345 as shown in table 4.17. This means that there is a weak relationship between corporate governance and debt equity ratio ( $r < 0.5$ ). Furthermore, tables 4.9 indicate that corporate governance explains only 11.9 % of the differences in debt/equity ratio as shown by the coefficient of determination value ( $R^2$ ) of 0.119. Other factors not in the model are responsible for 88.1% variations in the value of debt/equity ratio.

**Table 4.19 analysis of variances (ANOVA) for model 1**

ANOVA TABLE					
Source	SS	df	MS	F	p-value
Regression	24,198.7463	5	4,839.7493	0.57	.7233
Residual	178,822.8788	21	8,515.3752		
Total	203,021.6251	26			

According to table 4.18 the overall significance of **model 1** was 0.7233 with an F value of 0.57. The level of significance was higher than 0.005 and this means that corporate governance practices do not show statistically significant relationship with debt equity/equity ratio.

**Table 4.20: Regression Coefficients for model 1**

Regression output				confidence interval				
Variables	Coefficients	std. error	t (df=21)	p-value	95% lower	95% upper	std. coeff.	VIF
Intercept	0.2559	0.7372	0.347	.7320	-1.2773	1.7890	0.000	
Duality	0.0605	0.1415	0.428	.6731	-0.2337	0.3548	0.109	1.411
log of size	0.1682	0.3610	0.466	.6460	-0.5825	0.9189	0.113	1.268
log of meeting	-0.0535	0.1874	-0.286	.7779	-0.4433	0.3362	-0.069	1.256
Log of pay	0.0405	0.0857	0.472	.6415	-0.1377	0.2187	0.112	1.208
Composition	0.0180	0.0664	0.271	.7892	-0.1201	0.1561	0.065	1.237
								1.276
								mean
								VIF

Table 4.19 further shows that there is no statistical significant relationship between corporate governance practices (board size, directors remuneration, board meetings, board composition, and CEO duality) and debt/equity ratio ( $p > 0.05$ ). The multi-collinearity tests indicated that none of the Variance of inflation factor was around or equal to 5.

This signifies that there was no multi-collinearity between the independent variables. The model can thus be estimated as shown below.

$$\text{Model 1 } Y = 0.2559 + 0.0180 X_1 + 0.0605 X_2 + 0.0405 X_3 + 0.1682 X_4 + -0.0535 X_5 + e$$

#### 4.4.4 Hypothesis Testing

The results from the multiple regression analysis indicated that there is a positive but a weak relationship between corporate governance and debt management as shown by small values of overall correlation coefficients ( $R < 0.5$ ). The values of R for model 1, model 2 and model 3 were 0.308, 0.405 and 0.345 respectively. The coefficient of determination ( $R^2$ ) also shows that corporate governance only explains a small variation in debt management. This is evidenced by  $R^2$  of **0.095** for **Model 3**, **0.164** for **Model 2** and **0.119** for **Model 1**. This indicates that corporate governance contributes only to a small variation in debt management and the rest of variations in debt management can be explained by factors not included in the models of this study. The level of significance for models 1, 2 and 3 as given by ANOVA was higher than 0.05 (Model 3,  $p = 0.8154$  with an F value of 0.44, Model 2,  $p = 0.5463$  with an F value of 0.82, Model 1,  $p = 0.7233$  with an F value of 0.57) and this means that corporate governance practices do not show statistically significant association with debt Management ratios (Debt asset, Interest cover and Debt equity ratios). Finally all the  $p$  values for the independent variables in the Multi-regression analysis were greater than 0.05 hence the study fails to reject the null hypothesis that corporate governance has no significant impact on debt management.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION**

#### **5.1 Summary of findings**

The aim of the study was to evaluate the relationship between corporate governance and debt management of deposit taking Sacco's licensed by SASRA. The data was analyzed inform of descriptive and inferential statistics

