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THE CONTRIBUTION OF BOARD ACCOUNTABILITY ON THE PERFORMANCE OF SACCO'S IN KAKAMEGA COUNTY, KENYA

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Abstract

Proponents of Corporate governance note that board's accountability of the organisation has a direct effect on performance. Specifically the study examined the contribution of board accountability on the performance of Sacco's in Kakamega County. The research adopted an explanatory survey research design. The population of the study consisted of 5 selected SACCOs within Kakamega urban area with a membership of 50,000. Stratified random sampling was used to select 890 respondents comprising 800 shareholders, 45 board members 40 top managers and 5 financial managers. Data was obtained from both primary and secondary sources. The data collection was by use of questionnaires. Data was analysed using descriptive and inferential statistics. Descriptive statistics included frequencies, percentages, means and standard deviations. Correlation analysis facilitated drawing of inferences on the relationship between independent variables and dependent variable. Multiple regression enabled the assessment of the effect of the independent variables on performance of the Saccos. The study found that at 99% confidence level, the board accountability had positive and

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significant relationship with the performance of SACCOs at r= 0.416 and P value = 0.00. The study recommends that SACCOs regulating authority should have in place constituted accountable and transparent boards of SACCOs so as to conduct their activities in the best interest of the organization; power should be exercised in a manner that demonstrates effectiveness and efficiency so as enhance the financial performance of SACCOs.

Keywords: Corporate governance, Board Accountability, Performance, SACCOs, Kenya

INTRODUCTION

Corporate governance is a term often used to describe the way a company is managed, monitored, and held accountable. There is no universally accepted definition of corporate governance primarily because its concept is not well defined, it covers various distinct economic phenomena, and it is often described from shareholders' view of what a company should and should not do (Rezaee, 2009). According to Johnson *et al.* (2008), corporate governance is concerned with the structures and systems of control by which managers are held accountable to those who have a legitimate stake in an organization. Lynch (2009), states that corporate governance refers to the influence and power of the stakeholders to control the strategic direction of the organization in general, especially the authority of the Chief Executive Officer and other senior officers of the organization.

Good corporate governance shields a firm from vulnerability to future financial distress (Bhagat and Jefferis, 2002). The argument has been advanced repeatedly that the governance structure of any corporate entity affects the firm's ability to respond to external factors that have some bearing on its financial performance (Donaldson, 2003). It is believed that good governance generates investor goodwill and confidence (Demsetz and Villalonga, 2002). Again, poorly governed firms are expected to be less profitable. Claessens, *et. al.* (2002) also posit that better corporate framework benefits firms through greater access to financing, lower cost of capital, better financial performance and more favorable treatment of all stakeholders. It is important to point out that an effective system of corporate governance helps to facilitate decision making, accountability and responsibility within and outside a corporate entity. Good corporate governance ensures that the varying interests of stakeholders are balanced, decisions are made in a rational, informed and transparent fashion and decisions contribute to the overall efficiency and effectiveness of the organization (Centre for Corporate Governance, 2005).

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Nevertheless, the SACCOs in Kenya are confronted by a number of challenges that include poor corporate governance, stagnated growth, lack of transparency and accountability, poor policies and guidelines, little shareholders involvement, low financial innovations and poor technological uptake, poor financial reporting , loan backlogs, high illiteracy level among the SACCO members, managerial deficiency, inadequate capital . Since then regulatory reforms have been instituted to help streamline the SACCO operations for maximum returns for members. However, SACCO movement in Kenya has faced a number of challenges that need to be addressed in order to enable it to improve on: soundness and stability, effectiveness and efficiency, corporate governance, product diversity and competition as well as integration to formal financial system (KUSCCO 2010). These challenges are inherent in the financial world in relation to the co-operative movement. While Ndung'u (2010) adds that the SACCOs are encompassed by mismanagement and poor investment decisions. Earlier, Thabo, et al., (2003) note that SACCO societies have problems generating wealth due to poor financial stewardship, under-capitalization of co-operative enterprises, high cost of funds, and delayed member payments. Pollet and Daveltere (2004) observed that successful cooperatives reviewed reveals that governance issues is at centre-stage and play a crucial role in harnessing the different associative and business forces at play in cooperatives.

