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CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF SAVINGS AND CREDIT COOPERATIVE ORGANIZATIONS IN WESTERN KENYA

Lucy Owuoth[1*], Oluoch Mercy Florah[2]

[1]MBA Student and Professional Accountant.

[2]Senior Lecturer, Department of Business Administration, Faculty of Business & Management Science.

***Corresponding Author**
Lucy Owuoth

MBA Student and Professional Accountant.

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Abstract: Corporate governance is very essential in every organization in order to enhance service delivery as well as performance. However, despite the financial institutions such as Savings and Credit Cooperative Organizations having the necessary resources, they are experiencing the problem of poor corporate governance more particularly with the management which in some cases, which has contributed to poor financial performance leading to a decline of profits, customer dissatisfaction and poor image. This work sought to evaluate on the association between organizational governance and financial performance of Savings and Credit Cooperative Organizations in Western Kenya. The study used descriptive study design. All 93 SACCOs in western Kenya were sampled and selected by purposive sampling design. Primary data was collected using questionnaire and analyzed by SPSS. Results indicate that Board Composition ($p=0.007<0.05$), Internal Control Systems ($p=0.000<0.05$), Board Size ($p=0.022<0.05$) and Board Transparency ($p=0.000<0.05$) significantly affect financial performance of SACCOs in western Kenya. The study concludes that all the constructs of organizational governance like, board transparency, board size, board composition and internal controls are significantly linked with performance. The study recommends effective board composition, correct board size, board transparency and implementation of internal controls in order to significantly improve financial performance.

Keywords: Corporate Governance, Financial Performance, Savings and Credit Cooperating organizations, Western Kenya, Cooperative.

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1. Introduction

1.1 Background of the Study

SACCOs are important in availing financial services to Kenyans. Their ability to perform this function effectively centers on their financial performance (Feather and Meme, 2019). Agaba, Bosco and Kabagambe (2023) hold the view that effective corporate governance is important in enhancing the performance by ensuring transparency, accountability, and efficient management. Therefore, for all these to be attained, SACCOs need corporate governance through which those in control, are held accountable to stakeholders, including members, employees, and the regulators. Wako (2020) while determining the effect of corporate oversight on the economic outcomes of SACCOs indicated that initiating practical corporate governance systems leads in determination of the performance of the institutions and may reduce the exposure of the organization to financial distress in the future. Further, the profitability of SACCOs also grow with an increase in the accountability of the board, competence, efficiency, integrity, and openness. Additionally, as Esokomi and Mutua (2018) assert, effective oversight approaches reduce risks for shareholders, further making the firm attractive to new investors, and enhancing its organizational performance. Kyabarongo *et al.*, (2024) also indicated the assumption of more accountability tasks and increased communication transparency by board tend to adversely influence the economic results of SACCOs.

The stakeholder theory by Freeman, (1984) and Agency Theory by Jensen & Meckling, (1976) will inform this research. Agency theory posits that the agency relation among the principal and agents can create conflicts, especially when the agent focus on achieving their own goals instead of those of the principal. Usually, this occurs mainly when control and ownership are separated. In SACCOs, the members assume the role of principals while the management become the agents. Good corporate oversight practices, such as board governance and merit-based incentives help align the goals of the two parties, thereby minimizing costs associated with agency. Good practices of corporate governance can mitigate these problems, resulting in

***Corresponding Author: Lucy Owuoth**

improved decision-making and better financial performance. Stakeholder theory takes a broader perspective, including all stakeholders of the firm and how they influence and are influenced by corporate governance. According to the theory, governance structures should focus on taking into account the interest of parties such as clients, suppliers, staff, and the community when making decisions. Balancing stakeholder interests can enhance the reputation and sustainability of the organization, positively impacting financial performance.

In SACCOS, effective corporate governance ensures that these member-owned financial institutions operate transparently, ethically, and efficiently, thereby fostering trust and long-term sustainability and health of SACCOs (Lechner & Gatzert, 2018). The association between profitability and corporate governance in SACCOS has received significant attention in both academic and professional circles. Financial performance, typically measured through indicators like ROE, ROA and loan repayment rates, is a critical measure of a SACCO's health and sustainability. In Western Kenya, SACCOs are a significant part of the local economy, offering savings and credit facilities that promote economic growth and financial inclusion. However, despite their importance, many SACCOs face challenges related to financial performance, which is due to issues in corporate governance. Effective practices in corporate governance are determines the sustainability and growth of SACCOs, ensuring accountability, transparency, and efficient management. The current investigation therefore explores how corporate governance the economic outcomes of SACCOs in Western Kenya are related, aiming to provide insights that can enhance their operational effectiveness.