##### **5.1.1 Board composition and debt management**

From the data it is evident enough that majority of boards of the sampled deposit taking Sacco's had a composition of one and above ( $1 <$ ) this is shown by a frequency of 14 (50%). 7(25%) had a composition of 1 and another 7(25%) had board composition of less than one. From this composition it is clear that most of the boards of sampled Sacco had more non-executive members to executive members. Board composition was found to be positively but weakly correlated with debts ratio, debt/equity ratio and interest cover. This suggest that increased board composition ratio (increased number of non-executive board members) leads to increased usage of debts this can be due to the fact that the non-executive board members are not involved in day to day running of the Sacco's hence if they are the majority in the board, they will not be involved closely in the implementation of deliberations at the board, leading to increasing usage of debts and risks of the Sacco's. This finding is in conflict with studies by (Kee et al, 2003; Hutchinson and Gul , 2003). It is suggested that higher proportion of non-executive directors in the board helps to reduce the agency cost. Kee et al. (2003) and Hutchinson and Gul (2003) support this view by showing that that higher levels of non-executive directors on the board weaken the negative relationship between the firm's investment opportunities and firm's performance.

##### **5.1.2 CEO duality and debt management**

Majority of Sacco's have the CEO and board chairpersons as being different people. This may be attributed to the fact that all licensed Sacco's under SASRA should meet minimum requirements in terms of board structure. To improve transparency and accountability SASRA requires all deposit taking Sacco's licensed by it to have chairperson and CEO as different people. Additionally, CEO duality was found to have a weak negative relationship with debt equity ratio and interest cover except for debt ratio. This suggests that when the

CEO's and board chairperson are one and the same people; usage of debts increases and when CEO and board chairperson are different individuals, the usage of debts reduces. This can be explained by the facts that when CEO and board chairperson are the same people, the board decisions tend to be dominated by the CEO who is also the chairperson of the board due to their ability to vote twice in board decisions when there is a tie during voting on various decisions. CEO duality lead to worse performance as the board cannot remove an underperforming CEO and can create an agency cost if the CEO pursues his on interest at the cost of the shareholders (White and Ingrassia, 1992)

### **5.1.3 Directors Remuneration and Debt Management**

From the data collected, it is evident that most Sacco's board members earn less than 50 million annually as shown by a frequency of 19 (67.8 %). Very few boards had members earning a salary of 150 million and above as shown by a frequency of 1(3.5%).Most boards members earn salary of less than 50 million due to relatively small income levels that Sacco's earn compared to established banks.

### **5.1.4 Board size and debt management**

Majority of Sacco's had a Board size of members between (9-12) shown by frequency of 18 (64.3%) members of the board with only 10 (35.3%) Sacco's having board size of between 5-8 .The Sacco's had a board size between 6-12 members since the licensing authority(SASRA) requires a minimum of four members of the board of directors including the chairperson, the treasurer, the secretary and vice. Chair person. The correlation results of the study indicated that there was a positive but a weak correlation between board size and debt management. This is given by  $r$  values of 0.147, 0.245 and 0.12 between board size and debt/equity, interest cover and debt ratios respectively. However, there was no statistical significant relationship between board size and debt management (Debt/equity ratio, Interest cover ratio and debt ratio) among the 27 Sacco's licensed by SASRA given by P values greater than 0.05 ( $p > 0.05$ ). This suggests that the size of the board has no significant impact on the debt management of the Sacco's; this further suggests that an increase in board size leads to increased usage of debts in Sacco's. This could be due to large number of board membership where no meaningful deliberation on debt management policies takes place.



### **5.1.5 Board Meetings and Debt Management**

Majority of boards of sampled Sacco's had board meeting frequency of 10 (35.7%) for 5-7 meeting per year and frequency of 10(35.7%) for 8-10 meetings per year. And 6 Sacco's had average meetings of 11-12 per year .This shows that majority of boards of sampled Sacco's hold board meetings every two months or every month of the year as show by equal frequency of 10 (35.7%). A few boards hold more than one meeting every month of the year.