Munyiri (2006) says that such challenges would hinder the achievement of the said objectives and even lead to decline in growth of Sacco's wealth. Ondieki *et al* (2011) contend that inadequate managerial skills and knowledge have adversely affected SACCOs in Kenya. There is the conflict between owners and managers (Fisher & Desrochers, 2002) and there is the conflict between the members and their elected management board (Rock et al., 1998).All these pointing at corporate governance issues. In view of the foregoing this study proposes the effect of corporate governance on performance of Sacco's within Kakamega County.

Statement of the Problem

Corporate governance has been of interest to investors, policy makers, and corporations. Interest in the corporate governance practices of modern corporations, particularly in relation to accountability, increased following the high-profile collapses of a number of large corporations during 2001–2002, most of which involved accounting fraud; and then again after the recent financial crisis in 2008. Several companies in Kenya are reportedly faced with allegations of massive fraud and creative accounting, the most recent one being Harambee SACCO whose top officials were suspended by SACCO Societies Regulatory Authority (SASRA) to pave the way for investigations into the alleged fraud (Omwenga, 2012). The financial statements of some of the organizations showing signs of strength arising from creative accounting despite

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their internal weaknesses. Leaders have chosen the path of self-aggrandisement using leadership as a basis for power and path to personal gain failing on the fiduciary duty placed upon them by the members. A new study by the Financial Sector Deepening (FSD) indicates that despite the creation of a dedicated industry regulator and laws to professionalise the sector, Kenya Sacco industry remains as weak as it was 12 years ago. According to the Sacco societies regulatory authority the reasons for collapse of cooperatives include but not limited to poor leadership and governance, unqualified managers, nepotism, corruption, financial indiscipline and political interference. According to Agumba (2008) Effectiveness of the Sacco governance model, examined the responsibility of all stakeholders in the Sacco governance process and why there is a growing interest in the Sacco governance. Akinwumi (2006) states that poor financial management decisions, bad governance and leadership problems are critical elements that affect efficiency of cooperative movement in the whole of African countries. An Inspection report compiled by SACCO Societies Regulatory Authority (SASRA) showed that many SACCOs in Kenya have been involved in mismanagement, fraud and corrupt practices. It is against this backdrop that this study sought to assess the effect of corporate governance on performance of SACCOs in Kakamega County.

Objective to the study

To examine the contribution of board accountability on the performance of Sacco’s in Kakamega County, Kenya

Research hypothesis

H_{01}: Board accountability has no significant effect on the performance of Sacco's in Kakamega County, Kenya

Scope of the study

The study targeted a population of 50,000 all-inclusive of the shareholders who were the majority members of the population, board members, top managers and financial managers of five deposit taking Sacco's within Kakamega central of Kakamega County. The study was conducted between May and September 2017.

Significance of the study

This study will benefit various stakeholders including the government of Kenya, current and potential investors, members of Sacco's and other financial institutions. The policy makers may obtain knowledge of the cooperative movements dynamics and thus obtain guidance from this

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study in designing appropriate and best practices that will guide the stakeholders in the Sacco's' in Kenya. The researcher anticipates findings of the study may also help Deposit Taking Sacco's in Kenya in discovering new and better techniques of improving and running their operations in order to have an edge in the industry and for growth. The financiers may use the information obtained in this study to establish where to invest their finances based on the accountability of the stewards. The study identified the knowledge gaps and provided suggestions for further research. This study may also guide the shareholders on the role and responsibility owed to them as owners of the Sacco's. This study will be useful to academicians and will stimulate further interest to both researchers and students interested in this field to carry further studies. SACCO Members may also appreciate the development of SACCO sector financial assessment and evaluations. Finally, it may form a base for scholars who are interested in conducting research in this area in future.