1.1.1 Corporate Governance

This is a key aspect of management involving the principles of transparency, credibility, and accountability (Gadi, Ebelechukwu & Yakubu, 2015). According to Akdogan & Boyacioglu, (2017), internal corporate governance consists characteristics of board like composition, gender diversity, board size, insider ownership, and board committees, CEO duality, meetings and independence. The composition element explains the professional expertise, academic background, and board members' experiences. The independence is the relationship of the count of executive board members to the overall size of the board. According to Ali and Alim (2021), gender diversity explains the percent of female members to male members in the board. CEO duality, on the other hand, relates to CEO holding another position of being the board chairman. The insider ownership component explains the proportion of the firms' shares held by board members. According Kyere and Ausloos (2021), boards usually forms various committees to help in monitoring and controlling organizational operations. The board also holds meetings to discuss of major issues concerning the entity. Additionally, Mansour (2022) indicated that corporate governance in entities involves the practices and policies that govern the decision-making processes, directors' roles and responsibilities, and the management's accountability to the members. The key elements or measures of corporate governance include board composition and structure, openness and disclosure, accountability and management of risk.

1.1.2 Financial Performance

Kaudo (2023) and (Fatihudin, Jusni & Mochklas, 2018) mentions that financial performance is the realization of economic goals by a firm and is assessed against predetermined indicators or against similar organizations. It can be measured using a number of financial indicators and it has been established that the health of a SACCO goes beyond just profits. First, Return on Equity (ROE) is one of the measurements and this is profit relative to shareholder investment, second is the ROA which assess the SACCO's ability to make profits utilizing assets (Fatihudin, et al., 2018). Another key measure is the Net Interest Margin (NIM), which shows how well the SACCO earns on loans in comparison to what it pays on deposits and finally, Capital Adequacy Ratio which measures the ability of the SACCO to absorb losses without experiencing insolvent. These indicators are providing knowledge on the profitability of the institution, assets efficiency and their capabilities in meeting their financial obligations (Crane, 2018).

1.1.3 Corporate Governance and Financial Performance

The association between organizational governance and economic outcomes of an entity is evident from the positive outcomes associated with effective governance practices. Organizations with strong governance frameworks exhibit better decision-making, risk management, member confidence, and accountability, leading to improved financial results as exemplified in improved profit margins, ROA, ROE, adequate liquidity, asset quality as well as growth. A study by Musau (2020) study on Kenyan SACCOs found that effective practices of governance, for example regular financial reporting and transparent decision-making processes, were associated with higher profitability and growth rates. Further, Wandeo and Karihe (2024) indicated that organizations such as SACCOs with well-structured boards and clear governance policies had better financial indicators of performance such as ROE and ROA. In India, Khatib and Nour (2021) focused on 41 entities over five years, investigating parameters like and board characteristics and CEO duality relating to financial results indices e.g. ROA and ROE. Their research highlighted the integral role played by corporate governance practices in increasing the entity's value. Finally, Hasan et al., (2023) examined 59 firms in Bangladesh, assessing various corporate governance indices' influence on metrics of financial performance like EPS, ROE, and ROA. Their study emphasized the significant impact of board independence on FP, while other aspects like board effectiveness showed insignificant correlations.

1.1.4 SACCOs in Western Kenya

SACCOs help in providing financial services to underrepresented communities or groups. The organizations offer credit, savings, and other financial services to those who join them, promoting economic empowerment and financial inclusion. Kenya is top among African countries in term of the number of SACCOs. According to Feather and Meme (2019) Kenya owns approximately 22.7% of all SACCOs in the African continent, coming second only to Ethiopia (34.1%) and is followed closely by Tanzania (22.2%).

