

**AN INVESTIGATION OF RELATIONSHIP BETWEEN
CORPORATE GOVERNANCE AND FINANCIAL
PERFORMANCE OF SAVINGS AND CREDIT COOPERATIVE
SOCIETIES: A CASE OF TANGA REGION.**

By

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**A Dissertation Submitted in Partial Fulfillment of the Requirements for the
award of Degree of Master of Business Administration-Corporate Management
of Mzumbe University**

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CERTIFICATION

The undersigned certifies that he has read and hereby recommends for acceptance by the Mzumbe University a research report entitled “**An Investigation of relationship between corporate governance and financial performance of Savings and Credit Co-operate Societies: A case of SACCOS in Tanga Region**” in fulfillment of the requirement for award of degree of Masters of Business Administration of Mzumbe University.

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DEDICATION

This work is dedicated to my beloved sister Levina, my beloved brother Deusdedith and my beloved wife Glory. The three missed my advice and love with patience and understanding during long spells of my absence while on study.

LIST OF ABBREVIATIONS

CAC	-	Corporate Affairs Commission.
CACG	-	Commonwealth Association for Corporate Governance.
CEO	-	Chief Executive Officer.
DSE	-	Dar-Es-Salaam Stock Exchange.
OECD	-	Organization for Economic Co-operation and Development.
SACCOS	-	Savings and Credit Cooperative Societies.
TDCU	-	Tanga Dairy Co-operative Union.
N	-	Total number of sample

ABSTRACT

Corporate governance is a concept that involves practices that entail the organization of management and control of companies. It reflects the interaction among those persons and groups, which provide resources to the company and contribute to its performance such as shareholders, employees, creditors, long-term suppliers and subcontractors. Corporate governance has received much attention in the accounting literature, with studies focusing on the impact of corporate governance and the financial performance of the firm. None of these studies have focused on the relationship between corporate governance and financial performance of the deposit taking Savings and Credit Cooperatives in Tanzania.

This study aims to explore the relationship between corporate governance and the financial performance of the deposit taking Savings and Credit Cooperatives in Tanzania. The main objective of this study will be to investigate the relationship between corporate governance and the financial performance of the deposit taking Savings and Credit Cooperatives in Tanzania. This research problem will be studied through the use of a descriptive research design. The population of interest of this study will be the SACCOS that are operating in Tanga Region.

The study will target the 1000 respondents from the SACCOs within the Region and more particularly on the top, middle and lower level management staff. A sample of 10% will be selected from the 1000 target respondents. This will generate a sample of 100 respondents which the study will seek information from. Data collection will involve a self-administered questionnaire Observation and interview. The researcher will drop the questionnaires physically at the respondents' place of work. The researcher will select a pilot group of 5 individuals from the target sample of the staff working in deposit taking SACCOs to test the reliability of the research instrument. Data collected will be purely text and it will be analyzed qualitatively. Tables will be used to summarize responses for further analysis and facilitate comparison.

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CHAPTER ONE

1.0 Introduction

Corporate governance is a field in economics that investigates how to secure and motivate efficient management of corporations by the use of incentive mechanisms, such as contracts, organizational designs and legislation. This is often limited to the question of improving financial performance. Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. Shleifer and Vishny 1997 *The Journal of Finance*.

"Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance", OECD April 1999.

Some commentators take too narrow a view, and say corporate governance is the fancy term for the way in which directors and auditors handle their responsibilities towards shareholders. Others use the expression as if it were synonymous with shareholder democracy. Corporate governance is a topic recently conceived, as yet ill-defined, and consequently blurred at the edges. Corporate governance as a subject, as an objective, or as a regime to be followed for the good of shareholders, employees, customers, bankers and indeed for the reputation and standing of our nation and its economy.

Corporate governance practices are affected by attempts to align the interests of stakeholders. Much of the contemporary interest in corporate governance is concerned with mitigation of the conflicts of interests between stakeholders. In large firms where there is a separation of ownership and management and no controlling shareholder, the principal-agent issue arises between upper-management (the agent) which may have very different interests, and by definition considerably more information, than shareholders (the principals). The danger arises that, rather than

overseeing management on behalf of shareholders, the board of directors may become insulated from shareholders and beholden to management. The main external stakeholder groups are shareholders, debt holders, trade creditors, suppliers, customers, and communities affected by the corporation's activities. Internal stakeholders are the board of directors, executives and other employees.

According to OECD reports, proper governance expected to operate in accordance to general principals. These include rights and equitable treatment of shareholders, interests of other stakeholders, role and responsibilities of the board, integrity and ethical behavior, disclosure and transparency.

Corporations are created as legal persons by the laws and regulations of a particular jurisdiction. These may vary in many respects between countries, but a corporation's legal person status is fundamental to all jurisdictions and is conferred by statute. This allows the entity to hold property in its own right without reference to any particular real person. It also results in the perpetual existence that characterizes the modern corporation. The statutory granting of corporate existence may arise from general purpose legislation or from a statute to create a specific corporation, which was the only method prior to the 19th century.

1.1 Statement of the problem

According to The Cadbury and Organization for Economic Co-operation and development reports, proper governance expected to operate in accordance to general principals. These include rights and equitable treatment of shareholders, interests of other stakeholders, role and responsibilities of the board, integrity and ethical behavior, disclosure and transparency. Corporate governance practices are affected by attempts to align the interests of stakeholders. Much of the contemporary interest in corporate governance is concerned with mitigation of the conflicts of interests between stakeholders. In large firms where there is a separation of ownership and management and no controlling shareholder, the principal-agent issue arises between upper-management which may have different interests than shareholders.

Regardless of the existence of corporate governance in business firms and companies, still there are reported confronting parties namely principal-agent, Inadequate managerial competitiveness, Failure of membership and boards to exercise fiduciary responsibility as well as lack of clear rules combined with credit rationing. All this have been reported to contribute to the poor performance of most of SACCOS in Tanzania.

Most of studies have focused on the mitigating SACCOS problems rather than exploring the relationship between corporate governance and financial performance of the Savings and Credit Cooperatives Societies. This study aims to explore the relationship between corporate governance and the financial performance of the Savings and Credit Cooperatives Societies in Tanzania, taking SACCOS resonating in Tanga Region as a case study.

1.2 Purpose of the study

The purpose of the study was to explore the relationship between corporate governance and financial performance of the Savings and Credit Cooperatives Societies, so as to obtain an insight on how SACCOS can be effectively managed and organized for members' reliability in Tanzania.

1.3 Objectives of the study

1.3.1 General Objective

To explore the relationship between corporate governance and financial performance of the Savings and Credit Cooperatives Societies towards sustainable development in Tanzania.

1.3.2 Specific Objectives

- i. To identify the factors which influence the practice of corporate governance in SACCOS.
- ii. To identify the different approaches used by SACCOS in practice of corporate governance.
- iii. To determine the effect of corporate governance practices on SACCOS' financial performance.

- iv. To establish the relationship between corporate governance and financial performance of SACCOS.

1.4 Research Questions

- i. What are the factors influence the practice of corporate governance in SACCOS?
- ii. What are the different approaches used SACCOS in practice of corporate governance?
- iii. What is the effect of corporate governance on SACCOS' performance?
- iv. What is the relationship between corporate governance and financial performance of SACCOS?

1.5 Significance of the Study

This study was important in a way that, it would avail SACCOS with the opportunity of knowing the benefits derivable in having a good corporate governance mechanism in place. The study became valuable in the sense that, it added literature in existed once thus, provided the basis for further research on areas not covered here or improvement where there is need.

1.6 Scope of the Study

The scope of study was limited to SACCOS found in Tanga Region in Tanzania. The study covered a period between 2000 to 2015, 15 years after the release of code of corporate Governance in Tanzania by the Dar-es-salaam stock exchange (DSE) and corporate affairs commission (CAC) in 2003.

1.8 Limitations to the study

Financial constrain was the major hindering fact for the research work that became narrowed to the region level where researcher was able to conduct the study. Time frame was another hindering factor provided that the field covered many SACCOS in the whole region but time wasn't a friend for researcher to visit every SACCOS in the region.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Literature review is one of the ways in which secondary data is obtained. In this study, review of Theories, rules, SACCOS management reports and empirical studies was made included SACCOS management in Kenya, Uganda, Tanzania as well as in Tanga region.

2.2 Theoretical review

These are the theories explaining Corporate Governance and its general practice in the organization. It explains the way management is required to act so as efficiency can be attained in a particular organization. Those adhering to such theories are assumed to have high financial performance in terms of profit and increased sales volume.