Furthermore, correlation results indicated that there was a weak negative relationship between board meetings frequency and debt ratio and interest cover ratio except for debt/equity ratio. This suggests that an increase in the number of board meetings leads to reduced usage of debts. This could be explained by the fact that increased number of meetings enables the board to have enough time to deliberate on policies affecting debts management and to reduce unnecessary debts that might lead to increased risks in the Sacco's licensed by SASRA

### **5.2 Conclusion**

The results from the multiple regression analysis indicated that there is a positive but a weak relationship between corporate governance and debt management as shown by small values of overall correlation confidents (  $R < 0.5$ ) and the coefficient of determination ( $R^2$ ) also shows that corporate governance only explain a small variation in debt management. This is evidenced by  $R^2$  of 0.119 for Model 1, 0.164 for Model 2 and 0.030 for Model 3 .This indicates that corporate governance contributes only to a small variation in debt management and the rest of variations in debt management can be explained by factors not included in the models of this study. ANOVA tests and regression analysis of the three models indicated that the impact of corporate governance on debts management as measured by debt ratio, debt/equity ratio and interest cover was not statistically significant at 0.05 level of significance (Model 3,  $p = 0.8154$  with an F value of 0.44, Model 2,  $p = 0.5463$  with an F value of 0.82. Model 1  $p = 0.7233$  with an F value of 0.57. Therefore, this study concludes by accepting the null hypothesis that that there is no significant impact of corporate governance on debt management of Deposit taking Sacco's in Kenya licensed by SASRA.

### **5.3 Recommendations**

From the data collected and analyzed a number of recommendations can be made including the following,

SASRA should continue encouraging Sacco's silenced by it to have a meaningful and optimal board size that can encourage fruitful deliberations as the research shows that extremely large board sizes in not effective enough in making meaningful deliberations concerning debt management.

Concerning CEO duality, SASRA should ensure that no deposit taking Sacco should have the CEO and the board chair person as being the same people. CEO should never be allowed double up as the board chairperson of any Sacco as that would reduce transparency and accountability in board deliberations.

Frequent board meetings should be encouraged by SASRA for Sacco's licensed by it .this is because the research findings shows that increased board meetings leads to board having enough time to deliberate on issues about debt management so as to have optimal debts that does not affect risks faced by Sacco's.

### **5.4 Further Study**

Future studies should be conducted to determine the impact of corporate governance practices on Debt management using larger samples and longer time periods. Furthermore, future studies should include SASRA non-Licensed deposit taking Sacco's.

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## APPENDICES

### APPENDIX I: TARGET POPULATION

	NAME OF SOCIETY	POSTAL ADDRESS	DATE LICENSED
1	STIMA SACCO SOCIETY LTD	P.O. Box 75629 – 00100 NAIROBI	04/03/2011
2	U.N. SACCO SOCIETY LTD	P.O. Box 30552 -00100 NAIROBI	04/03/2011
3	CHAI SACCO SOCIETY LTD	P.O. Box 278 – 00200 NAIROBI	31/05/2011
4	NACICO SACCO SOCIETY LTD	P.O. Box 34525 – 00100 NAIROBI	09/06/2011
5	MWITO SACCO SOCIETY LTD	P.O. Box 56763 – 00200 NAIROBI	09/06/2011
6	COMOCO SACCO SOCIETY LTD	P.O. Box 30135- 00100 NAIROBI	22/06/2011
7	MWALIMU NATIONAL SACCO SOCIETY LTD	P.O. Box 62641- 00200 NAIROBI	30/06/2011
8	WANANDEGE SACCO SOCIETY LTD	P.O. Box 19074 –	28/07/2011



		00501 NAIROBI	
9	KENYAPOLICESTAFF SACCO SOCIETY LTD	P.O. Box 51042 – 00200 NAIROBI	28/07/2011
10	NATION STAFF SACCO SOCIETY LTD	P.O. Box 22022 – 00400 NAIROBI	28/07/2011
11	ORTHODOX DEVELOPMENT SACCO SOCIETY LTD	P.O. Box 43582 – 00100 NAIROBI	28/07/2011
12	KINGDOM SACCO SOCIETY LTD	P.O. Box 8017 – 00300 NAIROBI	28/07/2011
13	AFYA SACCO SOCIETY LTD	P.O. Box 11607 – 00400 NAIROBI	28/07/2011
14	HARAMBEE SACCO SOCIETY LTD	P.O. Box 47815 – 00100 NAIROBI	28/07/2011