About 45% of the GDP of Kenya is linked to SACCOs with the majority anchored in agriculture. Western Kenya, encompassing counties such as Kakamega, Bungoma, Vihiga, and Busia, has a rich tradition of cooperative societies. SACCOs in this region cater to diverse membership bases, including farmers, small business owners, and salaried employees. The County Governments report that counties in Western Kenya have more than 132 registered SACCOs and the majority of them are tied to agriculture and transport activities. Nonetheless, it is worth noting that service and trade sectors also form part of cooperatives in the region. The economic results and sustainability of SACCOs in this region depend significantly on the effectiveness of their corporate governance structures. Report by Sacco Societies Regulatory Authority (SASRA, 2020), noted that SACCOs with strong governance frameworks showed consistent growth in assets and member deposits, contributing to overall financial stability in the region. Wanyama (2020) also indicated that SACCOs having effective governance structures, like effective boards and transparency in reporting, had higher profitability and lower NPL ratios.

1.2 Research Problem

Corporate governance is very essential in order to enhance service delivery as well as performance. However, despite the financial institutions such as SACCOs having the necessary resources, they are experiencing the problem of poor corporate governance more particularly with the management which in some cases, which has contributed to poor financial performance leading to a decline of profits, customer dissatisfaction and poor image. According to annual report by SASRA (2023), the financial results of cooperatives in Western Kenya has been inconsistent, with many struggling to achieve sustainable growth. This inconsistency raises concerns about the governance structures and practices within these organizations. Poor corporate governance has led to mismanagement, lack of transparency, and inefficient use of resources, ultimately impacting the economic outcomes of the SACCOs in the locale.

The report also suggested that weak economic results of cooperatives between 2022 and 2023 was because of ineffective corporate governance practices and fraud. Several scholars have conducted research on financial outcomes and corporate governance in both developing and developed nations however, little research has been conducted on the same subject more especially in SACCOs in Western Kenya. There is limited literature focusing on corporate governance in SACCOs and much attention has been direction towards their connection to development in economic and social aspects. For instance, Wandeo and Karihe (2024) looked at how organizational governance affect deposit taking SACCOs' profitability in Nairobi County and the results revealed an insignificant correlation of board composition and diversity with deposit taking SACCO performance. Kyabarongo, Agaba, Byamukama, and Sekiwu (2024) assessed the effect of corporate oversight on economic outcomes of cooperatives in Kiruhura District, Uganda to determine how board accountability impacts profitability of chosen SACCOs in the region and the outcomes indicated that board accountability unfavourably influenced the financial results of the specific businesses.

In another study (Arilyn $ Kharismar, 2018) found that that board governance significantly affected the financial outcomes cooperatives in India. Muiru et al. (2018) further determined that elements such as board roles, culture based in ethics, observation of shareholders rights, and complete transparence had a positive influence of the economic outcomes of saving and credit societies in Nairobi County, Kenya. Additionally, (Ndungu, 2016) observed that board size had a great unfavorable influence on profitability while the constitution of the board and institutional ownership favorably affected cooperatives profitability in Nairobi County. In the investigations, the researchers revealed that there is a literature deficiency that the current study will address filled since some of the inquiries have been carried out in other countries, counties (context) and different sectors using different methodologies. Most research done have revealed different conclusions on the effect of corporate oversight on financial result which makes it difficult to make a conclusion. Studies have been done in a different operational environment and others analyzed in other sectors of the economy and people which are different from the SACCOs and their financial performance. Some investigations have confirmed the link corporate governance and profitability have and others have found an insignificant relationship on the same. Moreover, some studies have been conducted using different methodologies and theories hence have not been able to adequately highlight how corporate governance have any relationship with financial performance. Therefore, this study will clearly fill these contextual, conceptual, methodological gaps and investigate organizational governance and financial outcomes with reference to cooperatives Western Kenya. Hence this study will answer the question is corporate governance linked with SACCOs' performance in Western Kenya?

1.3 Research Objectives

The overall aim of the current study was to explore on the association between cooperate governance and financial performance of SACCOs in Western Kenya.

1.4 Value of the Study

The current study is significant to a number of stakeholders. First, its outcomes will support decisions made by the administration of SACCOs, policymakers, and other parties in the financial sector. The findings can help policymakers like SASRA in assessing the effect of various organizational governance on economic outcomes of cooperatives. The policymakers can also utilize the results to initiate policies that ensure compliance to good organization oversight initiatives to improve the profitability of SACCOs.The findings can help SACCOs management to improve compliance with good organizational oversight practices put in place. Further SACCO members can use the results to monitor management's performance and improve the profitability of their cooperatives. Scholars would find the results of the investigation useful in supporting claims on organizational governances can influence the economic outcomes of SACCOs. This investigation also offers recommendations of further research that scholars can focus on addressing.