International Cooperative Alliance definition

The International Cooperative Alliance is an independent non-governmental organization which unites represents and serves co-operative organizations in the world.

The Alliance was founded in London in 1895. The Alliance members are national and international cooperative organizations in all sectors of activity including agriculture, banking, credit and saving, industry, insurance, fishing, social housing, health, public services, consumer services and tourism.

There are 285 member organizations from 93 countries that represent nearly 1,000 million individuals worldwide. <http://www.ica.coop>

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. Cooperatives are distinct type of organization owned and controlled by its members, who are the users or workers, and

are formed to meet their common interests and abide by the seven cooperative principles.

Values

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

Principles

The co-operative principles are guidelines by which co-operatives put their values into practice. These include:

Voluntary and Open Membership

Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

Democratic Member Control

Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized in a democratic manner. e co-operative principles are guidelines by which co-operatives put their values into practice.

Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in

proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

Autonomy and Independence

Co-operatives are autonomous, self-help organizations controlled by their members. If they enter to agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

The Cooperative Societies Act of Kenya Amended in 2004

Powers of the general meeting

The supreme authority of a co-operative society shall be vested in the general meeting at which members shall have the right to attend, participate and vote on all matters. A general meeting of a co-operative society shall be convened by giving at least fifteen days written notice to the members. At the annual general meeting of a co-operative society, the members shall consider and confirm the minutes of the last general meeting; consider any reports of the committee, or Commissioner; consider and adopt audited accounts; determine the manner in which any available surplus is to be distributed or invested; elect the co-operative society's office bearers for the

ensuing year; determine, where necessary the maximum borrowing power of the society; appoint an auditor for the ensuing year; and transact any other general business of the society of which notice has been given to members in the manner prescribed in the by-laws of the society.

Management of Co-operative Societies

Every co-operative society shall have a committee consisting of not less than five and not more than nine members. The members of the committee shall elect a chairman and a vice chairman from among their number. The committee shall be the governing body of the society and shall, subject to any direction from a general meeting or the by-laws of the co-operative society, The Committee may delegate any of its duties under this Act to an officer or officers of the society but, nothing in this subsection shall absolve the Committee from its responsibility to run the affairs of the co-operative society in proper and businesslike manner. In the conduct of affairs of a co-operative society the members of the Committee shall exercise the prudence and diligence of ordinary men of business and shall be held, jointly and severally liable for any losses sustained through any of their acts which are contrary to the Act, rules, by-laws or the directions of any general meeting of the co-operative society. The Commissioner may suspend from duty any committee member charged in a court of law with an offence involving fraud or dishonesty pending the determination of the matter.

The Cooperative Societies Act, 2003 in Tanzania

In this Act section 62, It is explain that, Every registered society shall establish the board to manage its day to day activities. Every Board of a registered society shall consist of not less than five members and not more than nine members including the chairman and vice chairman. The members of the Board shall be elected by the general meeting of the society and shall hold office for a period of up to nine years provided that, in the case of those members of the board elected at the first general meeting of the society one third of such members shall be voted out at the general meeting after the expiration of a period of three years from the date of their election, and one half of the remaining members shall be voted out after expiration of a period

of six years from the date of election and the remaining half leave office at the end of period of nine years.

Powers of the general meeting

The control of affairs of a registered society shall be vested in the general meeting summoned in accordance with the by-laws of the society and the rules. Function of the general meeting include: To elect, suspend or remove a board member. To consider and adopt the annual balance sheet of the society. To dispose sum available for distribution. To determine the amount of honoraria if any for unsalaried officers and board members. To receive the report from Board committee. Cooperative Act, 2003 section 61.

Powers of the Board

The Board shall exercise all powers necessary to ensure the full and proper administration of the society subject to the by-laws of the society, the rule and any resolutions passed at the general meeting. The board may appoint a suitable person to administer and manage the affairs of the society and may employ such number of persons as the Board may think fit to asst such person in the discharge of his function. Provided that such person shall not have a record of previous conviction on criminal charge involving dishonesty or by a person who has in the past been dismissed from public service on ground of mismanagement or on any disciplinary ground. Cooperative Act, 2003 section 6

Corporate governance theories

Agency Theory

According to Abdullah & Valentine (2009), agency theory explains the relationship between the principals, such as members and agents. In this theory, members who are the owners or principals of the SACCOS, hires by electing the management board as their agent (Alchian & Demsetz, 1972; Jensen & Meckling, 1976; Mitnick, 2006; Bruton et al., 2000).

Principals delegate the running of business to the management board which in turn hire and delegate authority to the managers (Clark, 2004). Indeed, Daily et al. (2003)

note that two factors can influence the prominence of agency theory. First, the theory conceptually reduces the corporation to two participants of managers and the owners. Second, agency theory suggests that employees or managers in SACCOS can be self-interested. Shareholders expect the agents to act and make decisions in the principal's interest. On the contrary, the agent may not necessarily make decisions in the best interests of the principals (Padilla, 2002). In agency theory, the agent may succumb to self-interest, opportunistic behavior and falling short of the agreement between the interest of the principal and the agent's pursuits. Although with such setbacks, agency theory was introduced basically as a separation of ownership and control (Bhimani, 2008).

Indeed, agency theory can be employed to explore the relationship between the ownership and management structure. 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).

This theory prescribes that employees must constitute a good governance structure since they are held accountable in their tasks and responsibilities. An explanatory power of agency theory is reduced if and when the principal decides to divest to a new business. An agent must be motivated and monitored to create wealth, portraying the agent as potentially fraudulent (Arthur & Busenitz, 2003).

Stewardship Theory

According to Davis et al. (1997), a steward protects and maximizes shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximized. In this perspective, stewards are managers working to protect and make profits for the shareholders. Therefore, stewardship theory emphasizes on the role of management being as stewards, integrating their goals as part of the organization (Davis et al., 1997). The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained. The theory recognizes the importance of governance structures that empower the

steward and offers maximum autonomy built on trust (Donaldson & Davis, 1991). It stresses on the position of employee to act more autonomously so that the shareholders' returns are maximized. Indeed, this can minimize the costs aimed at monitoring and controlling employee behaviour (Davis et al., 1997). Daily et al. (2003) assert that in order to protect their reputations as decision makers in organizations, managers are inclined to operate the firm to maximize financial performance as well as shareholders' profits. In this sense, it is believed that the firm's performance can directly impact perceptions of their individual performance.

Stakeholder Theory

Abdullah & Valentine (2009) indicate that a stakeholder 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 have a network of relationships to serve, which include the suppliers, employees and business partners. Sundaram & Inkpen (2004) contend that stakeholder theory attempts to address the group of stakeholder deserving and requiring management's attention. Donaldson & Preston (1995) suggest that all groups participate in a business to obtain benefits.

Nevertheless, Clarkson (1995) concludes that the firm is a system, where there are stakeholders and the purpose of the organization is to create wealth for its stakeholders.

Freeman (1984) reveals that the network of relationships with many groups can affect decision making processes as stakeholder theory is concerned with the nature of these relationships in terms of both processes and outcomes for the firm and its stakeholders. Donaldson & Preston (1995) argue that this theory focuses on managerial decision making and interests of all stakeholders have intrinsic value, and no sets of interests is assumed to dominate the others.

Political Theory

Abdullah & Valentine (2009) propose that political theory brings the approach of developing voting support from the members. Hence having a political influence in corporate governance may direct corporate governance within the SACCOS. Loss of

capable African cooperative leaders and managers to the political arena worsens the situation. Kabuga (2005) points that every person of questionable motives, integrity and competencies who vie for SACCOS leadership can invade the sector. In that way, floodgates for nepotism, corruption, mismanagement and financial indiscipline are opened. Enete (2008) observes that in Nigeria, many SACCOS have been formed through government directives to certain categories of government officials to form a given number of SACCOS in their villages of origin. In some other cases, SACCOS spring up in response to government promises of providing subsidized services to members. These two categories could be referred to as “political SACCOS” which usually do not stand the test of time.

2.2 Empirical review

Empirical review refers to the comparative studies from various SACCOS in the neighboring countries. Researcher wanted to know whether corporate governance is practiced in other SACCOS. A case study from Uganda and Kenya was reviewed.

SACCOS governance in Uganda

In Uganda the position of SACCOs has been heightened by the launch of the government “Bonna Bagaggawale” (“Prosperity for All”) program intended among other interventions to address inadequate access to financial services. This program is designed to use a SACCO-per sub-county strategy to channel both agricultural and commercial loans at below market rates to borrowers.