15	JAMII SACCO SOCIETY LTD	P.O. Box 57929 – 00200 NAIROBI	07/09/2011
16	SHERIA SACCO SOCIETY LTD	P.O. Box 34390 – 00100 NAIROBI	07/09/2011
17	ASILI SACCO SOCIETY LTD	P.O. Box 49064 00100 NAIROBI	07/09/2011
18	SAFARICOM SACCO SOCIETY LTD	P.O. Box 66827 – 00800 NAIROBI	07/09/2011
19	KENPIPE SACCO SOCIETY LTD	P.O. Box 314 – 00507 NAIROBI	18/10/2011
20	AIRPORTS SACCO SOCIETY LTD	P.O. BOX 19001-00501 NAIROBI	19/12/2011
21	CHUNA SACCO SOCIETY LTD	P.O BOX 30197-00100 NAIROBI	19/12/2011
22	UKULIMA SACCO SOCIETY LTD	P.O BOX 44071-00100	19/12/2011

		NAIROBI	
23	WANA-ANGA SACCO SOCIETY LTD	P.O BOX 34680-00100 NAIROBI	19/12/2011
24	WAUMINI SACCO SOCIETY LTD	P.O BOX 66121-00800 NAIROBI	22/12/2011
25	NATION SACCO SOCIETY LTD	P.O.BOX22022– 00400 NAIROBI	22/12/2012
26	ORIENT SACCO SOCIETY LTD	P.O. BOX 1842 – 00100 NAIROBI	19/12/2012
27	WANANCHI SACCO SOCIETY LTD	P.O.BOX 910 – 10106 NAIROBI	22/12/2012

**APPENDIX II.RAW DATA FOR THE YEAR 2011**

					2011	millions	Millions	millions	millions	millions	millions	millions
<b>SACCO</b>	<b>CEO. D</b>	<b>B.O.D Size</b>	<b>non- Executive</b>	<b>Executive</b>	<b>B.O.D Meeting</b>	<b>B.O.D Pay</b>	<b>total assets</b>	<b>loans</b>	<b>deposits</b>	<b>total income</b>	<b>intrest expense</b>	<b>share capital</b>
Mwalimu	1	9	5	4	9	146	19,305	17,606	15,420	2,165	350	637
UN sacco	1	7	3	4	12	42	5,610	4,832	4,724	776	567	139
Chai sacco	1	8	4	4	5	45	1267	1026	948	151	46	34
NACICO sacco	1	8	4	4	6	23	2343	1374	880	227	57	87
Mwito sacco	1	9	5	4	5	23	616	549	534	57	50	24
COMOCO Sacco	1	8	3	5	7	25	520	405	407	80	45	6
stima Sacco	1	7	2	5	11	51	7,703	6293	5469	1017	356	201
wanandege sacco	1	8	3	5	10	55	1206	586	1036	141	33	4
kenya police staff	0	9	4	5	4	87	7862	6063	6359	827	120	109
Nation staff sacco	1	9	6	3	5	32	677	556	591	77	70	13
orthodox devtsacco	1	8	4	4	8	21	57	36	39	11	20	9
Kingdom sacco	1	12	7	5	7	12	195	145	166	20	45	15
Afyra Sacco	1	11	6	5	8	43	10,248	7,086	7,127	726	456	48
Harambee	1	9	5	4	11	57	15,909	13,020	10,661	1,431	465	325

Sacco												
Jamiisacco	1	9	5	4	9	25	1271	1065	920	151	80	42
sheriasacco	1	8	4	4	7	24	1634	1410	1439	147	152	35
asilisacco	1	9	5	4	5	17	1219	979	869	116	36	90
safaricom sacco	1	8	4	4	12	15	958	858	643	97	44	13
KEN pipe	1	9	5	4	6	31	1134	1051	893	136	32	25
airports Sacco	1	9	5	4	5	14	180	148	143	87	23	5
chuna Sacco	1	9	5	4	8	10	1536	1422	1234	107	72	9
ukulima Saco	1	8	4	4	9	33	665	778	767	590	38	13
wana-anga sacco	1	9	6	3	8	15	812	647	686	128	56	20
Naku Sacco	1	11	6	5	6	14	899	704	772	80	23	27
waumini sacco	1	9	5	4	5	14	1386	1103	1186	132	65	55
orient sacco	1	8	3	5	11	11	457	344	248	56	80	5
wananchi sacco	1	8	4	4	8	12	760	462	460	150	23	65
<b>AVERAGE</b>	<b>0.963</b>	<b>8.74074</b>	<b>4.5185</b>	<b>4.2</b>	<b>7.666667</b>	<b>33</b>	<b>3,201</b>	<b>2,613</b>	<b>2,393</b>	<b>359</b>	<b>126</b>	<b>76</b>