LITERATURE REVIEW

Theoretical Review

Corporate governance encompasses the authority, accountability, stewardship, direction and control exercised in corporations and outside a corporate entity. Good corporate governance ensures that the varying interests of all stakeholders are balanced, decisions are made in a rational, informed and transparent fashion and decisions contribute to the overall efficiency and effectiveness of the organization (Centre for Corporate Governance, 2005).According to MOCDM (2008),there exist opportunities for mismanagement namely: Insufficient commitment by stakeholders, insufficient clarity of roles and responsibilities by stakeholders, Inappropriate organizational structures, inadequate professionalism and discipline, inadequate internal management and operational system, elections are not free and fair and inadequate management committee education.

Agency Theory

Agency theory having its roots in economic theory was exposited by Alchian and Demsetz (1972) and further developed by Jensen and Meckling (1976). Agency theory is defined as "*the relationship between the principals such as shareholders, and agents such as the Sacco board members and managers*". In this theory, shareholders who are the owners (principals) of the Sacco, hires the agents (board of directors and managers) to perform work. Principals delegate the running of business to the directors or managers, who are the shareholder's agents (Clarke, 2004). Indeed, Daily et al (2003) argued that two factors can influence the prominence of agency theory. First, the theory is conceptually and simple theory that reduces the corporation

to two participants of managers and shareholders. Second, agency theory suggests that employees or managers in organizations can be self-interested. The agency theory 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, 2000). Such a problem was first highlighted by Adam Smith in the 18th century and subsequently explored by Ross (1973) and the first detailed description of agency theory was presented by Jensen and Meckling (1976). Indeed, the notion of problems arising from the separation of ownership and control in agency theory has been confirmed by Davis, Schoorman and Donaldson(1997).In agency theory, the agent may be succumbed to self-interest, opportunistic behaviour and falling short of congruence between the aspirations of the principal and the agent's pursuits. Even the understanding of risk defers in its approach. Although with such setbacks, agency theory was introduced basically as a separation of ownership and control (Bhimani, 2008). Holmstrom and Milgrom (1994) argued that instead of providing fluctuating incentive payments, the agents will only focus on projects that have a high return and have a fixed wage without any incentive component. Although this will provide a fair assessment, but it does not eradicate or even minimize corporate misconduct.

Here, the positivist approach is used where the agents are controlled by principal-made rules, with the aim of maximizing shareholders value. Hence, a more individualistic view is applied in this theory (Clarke, 2004). 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. Due to the fact that in a family firm, the management comprises of family members, hence the agency cost would be minimal as any firm's performance does not really affect the firm performance (Eisenhardt, 1989). 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 people or employees are held accountable in their tasks and responsibilities. Employees must constitute a good governance structure rather than just providing the need of shareholders, which maybe challenging the governance structure.

Stewardship Theory

Stewardship theory has its roots from psychology and sociology and is defined by Davis, Schoorman &Donaldson (1997) as *"a steward protects and maximises shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximised*". In this perspective, stewards are Sacco board members and managers working for the

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shareholders, protects and make profits for the shareholders. Unlike agency theory, stewardship theory stresses not on the perspective of individualism (Donaldson & Davis, 1991), but rather on the role of top management being as stewards, integrating their goals as part of the organization. The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained. Agyris (1973) argues agency theory looks at an employee or people as an economic being, which suppresses an individual's own aspirations. However, stewardship theory recognizes the importance of structures that empower the steward and offers maximum autonomy built on trust (Donaldson and Davis, 1991). It stresses on the position of employees or executives to act more autonomously so that the shareholders' returns are maximized. Indeed, this can minimize the costs aimed at monitoring and controlling behaviours (Davis, Schoorman & Donaldson, 1997). On the other end, Daly et al. (2003) argued that in order to protect their reputations as decision makers in organizations, executives and directors 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.