Micro Capital Monitor (2009) identifies that the government of Uganda has set aside the equivalent of USD 133.7 million for subsidized loans to individuals and small businesses through the government-owned Microfinance Support Center (MSC) to Savings and Credit Cooperative Societies (SACCOs).

For SACCOs the nature of the boards poses many challenges, specifically because of their institutional structure. A strand of literature identifies that governance remains the prime weakness SACCOs (Branch and Baker, 2000; Cornforth, 2004; Cuevas and Fischer, 2006). Labie and Périlleux (2008) highlight four critical governance issues in SACCOs;

First is the conflict between “net borrowers (have more loans than savings) and net savers (have more savings than loans)”. The SACCO board can comprise elected members who may favour either resulting into sub-optimality in governance rather than striking a balance between net savers and net borrowers which is good corporate governance practice for SACCOs.

Secondly is the conflict between owners and managers. This is entrenched in the classical principal-agency theory and very visible in SACCOs. By their nature as SACCOs grow they need to recruit services of professional management and in most cases conflicts arise on whether they maximize their own utility or value for the owners.

The third governance issue arises from the conflict between the members and their elected board of directors where there is a likelihood of democratically elected (one person, one vote) members remaining obliged to the individual voters hence failing in their oversight roles.

The fourth is the conflict between (paid) employees and volunteers. At the start of the SACCO the work is mainly done by volunteers whose commitment is to see the growth of the project. Later as the SACCO grows professional staff has to be employed and problems of governance arise if volunteer board members attempt to engage in operational decision-making rather than in strategic management and decision making (Branch and Evans 1999).

SACCOS governance in Kenya

The phenomenon of fast growth of SACCOS in Kenya in the last two decades is the result of provision of credit for a wide range of purposes and on a relatively affordable terms and conditions. The credit further suited different categories of borrowers include the disadvantaged groups especially women (Alila & Obado, 1990). Today co-operatives particularly SACCOS are integral part of the government economic strategy focusing on creating income generating opportunities especially in rural areas.

Kenya has been a success as far as the Co-operative Movement is concerned.

It is estimated that there are currently over 10,800 registered Co-operative Societies in Kenya with a membership of about 6 million. Out of this, 46% are Agricultural, 38% Financial-based that is SACCOS and, 16% are others. 63% of the Kenyan population depends on the Co-operative related activities for their livelihood with over 250,000 benefiting through direct employment. Challenges encountered by Kenyan SACCOS involves: board of directors is not being trusted by employees. He further sighted that very important decisions on urgent matters such as change in interest rates, introduction of new products and services have to await approval by the Annual General Meeting. According to him, board members in most cases are non-professional volunteers, yet they assume very highly technical issues such as loan analysis and disbursement, budgeting and financial expenditure control. Furthermore, there are no adequate guidelines on various stakeholders in SACCOS. For example, where the authority of Credit Committees should end, where the authority of Executive Committee should begin, and what are other staff members' authorities.

The co-operative movement in Kenya can be traced back to 1908 when the European farmers at Lumbwa near Kericho first established co-operative production and Marketing. Before 1930 cooperative development was very slow due to discouragement by colonial ruler. On the other hand, SACCOS are important form of financial intermediary, which over the years has played a vital role in provision of financial services to their members.

It was very difficult to develop SACCOS during that era. The colonial government considered it was very difficult to find smart people in Africa who could command trust of their fellow members and keep accounts and business of SACCOS' movement (Ongore, 2001; Oyoo, 2002). Government involvement in co-operatives started in 1931 when the first co-operative ordinance was enacted in order to regulate the operations of cooperative societies in Kenya. The Government continued to promote the movement after independence in 1963, the Cooperatives and SACCOS' movements were seen as the means to make people get involved in modern economic

development within a short period of time particularly in land acquisition, business and engage in agricultural and agro business activities (Mudibo, 2006).

The movement was supposed to play an important role in wealth creation, food security and generation of employment and therefore alleviating poverty. Currently there are over 11,200 registered co-operative societies with a membership of about 6.1 million with mobilized savings of over Ksh.125 Billion. The cooperatives have employed over 300,000 people besides providing opportunities for self-employment.

Co-operatives traverse all sectors of the economy with about 63% of Kenyan population deriving their livelihood directly or indirectly through it (International Monetary Fund, 2007). SACCOS were generally controlled by the government before liberalization in 1997 (Oyoo, 2002). The good example is that in 1985, the Ministry of Cooperative Development and Marketing issued a circular which restrict type of investments by SACCOS to fixed deposits and to some extent, real estate. Financial investments in bonds and private companies were discouraged unless they were guaranteed certain rights or had a high degree of control (Gachara, 1990). These guidelines were aimed to ensure excess liquidity and, will therefore, lead to low returns for the organization. With the current competitive market economy, it may be difficult for such policies to apply. This brought about freedom in SACCOS management approach that involved the partial withdrawal of state involvement in the day-to-day operations of co-operative societies. The liberation that came with government withdrawal resulted in bad governance of the societies and contributed to the decline in the overall performance of co-operatives.

Although there are many formal institutions/organizations providing micro financial services in Kenya, without considering SACCOS; their number is reaching 1 million. When we add SACCOS, who provide mostly consumer loans, and some of the loans are not small to qualify as microfinance, then the number is approximately 4 million if you do not consider the double counting, which is about 12 per cent of the population.

Clearly the outreach of these institutions is small; its smallness can be better appreciated when compared to such programs in Asia (the higher populations notwithstanding) and South America (where population densities are comparable). In Kenya growth in SACCOS over the last twenty-five years has been spectacular. The number of these organizations rose from 630 in 1978 to 4,500 by December 31st 2004. Over the same period, savings and share capital rose from KShs: 375 million to KShs: 150 billion.

SACCOS' membership numbered over 3 million by December, 2004 having risen from 387,500 members in 1978. Their rapid growth indicates that they are filling a need, which has not been met by other financial institutions i.e. banks SACCOS are currently organized as workplace or cash crop based savings and credit associations whereby people with a common bond, e.g. by working together in the same company or institution, save regularly thus building enough deposits for lending within the group. Some of these savings and credit societies are actually larger (in asset terms) than some of the small commercial banks. These include the Harambee, Posta and Mwalimu SACCOS.

SACCOS governance in Tanzania

History of SACCOS in Tanzania has originated as early 1938 in several areas in the country, but it was in the 1960s that the number of SACCOS started to grow (Bee, 2009). Banks performs a limited role in economic growth in rural areas despite the extensive policy and institutional reforms (Bee 2007). And this has led to the informal arrangement by the household and semi-formal members based financial institutions and Micro financial institutions (MFIs). Current evidence shows that the first SACCOS in Tanzania were established in Moshi Town by the Ismailia Group in 1938. From there, the Catholic Church picked the idea when the Late Cardinal Laurean Rugambwa (then a Bishop) visited Michigan Credit Unions in the late 1950's to learn more about SACCOS (Dublin, J. et al, 1983).

There are active rural and urban SACCOS amounting to 650, with active membership between 130,000 and 160,000. The success has been contributed by the Cooperatives Societies Act which was introduced in 1991.

The Act created the legal framework for cooperatives to be established as privately-owned equity-based institutions registered under the Ministry of Cooperatives and Marketing. The Act applies to all types of cooperatives, be that an agricultural production or an ordinary SACCOS.

The main principle established by the Act was volunteerism and self-regulation. However, despite these reforms, access to finance for poor Tanzanians – particularly in rural areas – remained limited. In 1996, the government, in collaboration with the donor community, initiated a microfinance policy formulation process that started with a national demand-side study.

The Financial Sector Assessment Program of the IMF (2003) found that micro credit accounted for less than 5 percent of all bank credit in Tanzania, or less than 0.4 percent of GDP (around US\$35,3 million).

The main form of savings and credit for the rural poor are through Rotating Savings and Credit Schemes (ROSCAs or “Upatus” in Swahili language). Other providers of micro savings facilities and microcredit to the poor are savings and credit cooperatives (SACAs), microfinance NGOs, the Post Office Bank and a few commercial banks. By January 2001, there were 646 registered SACCOS, of which 60 percent were rural. The total shares and deposits of the 40 percent urban SACCOS far outstripped that of the rural SACCOS. This demonstrates the extreme level of poverty of the rural poor, which mostly make out their existence through smallholder farming or small/micro enterprises, whereas members of urban SACCOS are often salaried income earners. However, SACCOS are often limited in terms of their capacity, access to capital, and outreach. There have also been weak linkages between the informal financial institutions and formal banking institutions.