**APPENDIX III: RAW DATA FOR YEAR 2012.**

					2012							
						millions	million	millions	millions	million	millions	million
SACCO	CEO .D	B.O.D Size	non executive	executive	B.O.D Meeting	directors remuneration	total assets	loans	deposits	total income	interest expense	equity
Mwalimu	1	6	2	4	11	146	22,008	18,980	6,660	3,028	453	3,635
UN sacco	1	8	4	4	12	42	6,547	5,840	5,374	961	654	522
Chai sacco	1	5	0	5	4	45	1,308	1,102	1,040	171	53	119
NACICO sacco	1	8	4	4	6	23	2,365	1,330	993	217	60	545
Mwito sacco	1	9	4	5	6	23	727	664	625	69	51	39
COMOCO Sacco	1	11	6	5	8	25	526	415	410	89	48	20
stima Sacco	1	8	4	4	10	51	9,402	8,109	7,045	1,322	403	1,173
wanandeg e sacco	1	9	4	5	11	55	1,205	607	990	169	34	94

kenya police staff	0	10	7	3	5	87	9,054	7,518	7,500	1,179	133	647
Nation staff sacco	1	6	2	4	6	32	739	655	636	85	70	52
orthodox devtsacco	1	8	3	5	8	21	63	48	42	19	21	10
Kingdom sacco	1	7	3	4	7	12	294	198	258	29	49	55
Afya Sacco	1	10	6	4	9	43	10,848	7,829	8,278	1,385	455	8
Harambee Sacco	1	8	5	3	12	57	16,911	14,313	11,524	1,423	333	627
Jamii sacco	1	10	5	5	10	25	1,522	1,285	1,101	236	85	227
sheria sacco	1	9	4	5	6	24	2,324	1,846	1,789	180	145	69
asilisacco	1	8	4	4	6	17	151	134	112	19	39	23
safaricom sacco	1	8	4	4	12	15	1,064	917	849	122	42	55
KEN pipe	1	7	3	4	6	31	1,268	1,158	1,033	159	33	141
airports Sacco	1	8	4	5	6	14	352	234	244	36	28	29
chuna Sacco	1	7	3	4	8	10	1,414	1,338	1,035	195	87	47
ukulima Saco	1	9	4	5	10	33	147	98	107	29	39	34
wana-anga sacco	1	8	4	4	11	15	911	776	793	138	59	50

Naku Sacco	1	8	4	4	8	14	1,153	839	1,042	144	23	50
waumini Sacco	1	12	6	4	6	14	1,648	1,298	1,301	168	98	166
Orient Sacco	1	9	4	5	12	11	506	417	281	60	88	19
Wananchi Sacco	1	8	4	4	8	12	894	414	546	196	26	67
<b>Average</b>	<b>0.96</b>	<b>8.29629</b>	<b>3.96296</b>	<b>4.3</b>	<b>8.2963</b>	<b>33</b>	<b>3,532</b>	<b>2,902</b>	<b>2,282</b>	<b>438</b>	<b>134</b>	<b>316</b>



**APPENDIX IV: RAW DATA FOR THE YEAR 2013.**

					2013							
						Millions	million	million	millions	million	millions	million
SACCO	CEO D	B.O.D Size	Non Executive	Executive E	B.O.D Meeting	directors remuneratio n	total assets	loans	deposits	total income	intrest expense	equity
Mwalimu	1	9	5	4	10	156	24,540	21,053	18,557	3510	550	637
UN sacco	1	9	5	4	12	45	7,569	6,505	6188	1102	667	139
Chai sacco	1	9	5	4	4	46	1534	1,413	1212	214	56	34
NACICO sacco	1	10	4	3	6	33	2565	1,614	1247	304	67	87
Mwito sacco	1	10	4	5	6	23	855	818	738	98	50	24
COMOCO Sacco	1	11	5	4	7	35	578	448	444	97	55	6
stima Sacco	1	8	4	6	10	61	12402	10,619	8985	1650	456	201
wanandeg sacco	1	9	5	4	11	56	1179	582	972	164	59	4
kenya police staff	1	12	5	7	5	88	11523	10,181	8463	1578	234	109
Nation staff sacco	1	6	1	5	6	35	925	789	787	101	87	13
orthodox devtsacco	1	8	4	5	8	24	75	48	34	20	23	9