Indeed, Fama (1980) contend that executives and directors are also managing their careers in order to be seen as effective stewards of their organization, whilst, Shleifer and Vishny (1997) insists that managers return finance to invest or to establish a good reputation so that that can re-enter the market for future finance. Stewardship model can have linking or resemblance, where the worker assumes the role of stewards and takes ownership of their jobs and work at them diligently. Moreover, stewardship theory suggests unifying the role of the CEO and the chairman so as to reduce agency costs and to have greater role as stewards in the organization. It was evident that there would be better safeguarding of the interest of the shareholders. It was empirically found that there turns have improved by having both these theories combined rather than separated (Donaldson and Davis, 1991).

Stakeholder Theory

Stakeholder theory was embedded in the management discipline in 1970 and gradually developed by Freeman (1984) incorporating corporate accountability to a broad range of stakeholders. Wheeler et al, (2002) argued that stakeholder theory derived from a combination of the sociological and organizational disciplines. Indeed, stakeholder theory is less of a formal unified theory and more of abroad research tradition, incorporating philosophy, ethics, political theory, economics, law and organizational science. Stakeholder theory can be defined as "*any group or individual who can affect or is affected by the achievement of the organization's objectives*". Unlike agency theory in which the managers are working and serving for the

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stakeholders, stakeholder theorists suggest that managers in organizations have a network of relationships to serve – this include the suppliers, employees and business partners. And it was argued that this group of network is important other than owner-manager-employee relationship as in agency theory (Freeman, 1999).

On the other end, Sundaram and Inkpen (2004) contend that stakeholder theory attempts to address the group of stakeholder deserving and requiring management's attention. Whilst, Donaldson & Preston (1995) claimed that all groups participate in a business to obtain benefits. Nevertheless, Clarkson (1995) suggested 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) contends 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)argued 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.

Business Ethics Theories and Corporate Governance

Other than the fundamental corporate governance theories of agency theory, stewardship theory, stakeholder theory, there are other ethical theories that can be closely associated to corporate governance. These include business ethics theory, virtue ethics theory, feminist ethics theory, discourse ethics theory, postmodern ethics theory. Business ethics is a study of business activities, decisions and situations where the right and wrongs are addressed. The main reasons for this are the power and influence of business in any given society is stronger than ever before. Businesses have become a major provider to the society, in terms of jobs, products and services. Business collapse has a greater impact on society than ever before and the demands placed by the firm's stakeholders are more complex and challenging. Only a handful of business giants have had any formal education on business ethics but there seems to be more compromises these days. Business ethics helps us to identify benefits and problems associated with ethical issues within the firm and business ethics is important as it gives us a new light into present and traditional view of ethics (Crane and Matten, 2007). In understanding the 'right and wrongs' in business ethics, Crane & Matten, (2007) injected morality that is concerned with the norms, values and beliefs fixed in the social process which helps right and wrong for an individual or social community. Ethics is defined as the study of morality and the application of reason which sheds light on rules and principle, which is called ethical theories that ascertains the right and wrong for a situation.

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Whilst business ethics theory focuses on the “rights and wrongs’ in business, f*eminist ethics theory* emphasizes on empathy, healthy social relationship, loving care for each other and the avoidance of harm. In an organization, to care for one another is a social concern and not merely a profit centered motive. Ethics has also to be seen in the light of the environment in which it is exercised. This is important as an organization is a network of actions, hence influencing trans communal levels and interactions (Casey, 2006). On the other end, *discourse ethics theory* is concerned with peaceful settlement of conflicts. Discourse ethics, also called argumentation ethics, refers to a type of argument that tries to establish ethical truths by investigating the presuppositions of discourse (Habermas, 1996).