However, many SACCOS in Tanzania have benefited from the wholesale lending scheme provided by the commercial banks, particularly CRDB Bank and the selection of existing SACCOS is not based on historical performance, as most them had no records available and international standards could therefore not be used. The process followed more from building relationships with the SACCOS over time and

mutually negotiated agreements, than a quick assessment of SACCOS' historical performance.

The initial assessments were undertaken through multiple field visits by CRDB microfinance staff, but K-Rep was later engaged to further assist in the selection of the SACCOS and to engage with the SACCOS to enable K-Rep to develop a curriculum for future training purposes. In microfinance country scan made by Triodos (2007), it is also argued that mainly SACCOS have an outreach to the rural parts of the country and up to 2006 over 3500 SACCOS with the total number of 420,000 members were registered in the ministry of cooperatives and marketing and, 60% of these classified as the rural.

Most SACCOS are very small and they tend to encounter capacity problems such as lack of the staff and appropriate technology (Triodos, 2007).

SACCOS Regulations of 2005 stipulates that SACCOS will continue to be registered by the Registrar of Cooperatives under the Cooperative Act 2003 and will also be subjected to the cooperative rules as issued by the Ministry of Cooperatives and Marketing. However, in accordance with the legal framework, the Registrar of Cooperatives will also apply similar prudential regulations on SACCOS as those applied on MFCs. Although the SACCOS regulations are similar to those applied to MFCs, the former are cooperatives and need to conform to cooperative principles.

2.3 Definition of concepts

Financial performance

Financial performance helps to assess the financial well-being of the overall farm. Information about the financial results of each enterprise (enterprise budgets) and physical asset is important for enterprise management decisions, but by themselves are inadequate for certain decisions because they do not describe the whole-farm business. An understanding of the farm's overall financial situation and enterprise relationships requires three key financial documents: the balance sheet, the income statement and the cash flow statement.

Solvency

Measures the amount of borrowed capital used by the business relative the amount of owner's equity capital invested in the business. In other words, solvency measures provide an indication of the business' ability to repay all indebtedness if all of the assets were sold. Solvency measures also provide an indication of the business' ability to withstand risks by providing information about the farm's ability to continue operating after a major financial adversity.

Liquidity

Measures the ability of the farm business to meet financial obligation as they come due, without disrupting the normal, ongoing operations of the business. Liquidity can be analyzed both structurally and operationally. Structural liquidity refers to balance sheet measures of the relationships between assets and liabilities and operational liquidity refers to cash flow measures. A frequent cause of liquidity problems occurs when debt maturities are not matched with the rate at which the business' assets are converted to cash.

Profitability

Measures the extent to which a business generates a profit from the factors of production: labor, management and capital. Profitability analysis focuses on the relationship between revenues and expenses and on the level of profits relative to the size of investment in the business.

Loan-Repayment capacity

Measures the ability to repay debt from both farm and non-farm income. It evaluates the capacity of the business to service additional debt or to invest in additional capital after meeting all other cash commitments. Measures of repayment capacity are developed around an accrual net income figure.

Corporate governance indicators

The critical areas to be addressed by corporate governance can be easily described: the efficient, responsible, transparent and honest governance of economic entities, whether they be private or state owned, large, medium or small. The principles set out by the Commonwealth Association for Corporate Governance (CACG) are a

well-recognized benchmark within the Commonwealth; but similar codes and principles, for example the Cadbury and King Reports, are available in other jurisdictions. The pillars of corporate governance are accountability, fairness, responsibility and transparency. These pillars must be supported by an adequate legal and regulatory structure that has credibility and is enforced.

2.4 Research gap

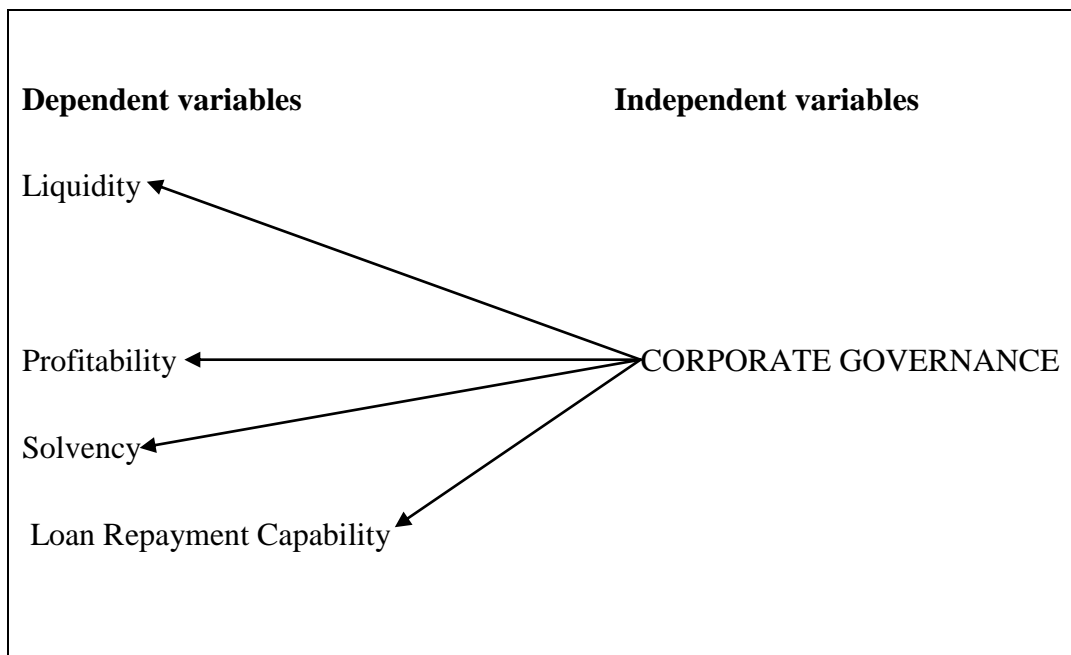
The financial performance of SACCOS in East Africa has been followed by announcement of corporate affairs commission (CAC) in 2003.

However, these studies have provided inconclusive findings in relation to financial performance of SACCOS in the region. Some of the studies have shown that some of the SACCOS management team has deliberately chosen not to adhere to the corporate guides, principals and procedures. These study focuses on how corporate governance can influence financial performance of SACCOS of which previous studies did not compare them with performance indicators such as SACCOS liquidity, Solvency, Profitability and repayment capacity. Therefore, these inconclusive findings call for further research.

2.5 Conceptual Framework

It indicated the way forward for the study which was developed from theoretical and empirical literature review. Figure 1: Researchers' schematic diagram for the independent and dependent variables presented the positive relationship of the variables.

Figure 2:1. Relationship of the variables



Source: Author's own construct from literature, 2015.

Therefore from the figure above, researcher emphasized on the corporate governance as independent variable. It is independent variable, once the organization practices corporate governance, indicators such as efficiency, transparency, accountability and honest governance will be seen. Positively, corporate/society's financial performance in terms of liquidity, profitability and repayment capability will be achieved. Financial performance in this research include liquidity, profitability, Attractive interest rates and loan repayment capability is dependent variable. They tend to be influenced by other variables which are independent.

The relationship demonstrated from the diagram postulates that, there was positive relationship between variables. The perception is that once corporate governance is in place, other outcomes such as financial performance of the SACCOS will be good.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

3.2 Introduction

Case Study method was used in this research. This was a case study since the unit of analysis is one organization. The aim of the study was to get detailed information regarding the relationship between corporate governance and financial performance of SACCOS. A case study allows an investigation to retain the holistic and meaningful characteristics of real life events. Case study involves a careful and complete observation of social units. According to Cooper and Schindler (2003), it is a method of study in depth rather than breadth and places more emphasis on the full analysis of a limited number of events or conditions and other interrelations. Primarily data collected from such a study is more reliable and up to date.

3.3 Description of the Study Area

Research was conducted in four SACCOS found in Tanga Region. This was because it was where researcher reside hence ease of access to data and minimum cost of conducting the research.

3.4 Data Collection Methods

Relevant data were collected using different techniques. Data consist of facts figures, and opinions that expected from respondents including those which were collected through observation.

3.5 Types of Data

Two major types of Data were given priority. Primary and Secondary Data. Each method had strength and weakness. Therefore, using a combination of data was crucial to ensure validity and reliability.