Kingdom sacco	1	7	4	5	8	13	765	378	543	100	56	15
Afya Sacco	1	10	5	5	9	51	11885	8,705	9369	1616	567	48
Harambee Sacco	1	8	4	4	12	67	17633	14,454	12463	1671	567	325
Jamii	1	10	5	5	10	36	1802	1,588	1331	287	98	42

**APPENDIX V: RAW DATA FOR THE YEAR 2014.**

						millions	millions	millions	millions	millions	millions	millions
<b>SACCO</b>	<b>CEO. Du</b>	<b>B.O.D Size</b>	<b>non executive</b>	<b>executive</b>	<b>B.O.D Meeting</b>	<b>directors remuneration</b>	<b>total assets</b>	<b>loans</b>	<b>deposits</b>	<b>total income</b>	<b>intrest expense</b>	<b>share capital</b>
Mwalimu	1	9	5	4	10	166	28,601	22,115	19,903	3510	650	637
UN sacco	1	9	5	4	12	55	8,828	7,133	7,158	1102	667	139
Chai sacco	1	9	5	4	4	46	1,981	1,806	1,417	214	56	34
NACICO Sacco	1	10	4	3	6	43	2,474	1,210	1,466	304	77	87
Mwitosacco	1	10	4	5	6	23	1,002	918	863	98	56	24
COMOCO Sacco	1	11	5	4	7	35	655	525	509	97	55	6
stima Sacco	1	8	4	6	10	62	16,354	13,771	12,624	1650	476	201
Wanandegge Sacco	1	9	5	4	11	57	1,340	702	1,092	164	89	4
kenya police Staff	1	12	5	7	5	78	15,691	12,654	10,186	1578	434	109
Nation staff Sacco	1	6		5	6	36	1,088	1,007	888	101	57	13
orthodox devt Sacco	1	8	4	5	8	15	76	35	48	20	63	9
Kingdom Sacco	1	7	4	5	8	13	580	436	463	100	66	15
Afya Sacco	1	10	5	5	9	55	12,683	10,051	10,302	1616	667	48
Harambee												

Sacco	1	8	4	4	12	67	19,920	15,988	12,811	1671	467	325
Jamiisacco	1	10	5	5	10	36	2,157	1,819	1,532	287	88	42
sheriasacco	1	8	4	5	6	24	3,413	2,642	2,512	311	277	35
asilisacco	1	7	5	5	6	16	16	1,577	1,177	198	75	90
Safaricom												
Sacco	1	9	9	4	12	16	2,207	1,997	1,892	166	46	13
KEN pipe	1	9	3	6	6	22	1,633	1,363	1,302	188	45	25
airports Sacco	1	10	4	6	5	15	503	364	355	59	23	5
chuna Sacco	1	7	5	4	8	13	1,926	1,871	1,296	205	150	9
ukulima Saco	1	10	5	5	10	35	211	123	148	798	64	13
wana-anga												
Sacco	1	10	5	5	12	15	1,079	813	930	143	56	20
Naku Sacco	1	8	4	4	6	13	1,777	1,334	1,386	174	44	27
wauminisacco	1	12	4	5	6	15	2,564	2,065	1,856	193	87	55
orient sacco	1	9	4	5	12	12	656	572	359	81	97	5
Wananchi												
Sacco	1	9	4	5	8	13	1,172	834	609	193	150	65
AVARAGE	1	9.037037	4.588235	4.778	8.1851852	37	4,837	3,916	3,522	564	188	76

**APPENDIX VI: ACTUAL BUDGET**

Item/particular	Amount
Stationary and preparation	17000
Collecting of data	20000
Photocopying and computer services	20000
Binding	5000
Miscellaneous Activities	8000
Sub-total	69000
Contingency	10000
Totals	80000