Meisenbach (2006) contends that such kind of settlement would be beneficial to promote cultural rationality and cultivate openness. *Virtue ethics theory* focuses on moral excellence, goodness, chastity and good character. Virtue is a state to act in a given situation. It is not a habit as a habit can be mindless (Annas, 2003). Aristotle calls it as disposition with choice or decision. For example, if a board member decides to be honest, now that a decision which he makes and thus strengthens his virtue of honesty. Virtue involves two aspects, the affective and intellectual. The concept of affective in virtue theory suggests “doing the right thing and have positive feelings”, whilst, the concept of intellectual suggests “to do virtuous act with the right reason”. Virtues can be instilled with education. Aristotle mentions that knowledge on ethics is just like becoming a builder (Annas, 2003). Through the process of educating and exposure to good virtues, the development of ethical values in a child’s life is evident. Hence, if a person is exposed to good or positive ethical standards, exhibiting honesty, just and fairness, than he would exercise the same and it will be embedded in his will to do the right thing at any given situation. Virtue ethics is eminent to bring about the intangibles into an organization.

Virtue ethics highlights the virtuous character towards developing a morally positive behaviour (Crane and Matten, 2007). Virtues are a set of traits that helps a person to lead a good life. Virtues are exhibited in a person’s life. Aristotle believed that virtue ethics consists of happiness not on a hedonistic sense, but rather on a broader level. Nevertheless, *postmodern ethics theory* goes beyond the facial value of morality and addressed the inner feelings and ‘gut feelings’ of a situation. It provides a more holistic approach in which firms may make goals achievement as their priority, foregoing or having a minimal focus on values, hence having a long term detrimental effect. On the other hand, there are firms today who are so value driven that their values become their ultimate goal (Balasubramaniam, 1999).

This review has seen corporate governance from various theoretical perspectives. The emergence of agency theory, stewardship theory, and stakeholder theory addresses the cause and effect of variables, such as the configuration of board members, audit committee,

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independent directors and the role of top management. In addition, ethics in business have been closely associated with corporate governance. This can be seen with the association of business ethics theory, feminist ethics theory, discourse ethics theory, virtue ethics theory and postmodern ethics theory. Hence, it can be argued that corporate governance is more of a social relationships rather than process orientated structure. In addition, these theories focused on the view that the shareholders' aimed to get a return on their investments. In today's business environment, business process should also focus on other critical factors such as legislation, culture and institutional contexts. Corporate governance is constantly changing and evolving and changes are driven by both internal and external environmental dynamics. The internal environment has a fixed mindset of shareholders' relationship with stakeholders and maximizing profits. Whilst, issues in the external environment such as the breakup of large conglomerates, mergers and acquisitions of corporation, business collaborations, easier financial funding, human resource diversity, new business start-ups, globalization and business internationalization, and the advance of communication and information technology have directly and indirectly caused the changes in corporate governance.

The current corporate governance theories cannot fully explain the complexity and heterogeneity of corporate business. Governance for different country may vary due to its cultural values, political and social and historical circumstances. In this sense, governance for developed countries and developing countries can vary due to the culture and economic contexts of individual country.

Board accountability

Boards of Directors in SACCOs are empowered to make decisions they believe will benefit the organization (section 28 of the Co-operative Societies Act CAP 490). Recent media attention highlights that, more than ever, boards of directors are being held accountable for the organisations they govern. High profile corporate collapses, accounting irregularities, corporate corruption, remuneration excesses and inadequate disclosure practices have significantly affected public confidence in markets and focused on media spotlight clearly onto corporate governance (Taylor, 2003).They must be held accountable and responsible for growth, performance and results.