3.5.1 Primary Data

Data was collected through standardized questionnaire which was administered to purposive group of respondents including board Members, employees and SACCOS Members.

The questionnaire was structured consisting of both open and closed-ended questions. In order to remove bias, researcher visited the SACCOS and distributed the questionnaires to the respondents physically and collected the dully filled ones.

A researcher visited selected SACCOS for self-introduction and setting up appointments for the questionnaire distribution.

3.5.2 Secondary Data

Review of documents such as reports, directives, policies, and laws was referred to in order to complement information collected from above methods. This constituted the secondary data collected for this study.

3.6 Sample and Sampling Techniques

Researchers' unit of analysis was all SACCOS available in Tanga region as organization. A sample of four SACCOS was used by researcher for data collection. These SACCOS were: Tanga Cement SACCOS, Tanga UWASA SACCOS and Serone SACCOS all available in Tanga.

3.6.1 The Sample Size

Four SACCOS were selected for data collection. Each SACCOS discussion covered 3 board Members, 2 employees and 20 members (equally presented 10 males and 10 females). Total of 100 respondents were consulted by the researcher.

Table 3.1 Sample Frame

S/N	Name of selected SACCOS	No. of selected Board members	No. of Employees	No. of SACCOS Members	Total
1	Tanga Cement	3	2	20	25
2	Tanga UWASA	3	2	20	25
3	TDCU	3	2	20	25
4	Serone	3	2	20	25
	Total	12	8	80	100

Source: Field Data. 2015

3.5.3 Sampling Techniques

Simple Random probability technique was used. It was a sampling technique in which every member of the population had a known, nonzero probability of being included in the sample.

3.7 Data Analysis Methods

Descriptive analysis was initially used to transmit data into a more coherent and easily understood form. Both the primary and secondary data was qualitative in nature. Given this fact, content analysis was used to analyze the data.

According to Creswell (2003), content analysis is a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same to relate trends. The data obtained was compared with existing literature in order to establish areas of agreement and disagreement.

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the findings of the study and the analysis of the data collected from the questionnaire guide administered to board members, staff and SACCOS members selected from a sample of four SACCOS in Tanga Region. The respondents to the questionnaire were 3 board members, 2 staff and 20 members from each SACCOS making total of 100 respondents. According to the data found, all respondents were cooperative in filling the questionnaire which makes a response rate of 100%. The commendable response rate was achieved at after the researcher made frantic effort at booking appointments with the heads of targeted SACCOS despite their tight schedules and making phone calls to remind them of the researchers' field work.

The approach used to place related questions together and to present the findings of each research question.

4.2 Findings

The questions that aim at answering the factors influence the practice of corporate governance in SACCOS are: question 3, 4, 5, and 6.

The aim of question 3 was to find out whether board members understand their responsibilities. Most of respondents 50 (50%) said they know their responsibilities strongly, few 30(30%) said moderately and the rest respondents 20 (20%) said not at all.

The reason for majority response base on the fact that, most of board members are in favour of their SACCOS, they are not ready to oppose demoralize themselves. Those said moderately include those with low management capability and mostly are told what to do by others. Those denied, base on individual perception and desire for immediate changes that will improve the assignment of responsibilities among board members.

Findings are shown in the table below.

Table 4:1 what extent board members know their responsibilities?

CATEGORY	FREQUENCY	PERCENTAGE
Strongly	50	50
Moderately	30	30
Not at all	20	20
N=100	100	100

Source: Field Data. 2015

The aim of question 4 was to know whether the responsibilities were written and given to every board member and staff. The findings show that responsibilities are written and given to every board member and staff. They are mandatory since they are stipulated in the Cooperative Act and SACCOS by-laws. In this case, board member and staff know exactly their responsibilities.

Findings are shown in the table below.

Table 4:2 : Responsibilities are written and given to board members and management staff.

CATEGORY	FREQUENCY	PERCENTAGE
Yes	78	78
No	22	22
N=100	100	100

Source: Field Data. 2015

Question 5 & 6 aimed at obtaining the information about clearly separation of powers and role among SACCOS board members and managers. Majority of respondents 98(82%) denied that the roles are not clearly defined. Board members interfere managers, while few 2 (2%) agreed. Findings are as shown in the table below.

Table4:3 clearly defined roles among SACCOS board members and managers.

CATEGORY	FREQUENCY	PERCENTAGE
Yes	2	2
No	98	98
N=100	100	100

Source: Field Data. 2015

Majority denied with an argument that, the existing regulatory frame work keeps on changing severally and in a short period of time, SACCOS by-laws does not distinguish the roles. They are formulated by SACCOS Committee and approved by general Assembly whereby it is difficult to construct good by-laws in a large population. Minority agreed basing on fact that, over 50 years SACCOS are operating in the same way and there is no big problem that has been articulated by such situation.

The questions that aimed at answering different approaches used by SACCOS in practicing corporate governance were question 7, 8, 9, 11, 12, and 13. Majority of respondents 86 (86%) agreed while 14 (14%) denied.

Majority agreed that, SACCOS uses several approaches to practice corporate governance. This included existence of audit done by both internal and external auditors who submit their report in the annual general meeting. Also management and loan policy that provide basis of good governance by adhering to procedures. Those denied based on the argument that, the approaches are not taken into seriousness; there is relaxation of the management to ensure that existing management tools such as policies are adhered. Finds are as shown on the table below.

Table 4: 4 Different approaches used to practice corporate governance.

CATEGORY	FREQUENCY	PERCENTAGE
Yes	86	86
No	14	14
N=100	100	100

Source: Field Data. 2015

The questions that aimed at determine the effects of corporate governance practice on SACCOS' performance include: 47, 48, 49, 50, 51, 52, 53 and 54.

Most of respondents 92(92%) said corporate governance have positive effect on SACCOS performance while 8(8%) denied. Majority said corporate governance has positive effect on SACCOS performance basing on board regular meetings, reviewed meeting and writing of minutes, summon of annual general meetings, board formation and composition of not less than 5 members. Strong corporate governance,

could lead to a high performance through promoting performance and protecting stake holder's interests. Corporate governance lead to better performance since managers are better supervised and agency costs are decreased.

The minority denied basing on the board failure to practice principals of corporate governance such as transparence, accountability and honest. The argued that, board members are found of corruption, fraud and mismanagement of SACCOS funds. Poor corporate governance is a fertile ground for corruption and poor financial performance. Findings are as shown on the table below.

Table 4:5 Effect of corporate governance on SACCOS performance.

CATEGORY	FREQUENCY	PERCENTAGE
Yes	92	92
No	8	8
N=100	100	100

Source: Field Data. 2015

To the question regarding the main task for corporate governance, the respondents 65(65%) indicated that the main tasks of corporate governance involved assuring corporate efficiency and mitigating arising conflicts, providing for transparency and legitimacy of corporate activity, lowering risk for investments and providing high returns for investors and delivering framework for managerial accountability.

According to the respondents, corporate governance encompassed authority, accountability, stewardship, leadership, direction and control exercised in the SACCOS. It reflected the interaction among those persons and groups, which provide resources to the SACCOS and contributed to its performance such as shareholders, employees, creditors, borrowers and savers.

Further, the respondents (56%) indicated that corporate governance helped in defining the relation between the SACCOS and its general environment, the social and political systems in which it operate. 44% indicated that Corporate governance linked the way management and control are organized thus affecting the performance of the SACCOS and it's long run competitiveness and also it determined the conditions for access to capital markets and the degree of members' confidence.

The question on who incorporated the corporate governance system, 90% of respondents indicated that board members, managers and staff were involved in incorporating the corporate governance system but the managers played the pivotal role in the implementation.

70% respondents said that the management should be competent so as to ensure good corporate governance objective setting, achieve strategic awareness, manage resistance to its implementation, give a clear guidance, sustain vigorous strategy implementation efforts, align structure to strategy, envision change for future competences and critically assess current strategy. On whether size and composition of the board influenced corporate governance, they said that the size of the board had an impact on the quality of corporate governance.

4.3 Discussion

According to the findings a large board could be dysfunctional and that smaller board sizes are better than larger ones because large boards may be plagued with free rider and monitoring problems. Additionally, smaller boards are more effective since they experience fewer communication and coordination problems.

On the question regarding how often the board should meet, the findings indicated that boards should be ready to increase meetings frequency if the situation requires a high supervision and control and balance the costs and benefits of frequency. According to some respondents, if the board increased the frequency of its meetings, the recovery from poor performance would be faster. Some said that separating CEO and chairman roles is in the shareholders' interest.