2. Literature Review

2.1 Introduction

Theoretical and empirical literature review are discussed in this section. It will analyze the theories that supports the current study as well as the empirical studies on the subject under study. Finally, the summary and gaps in knowledge will also be identified from the literature.

2.2 Theoretical Foundation

This study will explore key theories that include Agency Theory by (Jensen & Meckling, 1976) and stakeholder theory by (Freeman, 1984) as discussed below.

2.2.1 Agency Theory

It highlights an association where the principals give agents the authority to make decisions on their behalf. In a company, the shareholders assume the role of the principals while the firm's management become to agents. According to the theory, principals and agents may have a conflict, especially when agents start to prioritize the achievement of their own goals instead of those of the principals. Nonetheless, because of divergent interests, the management may achieve their own objectives, while harming the investors. This misalignment can lead to agency costs, which are costs incurred to monitor, incentivize, and ensure an alignment of stakeholders' interests, Jensen & Meckling, (1976). The theory is often criticized for its overly simplistic view of human nature, assuming managers are inherently self-interested. The theory assumes that all parties are rational and will always act in their economic self-interest. Agency theory is often criticized for its narrow focus on financial aspects, ignoring social, ethical, and environmental considerations (Hill & Jones, 1992).

Agency theory is relevant to the organizational oversight and financial outcomes of cooperatives in Western Kenya as it highlights the importance of creating techniques for ensuring that the interests of SACCO managers and those of the members are aligned. In SACCOs, members and managers take the positions of principals and agents correspondingly. Strong corporate governance structures help in reducing agency costs and improving financial performance by making sure that managers make decisions that benefit the members. The theory applies to this study since it highlights the potential conflicts between member interests (maximizing returns on savings and access to affordable credit) and management interests. Thus, effective governance mechanisms are crucial to mitigate these conflicts and ensure the SACCO's performance.

2.2.2 Stakeholder Theory

It posits that an entity is to take care of the interests of all the stakeholders. This include anyone with vested interest in the operations of the firm, employees, clients, suppliers, and the society. According to the theory, firms should address the expectations and concerns of all stakeholders to realize sustainable profitability Freeman, (1984). This theory is key to the corporate oversight and performance of SACCOs in Western Kenya as it emphasizes the need to consider the concerns of all members and other parties when making decisions.

By adopting a stakeholder-oriented approach, SACCOs can enhance their social responsibility, build trust, and increase performance by fostering a an inclusive as well as supportive organizational set up. The theory has been criticized for its broad and vague definition of stakeholders, making it difficult to identify and prioritize them. Critics argue that the theory lacks practical guidance on how to implement stakeholder management effectively (Jensen, 2002). This theory puts significant focus on why stakeholders interest must be considered.

2.4 Empirical Literature Review on Corporate Governance and Financial Performance

(Slama, Ajina & Lakhal, 2019) studied board gender diversity affect financial performance of an organization. The researchers sampled 89 companies in France listed on the CAC All-Tradable in the period 2008 to 2011. The study utilized ROA in measuring the financial outcomes of the chosen companies. The researchers also used panel data analysis and results indicated that gender diversity code in France was expected to unfavourably affect the economic results of companies. There is a comply-or-explain sanction in the country that supports the increase of female directors in board which was expected to lower firm performance. However, high performing companies refuted that notion, showing an increase in financial performance with increased gender diversity. Have a fair share of female board member to male ones can improve the economic outcomes of a firm because it enhances decision-making by bringing diverse opinions during discussions. Increased gender diversity also improves the firms' reputation.

In another study, Palaniappan (2017) looked at how board elements like board size, board activity, independence affect the performance of organizations in India. Palaniappan (2017) utilized panel data of 275 listed companies in the period 2011-2015 which was analyzed through a regression. Findings indicate that board size was having a negative correlation with various indicators of performance like ROA.

In the UAE, (Khalifa & Abdulfattah, 2018) conducted investigation to assess the impact of features board committee on organizations' profitability. The study utilized data of 47 quoted companies in the country between 2006 and 2015 and used multiple regression panel model data analysis. Khalifa and Abdulfattah (2018) found that board committees number and performance of companies had a positive correlation. Companies that had several board committees have superior financial performance compared to those that had fewer committees. According to the authors, large number of board committees allowed firms deliberate on several aspects and thus more informed decision making that improves performance.