The board of directors should offer strategic leadership in the organisation they govern by establishing the organisational vision and mission, developing the management team and succession, managing the resource portfolio, building an entrepreneurial culture, promoting integrity and ethical behaviour amongst staff and use effective controls. Rowe (2001) suggested that strategic leadership involves a synergistic combination of visionary and Managerial

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leadership to influence those with whom they work with to make decisions on a voluntary basis. Hagan et al (1998) stated that strategic leadership is an extremely complex but critical form of leadership. According to these authors, strategic leadership is multifunctional, involves managing through others, and helps organisations to cope with change that seems to be increasing exponentially in the contemporary business environment. Strategic leadership requires the ability to integrate both internal and external business environments of the organization, and to manage and engage in complex information processing. Strategic leadership is therefore the leader's ability to envision, anticipate and maintain flexibility and to empower others to create Strategic change as necessary (Hitt 2007). Strategic leadership demands leaders to develop and communicate the organization purpose (vision); tactfully organize the human resource capabilities and competencies with the task at hand; exercise high intensity of integrity and ethical standards; deliver extraordinary performance; and sustain a competitive advantage The board of directors play an important role as a governance mechanism for monitoring the strategic direction of the organization as well as representing the interest of internal and external stakeholders. The board of directors should develop an effective relationship with the organization top management team in order to best serve the interest of all stakeholders (Hitt et al, 2007).The code of corporate governance requires boards of directors to provide strategic leadership, and specifically be responsible for providing strategic direction to the organisation, appointing the CEO, retaining control over the organization, monitoring management in implementing formulated strategies and plans, complying with all relevant laws, regulations and codes of good practice, identifying and monitoring non-financial aspect relevant to the organization, communication with internal and external stakeholders and identifying and monitoring key risk areas (Code of Corporate Governance, 2002). Although the choice of Strategic leaders is a critical decision with important implications for corporate performance however, Olando et al (2012), concluded that growth of Sacco's wealth depended on financial stewardship, capital structure and funds allocation strategy.

Different parts of a Sacco require people with different knowledge and characters to ensure that saccos are run and managed as efficiently as possible, a board of directors is appointed. The board of directors functions as the highest internal corporate governance mechanism (Jensen, 1993). The board holds a high authority in the saccos and the general purpose of the boards of directors is to monitor corporate behavior of the management, advise the management, and to further protect the interests of shareholders (Brick, Palmon, & Wald, 2006). According to SASRA; for example, boards have to consist of 9 members even though, gender distribution, nationality of the directors, and other characteristics of the board are chosen by the shareholders of the Sacco's, who elects the board, however a mix of skills and

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experiences, as well as other diversity components of gender, age, sex when electing new board members should be enhanced. Diversity is one of the key aspects of good corporate governance and diverse boards are more likely to generate innovative and creative thinking in the boardroom, allowing for better business solutions. Diversity further creates a better stakeholder representation and ensures sustainable performance. Diverse boards are crucial in today's compelling business in complex global markets (Smith, Smith, & Verner, 2006; Heidrick & Struggles, 2009).Non-executive directors represent an important corporate governance mechanism and have a main purpose of neutralizing agency conflicts between shareholders and management (Clarke, 2007). A number of studies in the past, which aimed at establishing the effect of non-executive directors on the success or failure of firms, have examined the board composition and its impact on firm. Empirical evidence on independent non-executive directors and firm performance has found a majority of non-executive directors improved performance (Donaldson 2003). Wambua (2011) in his study found out that the number of non-executive directors affected the performance of the Sacco a great extent as was shown by a mean of 4.20. A key proposition is that board structure and composition condition the way boards operate but actual board effectiveness depends on the behavioural dynamics of the board, including the conduct and relationships of non-executives vis-à-vis the executives (Roberts et al. 2005).

Due to boards dynamics and vibrant business environment we suggest for research to be conducted on director characteristics and measures of board process in terms of boards efforts norms, decision making behavior and relationship between the executives directors and non-executive directors and how their contributions would affect corporate governance of business entities.

The board must be held accountable and responsible for growth performance and results. Have regular and timely elections and allow members to participate without interference; Maintain up to date and accurate records of the organizations and ensure audited accounts are presented and read to members on time and members allowed to deliberate and resolve on them; Develop code of conduct and best practice for their leaders; Delegation of duties to enhance transparency and accountability such that each co-operative recruit experienced and professional persons with clear job descriptions to avoid the board members acting as executives; Training-this can do a lot to enhance transparency and accountability (Centre for Corporate Governance in Liaison with the Ministry of Co-operative Development and Marketing, 2008).