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 better, the smaller the board of directors the better the firm's performance. Further some respondents said that larger boards are found to be slow in decision making. The monitoring expenses and poor communication in a larger board give a reason for the support of small board size however some employees said that firms with larger board size have the ability to push the managers to pursue lower costs of debt and increase performance.

Majority 75% of respondents indicated that boards with a majority of independent directors are more effective in monitoring management and are more likely to replace poorly performing CEOs. Independent board is more likely to opt for a clean slate when SACCOS performance deteriorates significantly, and to hire a replacement CEO from outside the SACCOS rather than promote an internal candidate.

On the question whether directors should be employees of or affiliated with SACCOS (inside directors) or outsiders. Findings showed that inside directors were more familiar with the SACCOS' activities and they could act as monitors to top management especially if they perceive the opportunity to advance into positions held by incompetent executives.

On the other hand, outside directors may act as professional referees to ensure that competition among insiders stimulates actions consistent with shareholder value maximization. Further findings, boards of directors were more independent as the proportion of their outside directors increased.

A well functioning corporate governance system would help in attracting new members, raise funds and strengthen the foundation for financial performance. Further, good governance would generate members' goodwill and confidence. Some respondents indicated that, poor governance affect negatively the profitability of SACCOS. Some said that better corporate framework would benefit SACCOS through greater access to financing, lower cost of capital, better financial performance and more favorable treatment of all stakeholders.

The question on best Practices for evaluating performance, the respondents indicated that best practices include soliciting informal feedback from Board members, managers, staff on specific opportunities to improve Supervisory Committee effectiveness, completing a self-assessment survey and reviewing the results with the Board, management and internal and external auditors and assessing the contributions and performance of Supervisory Committee by the Supervisory Committee chairperson for review with the Board Chairperson and Manager.

Findings on role of the board in strategic decision indicated that the board has to set strategic objectives and plans and put in place proper management structures (organization, systems and people) to achieve those objectives and plans. According to the findings, the Board acts as a catalyst, initiating, influencing, evaluating and monitoring strategic decisions and actions of management and holds management accountable. The Board is not a mere formality, which takes a back seat, leaving management to make all strategic decisions.

According to the respondents, the board has established and put in place mechanisms to ensure that SACCOS operates within the objects established by shareholders, the mandate given to it by society utilizes the resources entrusted to it efficiently in pursuit of the steady mandate and meets the legitimate expectations of its various stakeholders.

Some respondents indicated that there are established mechanisms, processes and systems to constantly ensure that governance practices are effective and appropriate, there is transparency and accountability to the various stakeholders, the SACCOS complies with legal and regulatory requirements, there is disclosure of all pertinent information to stakeholders, there is effective monitoring and management of risk, innovation and change, the SACCOS remains relevant, legitimate and competitive and the corporation is viable, solvent and sustainable.

The question on what the board needs to do to enhance the performance of the SACCOS, the respondents indicated that the board should ensure that a proper management structure is in place and the structure functions to maintain corporate integrity, reputation and responsibility, the board should monitor and evaluate the implementation of strategies, policies and management performance criteria and the plans of the SACCOS, the board should constantly review the viability and financial sustainability of the SACCOS and must do so at least once a year, the board should identify the internal and external stakeholders; agree on a policy or policies determining how the SACCOS should relate to, and with them, increasing wealth, jobs and sustainability of a financially sound corporation while ensuring that the

rights of stakeholders established by law or custom are expected, recognized and protected.

Further, the respondents indicated that the Board should ensure that no one person or group of persons has unfettered power and that there is an appropriate balance of power on the Board so that it can exercise objectives and independent judgment.

The respondents indicated that bestowing the CEO and chairman duties on one individual makes it harder for a board to replace a poorly performing CEO which can reduce the flexibility of a board to address sizable declines in performance. On the other hand, some were indifferent that separating these roles improves firm performance.

However, some said that, combining the positions of chairman and CEO confers greater power to the CEO, who gains the title of chairman after having outperformed his/her peers, so the chairman title serves as a reward to a new CEO who has demonstrated superior performance and represents an implicit vote of confidence by outside directors.

Further some respondents said that separating the positions of CEO and chairman would deprive boards of an important tool to motivate and reward new CEOs.

The researcher found that the main tasks of corporate governance involved assuring corporate efficiency and mitigating arising conflicts, providing for transparency and legitimacy of corporate activity, lowering risk for investments and providing high returns for investors and delivering framework for managerial accountability. The researcher also found that good corporate governance is necessary in order to attract new members and assure them that their investment will be secure and efficiently managed and in a transparent and accountable process, creates competitive and efficient business, enhance the accountability and performance of those entrusted to manage corporations and promote efficient and effective use of limited resources. This collates with earlier findings by Brown Bridge (2007).

The researcher found that corporate governance in SACCOS encompassed authority, accountability, stewardship, leadership, direction and control exercised within an organization (Brown Bridge, 2007).

The researcher found that the size of the board had an impact on the quality of corporate governance. The researcher found that a large board could be dysfunctional and that smaller board sizes are better than larger ones because large boards may be plagued with free rider and monitoring problems. Further researcher found that larger boards are found to be slow in decision making. The monitoring expenses and poor communication in a larger board give a reason for the support of small board size however some employees said that firms with larger board size have the ability to push the managers to pursue lower costs of debt and increase performance. These findings are similar to the ones on previous research by Abor, (2007).

Boards should be ready to increase meetings frequency if the situation requires a high supervision and control (Brown Bridge, 2007). Other studies suggest that boards should balance the costs and benefits of frequency.

On how often the board should meet, the researcher found that boards should be ready to increase meetings frequency if the situation requires a high supervision and control and balance the costs and benefits of frequency.

The researcher found that boards with a majority of independent directors are more effective in monitoring management and are more likely to replace poorly performing CEOs. On either directors should be employees of or affiliated with SACCOS (inside directors) or outsiders. The researcher found that inside directors were more familiar with the firm's activities and they could act as monitors to top management especially if they perceive the opportunity to advance into positions held by incompetent executives. On the other hand, outside directors may act as professional referees to ensure that competition among insiders stimulates actions consistent with shareholder value maximization. These collated with earlier findings by Becht, (2002).

On the role of the board in strategic decision, the study found that the board sets strategic objectives and plans and put in place proper management structures (organization, systems and people) to achieve those objectives and plans. On the effect of corporate governance structure on performance, the researcher found that a strong corporate governance structure, could lead to a high performance through promoting performance and protecting stake holder's interests. Corporate governance lead to better performance since managers are better supervised and agency costs are decreased. These findings are similar to the ones on previous research by (Huson, 2001).

On the challenges faced the researcher found that SACCOS are ill equipped to implement corporate governance practices in its day to day activities to the levels which might be acceptable in developed market economies. Other challenges included reluctance of board members to disclose information, lack of transparency and accountability of corporate insiders that hinders access to financing or access to credit.

From the study, other challenge that faced the SACCOS concerned bestowing the CEO and chairman duties on one individual. The researcher found that this made it harder for a board to replace a poorly performing CEO, which reduced the flexibility of a board to address sizable declines in performance.

CHAPTER FIVE

CONCLUSION AND RECOMENDATION

5.1 Introduction

This chapter presented the summary of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn are in quest of addressing the research question or achieving at the research objective which is corporate governance and financial performance of SACCOS in Tanga Region.

5.2 Summary of Findings

According to the study, the size of the board had 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. Further, it was indicated that larger boards are found to be slow in decision making because the monitoring expenses and poor communication in a larger board give a reason for the support of small board.

According to the study, SACCOS was ill equipped to implement corporate governance practices in its day to day activities to the levels which might be acceptable in developed market economies. Some of the challenges faced include reluctance of board members to disclose information, lack of transparency and accountability of corporate insiders that hinders access to credit.

The study revealed that SACCOS should be well equipped to implement corporate governance practices in its day to day activities to the levels which might be acceptable in developed market economies. With regard to the challenge of accessibility to firm financing or access credit the external financiers, there is need for transparency and accountability of corporate insiders of which the board members should disclose. Further the boardroom composition should comprise of appointees with management skills who can affect the decision making and long term plans of the SACCOS.