Kapil and Mishra (2019) investigated the link between organizational governance system and economic outcomes of organizations in India between 2013 and 2018 listed on the National SE and analysis involve the use of descriptive and correlation methods. The researchers focused on board of directors and ownership as the corporate governance variables. The study revealed that corporate governance affected ROA and ROE. Ownership had a significant correlation with ROA while board of directors had a statistically evident significant link with ROE and ROA.

In another investigation, (Rashid,2018) looked at how board independence influence the financial outcomes of Bangladeshi listed firms and used data of 135 companies quoted on Dhaka Stock Exchange. Results showed that independence of board and the performance of the firm had to positive relationship. Additionally, board size and firm economic status were positively correlated.

Kamau, Machuki and Aosa (2018) looked at the effect of organizational governance on economic outcomes of Kenyan financial institutions. The researchers employed cross sectional descriptive research design and sampled 162 financial institutions. Data collection involved the use of structured questionnaires given to the managers, secretaries, and other senior official of the selected firms. The study achieved a 66.7% response rate and regression model was employed to facilitate data analysis and revealed that significantly impacted the economic results of financial firms. Board committees and experience of member were found to be important determinants of performance. However, while experience positively impacted performance, board committees had an adversely impacted the economic outcomes of the company.

3. Research Methodology

3.1 Introduction

This chapter highlights the important aspects that covered in this section are the design, sample size, population, sampling design and techniques of data gathering and analysis.

3.2. Research Design

This is a strategy that is employed by researchers in order to gather and analyze data. Descriptive survey design was used. Descriptive design method was utilized to gather quantitative data from the chosen population as well as gathering, analyzing and presenting the data. The goal of this design is also to provide an overview and description of a population's or phenomenon's features. It is helpful for comprehending trends, opinions, frequencies, and demographics (Saini, 2020). Through the descriptive survey research, this study assessed the effect of board composition, board size, board transparency and internal controls on financial outcomes of cooperatives in Western Kenya. The design was used since it provided an approach for gathering data.

3.3 Target Population

(Cooper & Schindler, 2003) explain population as an organization, a person, or a customer on which the reference or measurement is being taken. As of December 31, 2023, there are a total of 359 registered SACCOs in Kenya. According to SSRA as at 31 December 2023, there are 93 Sacco's in Western Kenya which formed part of this study's population. The research targeted managers in the SACCOs.

3.4 Sample and Sampling Design

A sample size of all 93 SACCOs were chosen using purposive sampling design. Purposive sampling takes place when the respondents are chosen at the discretion of the researcher where the individual considers the study's purpose and the target audience.

3.5 Data Collection Methods

Questionnaires were used in collecting primary data. Kombo and Tromp (2006), stated that a self-administered questionnaire is used in collecting self-reported information on values, opinion and attitudes of the respondents. The questionnaire had closed and open ended quizzes and divided into part A; presenting the personal data of the respondents and the Sacco and section B addressed research constructs.

3.6 Data Analysis

The present study is quantitative and it includes statistical analysis application to analyze numerical data. Therefore, descriptive statistics helped in summarizing the data gathered by employing frequencies, standard deviation as well as mean. Correlations and OLS were used to make inferences and show the relationships on the data collected. SPSS Version 27.0 was used for data analysis.

3.6.1 Analytical Model

The following equation was adopted.

$$Y = \beta 0+\beta_1 X_1+\beta_2 X_2+\beta_3 X_3+\beta_4 X_4+\varepsilon$$

Y = Financial performance and this was measured using ROE and ROA

X_1= board composition

X_2 = Board size

X_3 = Board transparency

X_4 = internal control systems

$\beta 0$= Constant

$\beta 1$- $\beta 4$= coefficients

ε = Disturbance term

4. Data Analysis and Interpretation

4.0 Introduction

The collected data was analyzed and presented in tables for answering the research questions.

4.1 Descriptive Analysis

Table 4.1 shows that 42 (61.8%) are male, and 26 (38.2%) are female. 38 (55.9%) of the participants have degree, 18 (26.5%) of the participants have masters, 8(19.4%) of the participants have PHD, and 4 (5.9%) of the participants have other levels of education. 18(26.5%) mentioned that they have less than 3 years, 30 (44.1%) mentioned that they have 4-10 years of experience, 12 (17.6%) mentioned that they have 11-15 years of experience, and 8(11.8%) mentioned that they have more 16 years of experience.