The Board of Directors and the Sacco recognize the rights of stakeholders as established by law and shall encourage active co-operation between the Sacco and its

stakeholders increasing wealth, jobs and the sustainability of financially sound enterprises. In this regard, the Board of Directors shall: Ensure that the rights of stakeholders that a reproduced by law are respected. Where stakeholder interests are protected by law, ensure that stakeholders have the opportunity to seek effective redress for any violation of their rights. Permit and facilitate performance-enhancing mechanisms for stakeholder participation. Ensure that where stakeholders participate in performance-enhancing mechanisms, they have access to all relevant information. The Board of Directors should determine the purpose and values of the Sacco, determine the strategy to achieve that purpose and implement its values in order to ensure that the Sacco survives and thrives and that procedures and values that protect the assets and reputation of the Sacco are put in place (CBK, 2013). The Board should ensure that a proper management structure (organization, systems and people) is in place and make sure that the structure functions to maintain corporate integrity, reputation and responsibility (CBK,2001). The Board should monitor and evaluate the implementation of strategies, policies and management performance criteria and the plans of the Sacco. In addition, the Board should constantly review the viability and financial sustainability of the enterprise and must do so at least once every year. (CBK, 2013). The Board should ensure that the corporation complies with all relevant laws, regulations, governance practices, accounting and auditing standards. These governance issues have not been clearly investigated as to how they affect performance of SACCOs. Shaw (2003) reveals that a majority of the co-operative frameworks and by-laws are provided by the government without adapting them for the specific needs of their society.

Cuevas and Fischer (2006), identify the principal source of failure for co-operative financial institutions (CFIs) as deriving from member/owner conflict with management. The growth of a co-operative inevitably expands (or dilutes) ownership and managers become subject to weaker controls. This results in rent-seeking behaviour and wasteful expenses. Labie and Perilleux (2006), concluded that; there is a conflict between owners and managers and that there is conflict between the members and their elected board of directors. "Board directors are democratically elected by members (one person, one vote) but they may remain beholden to individual members who have mobilized votes on their behalf". Research gaps that need attention are other factors that affect performance of SACCOs apart from principal-agent relationships. Additionally, there was inadequate knowledge on whether the level of transparency and accountability was uniform or not and whether it influences performance of Co-operatives generally and whether it is applicable to SACCOs, (Kangale, 2014).

The Board of Directors shall exercise leadership, enterprise, integrity and sagacious judgment in directing the Sacco so as to achieve continuing prosperity for the Sacco and shall

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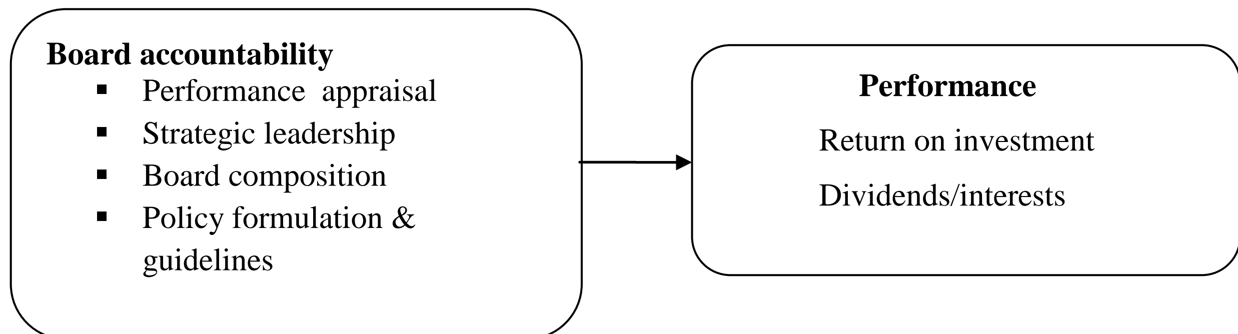
always act in the best interests of the Sacco (Guidelines on Good Governance Practices for Deposit Taking Sacco Societies 2015). The Boards accountability generally refers to serving the interests of various stakeholders of the Sacco, (Kangale 2014) .The board are generally accountable to the shareholders whom they have to engage and report to the activities of the cooperative on a regular basis.