5.3 Conclusions

From the study, the researcher concludes that the main tasks of corporate governance involves assuring corporate efficiency and mitigating arising conflicts, providing for transparency and legitimacy of corporate activity, lowering risk for investments and providing high returns for investors and delivering framework for managerial accountability and that good corporate governance is necessary in order to attract new members and assure them that their investment will be secure and efficiently managed and in a transparent and accountable process, create competitive and efficient in the business together with enhancing the accountability and performance of those entrusted to manage corporations and promote efficient and effective use of limited resources.

The researcher also concludes that corporate governance of SACCOS reflected the interaction among those persons and groups, which provide resources and contributed to its performance such as members, employees, creditors, borrowers and savers. Further, the researcher concludes that corporate governance helped in defining the relation between SACCOS and its general environment, the social and political systems in which it operate and also linked the way management and control were organized thus affecting the performance of the SACCOS and it's long run competitiveness.

From the study, the researcher concludes that managers, directors and employees were involved in incorporating the corporate governance system but the managers played the pivotal role in the implementation. In addition the management should be competent so as to ensure good corporate governance objective setting, achieve strategic awareness, manage resistance to its implementation, give a clear guidance, sustain vigorous strategy implementation efforts, align structure to strategy, envision change for future competences and critically assess current strategy. The researcher concludes that the size of the board had an impact on the quality of corporate governance.

The researcher concludes that a large board could be dysfunctional and that smaller board sizes are better than larger ones because large boards may be plagued with free rider and monitoring problems.

From the study, the researcher concludes that boards should be ready to increase meetings frequency if the situation requires a high supervision and control and balance the costs and benefits of frequency. Also the researcher concludes that boards with a majority of independent directors are more effective in monitoring management and are more likely to replace poorly performing CEOs.

On the role of the board in strategic decision, the study concludes that the board of SACCOS sets strategic objectives and plans and put in place proper management structures (organization, systems and people) to achieve those objectives and plans. On the effect of corporate governance structure on performance, the researcher found that a strong corporate governance structure, could lead to a high performance through promoting performance and protecting stake holder's interests. Corporate governance lead to better performance since managers are better supervised and agency costs are decreased.

On the board of Directors appointments the researcher found that if it was managed effectively, the process involved should ensure a balanced mix of proficient individuals and that each of those appointed is able to add value and bring independent judgment to bear to the decision making process. On what the board needed to do to enhance the performance of the SACCOS, the researcher concludes that the board should ensure that a proper management structure is in place and the structure functions to maintain corporate integrity, reputation and responsibility, the board should monitor and evaluate the implementation of strategies policies and management performance criteria and the plans of the SACCOS, the board should constantly review the viability and financial sustainability of the SACCOS and must do so at least once a year, the board should identify the internal and external stakeholders; agree on a policy or policies determining how the SACCOS should relate to, and with them , increasing wealth, jobs and sustainability of a financially

sound corporation while ensuring that the rights of stakeholders established by law or custom are expected, recognized and protected.

The researcher concludes that bestowing the CEO and chairman duties on one individual makes it harder for a board to replace a poorly performing CEO which can reduce the flexibility of a board to address sizable declines in performance and combining the positions of chairman and CEO confers greater power to the CEO, who gains the title of chairman after having outperformed his/her peers.

The chairman title serves as a reward to a new CEO who has demonstrated superior performance and represents an implicit vote of confidence by outside directors and separating the positions of CEO and chairman would deprive boards of an important tool to motivate and reward new CEOs.

On the challenges faced the researcher concludes that SACCOS was ill equipped to implement corporate governance practices in its day to day activities to the levels which might be acceptable in developed market economies. Other challenges included reluctance of board members to disclose information, lack of transparency and accountability of corporate insiders that hinders access to credit.

From the study, other challenge that faced the SACCOS concerned bestowing the CEO and chairman duties on one individual. The researcher concludes that this made it harder for a board to replace a poorly performing CEO, which reduced the flexibility of a board to address sizable declines in performance.

5.4 Recommendations

From the discussions and conclusions in this chapter, the study recommends that there should be an increase in meetings frequency if the situation requires a high quality supervision and control. This will allow for consultations and discussions on the direction the SACCOS is to take to counter the changes in the operating environment.

The study further recommends that the board should balance the costs and benefits of meetings frequency given that the study established that if the board increases the frequency of its meetings, the recovery from poor performance is faster.

Since it was clear from the study that SACCOS with a small board size had greater performance, the study recommends that board size should be maintained as small as possible as an increase in board size leads to decrease in financial performance of the SACCOS.

However, the management should ensure that the board size is optimal as a very small board can also be redundant and may not be efficient in governing the SACCOS.

In addition, the study recommends that SACCOS should adopt good governance systems as they enhance their performance. This include an optimal mix of inside and outside direction with a small proportion of outside directors and splitting of the roles of chairman and board secretary roles.

The study also recommends that SACCOS should be well equipped to implement corporate governance practices in its daily activities to the levels which might be acceptable in developed market economies and improve accessibility to firm financing by enhancing transparency and accountability in the information disclosed.

In addition, the study recommends that the boardroom composition should comprise of appointees with management skills who can affect the decision making and long term plans of the SACCOS.

Moreover the study recommends that policy makers should take serious notice of these findings to implement policies that sustain the already existing strong corporate governance structures.

Finally the study recommends to the management of SACCOS and other organizations to upgrade their corporate governance practices and structure so as to remain profitable in this competitive sector.

5.5 Recommendations for Further Research

The relationship that came out in as far as performance is concerned was that there is a positive relationship between, corporate governance and financial performance of SACCOS. More studies should be done to ascertain the relationship between other aspects of corporate governance other than the ones studied in this research.

The researcher recommends that further studies should be done on the effect of corporate governance structures and practices on the growth of the SACCOS. Further studies should be done on the challenges of corporate governance and the effect of these challenges on the financial performance.

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APPENDIX
QUESTIONNAIRE

Introduction

My name is Cletus Christopher Olomy. I am a student of Mzumbe University pursuing a Masters degree in Business Administration (MBA). I have pleasure to introduce to you this questionnaire. My research is entitled “Exploring the relationship between corporate governance and the financial performance of the Savings and Credit Cooperatives Societies.

This questionnaire is prepared only for the purpose of gathering information to ascertain the influence of corporate governance on financial performance of SACCOS in Tanzania: A case study of Tanga Region. I assure you that, the responses furnished and your identity as purposive respondent will be kept strictly confidential.

PERSONAL DETAILS

Name: _____

Age: _____

Status: _____

Gender: _____

Designation: _____

Work experience _____

General

1. What is the main business of the SACCOS?

.....

2. What is the nature of the SACCOS? Tick the correct choice.

(i) Private

(ii) Public

(iii) Listed

(iv) State owned

(v) Others

RESPONSIBILITY

3. To what extent do members of the board understand their responsibilities? Tick the correct choice.

- (i) Strongly
- (ii) Moderately
- (iii) Not at all

4. Are board members and management staff responsibilities clearly set out in writing?

- (i) Yes
- (ii) No

If no please state the reasons for omitting to do so.

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.....

5. Does the SACCOS differentiate between what the board can do, and what Managers and employees of the company can do? Tick the correct choice.

- (i) Yes
- (ii) No

6. Do the Board and the relevant sub-committees have clearly defined roles? Tick the correct choice.

- (i) Yes
- (ii) No
- (iii) Not applicable

AUDIT

7. Is there an Audit committee? Tick the correct choice.

- (i) Yes
- (ii) No

8. Is there an external auditor of the SACCOS? Tick the correct choice.

- (i) Yes
- (ii) No

9. Is there an independent internal audit function within the SACCOS? Tick the correct choice.

- (i) Yes
- (ii) No

10. Are there any provisions in the SACCOS Articles of Association mandating rotation of external auditors? Tick the correct choice.

- (i) Yes
- (ii) No

11. Does the Audit Committee produce a report on the internal audit function? Tick the correct choice.

- (i) Yes
- (ii) No
- (iii) Not Applicable

12. Is it mandatory to prepare an internal audit plan? Tick the correct choice.

- (i) Yes
- (ii) No

13. Is the internal audit plan reviewed on an annual basis? Tick the correct choice.

- (i) Yes
- (ii) No

COMPOSITION OF THE BOARD

14. What is the size of the board? Tick the correct choice.

- (i) 5
- (ii) 7
- (iii) 10
- (iv) Other.....

15. What do you think should be the ideal size of a board?

.....

16. What is the composition of the Board? Tick the correct choice.

- (i) Executive directors only
- (ii) Non-executive directors only
- (iii) Independent directors only
- (iv) Mix of i, ii & iii
- (v) Others

17. Does the organization have any kind of mechanism for rotating board members?

If the answer is No, please skip Q. 18.