Table 4. 1: Demographics (N = 68)

Variable	Option	n	%
Gender	Male	42	61.8%
	Female	26	38.2%
Education	Degree	38	55.9%
	Masters	18	26.5%
	PHD	8	11.8%
	Others	4	5.9%
Years of Experience as a Branch Manager	<3	18	26.5%
	4 to 10	30	44.1%
	11 to 15	12	17.6%
	>16	8	11.8%

4.3 Reliability Test

Researches have shown that an acceptable value of alpha test must be equal to or over 0.70. A value of 0.70 or more is said to be highlyconsistence for the scale. In this study, the values for all the scales are above 0.70; board composition (alpha = 0.898), board size (alpha = 0.954), board transparency (alpha = 0.964), internal control systems (alpha = 0.899), and financial performance (alpha = 0.872). However, the values indicate high level of internal consistency for our scales with the data. We can conclude that it is reliable to group together the questions for each scale in the survey.

Table 4. 2: Reliability for the Scales

Construct	Alpha	Items
Board Composition	0.898	5
Board Size	0.954	5
Board Transparency	0.964	5
Internal Control Systems	0.899	5
Financial Performance	0.872	3

4.4 Inferential Analysis

4.4.1 Correlations

Correlations was done examining the link between Board Composition, Board Size, Board Transparency, Internal Control Systems and Performance.

Table 4. 3: Correlations Statistics Correlations

		Board Composition	Board Size	Board Transparency	Internal Control Systems	Financial Performance
Board Composition	*r*	1	.581**	.623**	.593**	.646**
	p		.000	.000	.000	.000
	N		68	68	68	68
Board Size	*r*		1	.898**	.866**	.911**
	p			.000	.000	.000
	N			68	68	68
Board Transparency	*r*			1	.874**	.942**
	p				.000	.000
	N				68	68
Internal Control Systems	*r*				1	.909**
	p					.000
	N					68
Financial Performance	*r*					1
	p					
	N					68

**. 0.01 level (2-tailed).

The result establishes that there is a significant link ($r = 0.646$, $p < 0.001$) between board composition and financial performance. This implies that when there is effective board composition financial performance improves. The result establishes a significant link ($r = 0.911$, $p < 0.001$) between board size and performance. This is an indication that board size will result in improved performance. The result establishes a significant correlation ($r = 0.942$, $p < 0.001$) between board transparency and performance. This is an indication that board transparency will result in increased financial performance. Lastly, the result establishes a significant link ($r = 0.909$, $p < 0.001$) between internal control systems and financial performance. This implies that board transparency will result in increased financial performance.

4.4.2 OLS Regression

Table 4. 4: Model Summery

Model Summary

Model	R	R^2	Adjusted R^2	SE
1	.967[a]	.934	.930	.05030

a. Predictors: (Constant), Board Composition, Internal Control Systems, Board Size, Board Transparency

Results show that the model is explaining 93.4% variation in SACCO's financial performance.

Table 4. 5: ANOVA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.269	4	.567	224.231	.000[b]
	Residual	.159	63	.003		
	Total	2.429	67			

a. Dependent Variable: FP

b. Predictors: (Constant), BP, Internal Control Systems, BS, BT

The model was significantly better in relation to the null model (model with no predictors) as indicated by the F-test result (F = 224.231, P < 0.001). This indicates that adding Board Composition, Internal Control Systems, Board Size and Board Transparency to the model explained a statistically significant variance proportion in financial performance compared to the null model i.e. R^2 is significantly different from zero.

Table 4. 6: Coefficients

Coefficients[a]

Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	.137	.238		.575	.568
	Board Size	.139	.059	.188	2.350	.022
	Board Transparency	.546	.113	.418	4.848	.000
	Internal Control Systems	.183	.041	.323	4.435	.000
	Board Composition	.136	.049	.117	2.775	.007

a. Dependent Variable: Financial Performance

$$Y = \beta 0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

$$Y = 0.137 + 0.136X_1 + 0.139X_2 + 0.546X_3 + 0.183X_4 + 0.238$$

Results show that Board Composition, Internal Control Systems, Board Size and Transparency are significantly associated with ROA at the 5% margin of error (P < 0.05). This indicates that slope of linear relation Board Composition, Internal Control Systems, Board Size and Board Transparency building and performance is significantly different from zero. The regression coefficient can be interpreted as the change in performance for each 1unit increase in board composition i.e. performance rises by 0.136 points for a unit increase in board composition, financial performance for each 1unit increase in board size i.e. performance rises by 0.139 points for a unit increase in board size, financial performance for a unit increase in board transparency i.e. performance rises by 0.546 points for a unit increase in board transparency and finally, performance for each 1unit increase in internal control system i.e. performance rises by 0.183 points for each 1-unit increment in internal control systems.