- (i) Yes
- (ii) No

18. How often are board members rotated? Tick the correct choice.

- (i) Every one year
- (ii) Every two years
- (iii) Every three years
- (iv) Others

BOARD AND SENIOR MANAGEMENT REMUNERATION

19. Is there a remuneration committee? Tick the correct choice.

- (i) Yes
- (ii) No

20. What is the composition of the remuneration committee? Tick the correct choice.

- (i) Executive directors only
- (ii) Non-executive directors only
- (iii) Independent directors only
- (iv) Others.....

21. What is the size of the remuneration committee?

- (i) 3 directors
- (ii) 4 directors
- (iii) 5 directors
- (iv) Others

22. Is there a written remuneration policy? Tick the correct choice.

- (i) Yes
- (ii) No

23. Does the company disclose the remuneration policy in the annual report? Tick the correct choice.

- (i) Yes
- (ii) No

24. Does the company disclose remuneration of individual board members and senior management? Tick the correct choice.

- (i) Yes
- (ii) No

MEETINGS

25. Is there a set quota for meetings of the board? Tick the correct choice.

- (i) Yes
- (ii) No

26. How often do board and sub-committees conduct meetings? Tick the correct choice.

- (i) Every one month
- (ii) Every quarter
- (iii) Twice a year
- (iv) Others.....

27. What are the quorum requirements for board and board committees? Tick the correct choice.

- (i) Majority
- (ii) Two Third of the members
- (iii) Others.....

INFORMATION

28. How are the public kept informed of SACCOS information(s)? Tick the correct choice.

- (i) News bulletin
- (ii) Daily newspapers
- (iii) Website
- (iv) Email
- (v) Others

29. Is there an information disclosure policy, which dictates the type of information that could be disclosed to the public? If the answer is No, please skip Q 30.

- (i) Yes
- (ii) No

30. What type of information can be disclosed to the public pursuant to the information disclosure policy?

- (i) Company's success stories
- (ii) Business contracts
- (iii) Change in key management position
- (iv) Others

31. What information is provided to the board of directors in advance of board meetings? Tick the correct choice.

- (i) Agenda
- (ii) Board papers
- (iii) Minutes of previous meetings
- (iv) Others

32. What information is revealed to shareholders in advance of the Annual General Meeting (AGM)? Tick the correct choice.

- (i) Agenda
- (ii) Annual Reports
- (iii) Minutes of previous meetings
- (iv) Others

33. Who is responsible for recording minutes of meetings? Tick the correct choice.

- (i) Managing Director
- (ii) Company Secretary
- (iii) Clerk
- (iv) Others

34. Are minutes of the previous meeting approved at the following meeting? Tick the correct choice.

- (i) Yes
- (ii) No

35. Is responsibility for action clearly indicated in the minutes? Tick the correct choice.

- (i) Yes
- (ii) No

36. Does the SACCOS undertake a review to ensure that actions decided at the meetings have been taken? Tick the correct choice.

- (i) Yes
- (ii) No

37. How does the company disclose transactions made by directors or management that conflicts with the interests of the SACCOS or that has the potential for Conflicts of interest?.....

REGISTER OF INTERESTS

38. Are there policies/ rules which require directors to disclose personal interest in the SACCOS? Tick the correct choice.

- (i) Yes
- (ii) No

39. What type of personal interest is required to be disclosed? Tick the correct choice.

- (i) Ownership of Shares of the company/subsidiary companies
- (ii) Dealings with the company
- (iii) Investments in the company/subsidiary companies
- (iv) Others

40. Does the company maintain a register of interests? If the answer is No, please

Skip Q. 40 and Q.41.

- (i) Yes
- (ii) No

41. How is the register of interest reviewed and updated? Tick the correct choice.

- (i) Annual basis
- (ii) Every two years
- (iii) Others

42. Is it mandatory for members to sign the register? Tick the correct choice.

- (i) Yes
- (ii) No

SYSTEM TO RAISE CONCERNS

43. Does the organization have an established system to raise concerns? If the answer is No, please skip Q 43, Q. 44 and Q. 45.

- (i) Yes
- (ii) No

44. What type of system has been established to raise concerns? Tick the correct choice.

- (i) Suggestion box
- (ii) Website
- (iii) Email
- (iv) Others

45. Is the system reviewed regularly to ascertain effectiveness? Tick the correct choice.

- (i) Yes
- (ii) No

46. Who is responsible for reviewing the system? Tick the correct choice.

- (i) Board of Directors
- (ii) Managing Director
- (iii) Auditors
- (iv) Others

PERFORMANCE MEASUREMENT/REVIEW

47. How is the performance of the board/ subcommittees/ management reviewed?

Tick the correct choice.

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48. Does the organization undertake a review of terms of reference of Board, subcommittees?

If the answer is No, please skip Q. 49.

- (i) Yes
- (ii) No

49. How often is the review undertaken? Tick the correct choice.

- (i) Annually
- (ii) Every two years
- (iii) Others

50. Are there set performance indicators? Tick the correct choice.

- (i) Yes
- (ii) No

51. Are reports produced detailing the Board's/subcommittees/management's objectives for the year and progress against these objectives? Tick the correct choice.

- (i) Yes
- (ii) No

52. Who evaluates the Board? Tick the correct choice.

- (i) Board members themselves
- (ii) Independent party
- (iii) External Auditor
- (iv) (iv)Others.....

53. How often is the review undertaken? Tick the correct choice.

- (i) Annually
- (ii) Semi annually
- (iii) Others

54. Does the organization benchmark the policies for review of the board against international Best Practices? Tick the correct choice.

- (i) Yes
- (ii) No

VOTING AT SHAREHOLDERS MEETINGS

55. Does the SACCOS have proxy voting guidelines or rules? Tick the correct choice.

- (i) Yes
- (ii) No

56. Are shareholders allowed to vote in absentia? Tick the correct choice.

- (i) Yes
- (ii) No

57. How are resolutions put before shareholders for voting?

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58. Are there separate resolutions for separate matters? Tick the correct choice.

- (i) Yes
- (ii) No

FINANCIAL STATEMENTS

59. Does the SACCOS apply International Accounting Standards (IAS) in the preparation of financial statements? Tick the correct choice.

- (i) Yes
- (ii) No

60. Are financial statements, balance sheets and profit and loss accounts signed by Chairman, board secretary? Tick the correct choice.

- (i) Yes
- (ii) No

61. How is the SACCOS maintaining accounting records? Tick the correct choice.

- (i) Manually
- (ii) Software
- (iii) Excel sheet
- (iv) Others

BOARD APPOINTMENT

62. Does the organization have a Nominations Committee, which is responsible for Board nominations? If the answer is No, please skip Q. 63.

- (i) Yes
- (ii) No

63. Does the organization have a written nomination policy for board appointments?

- (i) Yes
- (ii) No

64. Who makes recommendations for the appointment of board directors? Tick the correct choice.

- (i) Shareholders
- (ii) Directors
- (iii) Chairman
- (iv) Others

65. Is there a formal process for application to the Board? Tick the correct choice.

- (i) Yes
- (ii) No

66. How does the nomination committee ensure that potential members are suitable to serve on the board? Tick the correct choice.

- (i) Based on the requirements set forth in the nomination policy
- (ii) Through interview
- (iii) Others

67. Is the background of the potential board members investigated? Tick the correct choice.

- (i) Yes
- (ii) No

68. How is it ensured that only individuals with the right skills and attitudes are selected?

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69. How are members inducted?

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70. Are the board members trained during their term of office? If the answer is No, please skip Q. 70.

- (i) Yes
- (ii) No

71. How does the organization ensure that training is suitable or effective? Tick the correct choice.

- (i) Yes
- (ii) No

COMPANY SECRETARY

72. Is the board secretary required to have formal qualifications pursuant to the Articles of Association of the SACCOS? If the answer is No, please skip Q. 73.

- (i) Yes
- (ii) No

73. What kind of qualification is required for board Secretaries by the Articles of Association? Tick the correct choice.

- (i) Degree in Business or related area
- (ii) Degree in law
- (iii) Degree in Accounting
- (iv) Others

74. Are there clearly written down responsibilities for the company secretary? Tick the correct choice.

- (i) Yes
- (ii) No

75. Does he/she hold any other posts in the company or provide any other services to the SACCOS? If the answer is yes, please state the posts or services provided by the board Secretary

- (i) Yes.....
- (ii) No.....

Thank you.