4.5 Discussion

The study established a strong positive link between board size, composition, and transparency and internal control systems and financial performance are revealed by results of the correlations analysis. Regression analysis results revealed key statistics in line with correlations results. These results are consistent to results of a study by Slama, Ajina & Lakhal, (2019) who studied how board gender diversity affect economic outcomes of an organization and sampled 89 companies in France listed on the CAC All-Tradable in the period 2008 to 2011. The study utilized ROA in measuring the financial outcomes of the chosen companies. The researchers also used panel data analysis and results indicated that gender diversity code in France was expected to unfavourably affect the economic results of companies. There is a comply-or-explain sanction in the country that supports the increase of female directors in board which was expected to lower firm performance. However, high performing companies refuted that notion, showing an increase in financial performance with increased gender diversity. Have a fair share of female board member to male ones can improve the economic outcomes of a firm because it enhances decision-making by bringing diverse opinions during discussions. Increased gender diversity also improves the firms' reputation. The findings also show similarity with the findings of a study by Palaniappan (2017) who looked at how board elements affect the financial outcomes of organizations in India. Palaniappan (2017) utilized panel data of 275 listed companies in the period 2011-2015 which was analyzed through a regression. The study revealed that characteristics board size was negatively correlated with various indicators of performance like ROA. The study findings show similarity to the findings of a study by Kapil and Mishra (2019) who investigated the link between organizational governance system and economic outcomes of organizations in India. The study revealed that corporate governance affected ROA and ROE. Ownership had a statistically evident positive link with ROA while board had a statistically evident positive link with ROE, ROA.

5. Summary, Conclusion and Recommendations

5.1 Board composition significantly affect financial performance as diverse composition in relation to gender, age, and education, adequate knowledge and skills, the strategic planning, effectively representing members interests and clear understanding of the entity's financial performance together significantly improves financial performance.

Board size significantly affect financial performance as size appropriate for operations, allowing for effective decision-making, being conducive to efficient meetings and facilitating effective communication among members together improves financial performance.

Board transparency elements like provision of regular financial reports to the members, transparency in its decision-making processes, confidence in board transparency and effective communication with members together improve financial performance.

Internal controls like adequate monitoring and evaluation mechanisms in place to safeguard assets, effectively implemented auditing systems, control activities put in place to prevent fraud and errors, regular review and update of systems of control and adherence to the internal control procedures together positively impact ROA.

5.2 Recommendations of the Study

Important elements of board composition like diverse composition in relation to gender, age, and education, adequate knowledge and skills, the strategic planning, effectively representing members interests and clear understanding of the financial performance should be observed with keen interest because they improve financial performance. Board size aspects for instance size appropriate for operations, allowing for effective decision-making, being conducive to efficient meetings and facilitating effective communication among members should be given more emphasis with a view of improving organizational financial performance. Board transparency elements like provision of regular financial reports to the members, transparency in its decision-making processes, confidence in board transparency and effective communication with members should be maintained for better financial performance. Internal controls like adequate monitoring and evaluation mechanisms in place to safeguard assets, effectively implemented auditing systems, control activities put in place to prevent fraud and errors, regular review and update of systems of control and adherence to the internal control procedures are key in achieving improved financial results.

5.3 Challenges of the study

One of the limitations is that some of the respondents were not willing to take part in this study. Also, The SACCOs' offices were few and far between, and consequently, more time and resources had to be allocated during fieldwork.

5.4 Areas for Further Research

Board composition, internal control systems, board size and board transparency explained only a given percent of variance in ROA, an indication that the remaining percentage is attributed to constructs not included in this study. These factors and how they affect ROA should be investigated. The study only focused on western Kenya. Studies should be done in other regions to see how Board composition, internal control systems, board size and board transparency relates with SACCOs financial performance in those regions.

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