The Board should always thrive to serve the legitimate interests of all members and account to them fully. They must comply with their fiduciary duty to shareholders and objectively take decisions in the interest of the Cooperative. The members too should ensure that they clearly understand the objects for which the Sacco was formed to be able to effectively hold the directors they elect to account. The Board is further accountable to employees who expect their welfare to be adequately considered in the decision making process. The Board accounts to the government who provides the legal framework and enabling environment for cooperatives to operate. The regulator which grants the license to operate expects the entity will be responsible, responsive and accountable to the society within which it operates. Regulators expect the cooperative to comply with set standards and expect high level of accountability. All relevant laws, regulations, governance practices, accounting and auditing standards should be complied with and ascertained by the board (PSGT, 1999).

This is the Board responsibility to ensure all regulatory requirements are achieved. Boards of directors should be elected through a managed and effective process which ensures that an appropriate mixture of competent individuals holds office who are able to add value and bring self-judgment in the decision making process (CBK 2001). Boards of directors should ensure the survivability of corporations by determining the purpose and values of these corporations, setting strategies and standards that protect corporation assets (CBK, 2001).

Figure 1. Conceptual Framework



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METHODOLOGY

Research design

This research adopted an explanatory survey research design which explained the effect of the various variables in the study and determined causal relationship between the variables. The study was undertaken in 5 Sacco's within Kakamega Central, Kakamega County. Kakamega County is one of the 47 counties in the Republic of Kenya and boarders Vihiga County to the south, Siaya County to the west, Bungoma County to the north and Nandi County to the east.

Sampling design

Table 1: Sampling Units

Name of Sacco	Members/ Shareholders	Board Members	Top Managers	Financial Manager
IG SACCO	41,910	9	10	1
WEVARSITY SACCO	1500	9	8	1
VUMA SACCO	5000	9	8	1
BUKHUNGU SACCO	800	9	8	1
GOLF SACCO	700	9	6	1
Total	49,910	45	40	5
Grand Total				**50,000**

Source: Ministry of Cooperative & Development (Western) 2017

Stratified sampling method was used for this study. The population was divided into sub-populations (strata) before a simple random sampling was undertaken. The essence of doing this was to ensure that the opinion of the different categories of our respondents was captured.

The study sampled 890 respondents comprising of 800 shareholders, 45 Board members, 40 Branch Managers, 5 Financial Managers of urban based SACCOs in Kakamega

Table 2: Sample Size Determination

	Population	Sample size
Shareholders	49,910	800
Board members	45	5
Top managers	40	5
Financial managers	5	5
Total	**50,000**	**890**

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Data Collection Instruments

The primary data was collected using questionnaires administered to respondents by the researcher while the secondary data was obtained from the various records of the various Sacco's under the study and also from the Ministry of Cooperatives Development (Western Kenya).

In Questionnaire, both structured and unstructured questions were adopted . Secondary data sources were mainly through a review of previous works in the subject matter with a view to finding out any existing gaps that the research studies try to fill.

RESULTS AND DISCUSSION

Descriptive statistics

Table 3: Board Accountability practices that affect the performance of SACCOs in Kakamega County

	N	Mean	Std. Deviation
Annual election of board members by shareholders	620	4.8710	.33551
Non-executive board members have an independent session	620	3.3565	1.50187
Periodic evaluation of board performance	620	4.7419	.52515
Disclosure of code of ethics for executive	620	4.6516	.47684
Disclosure of SACCO's corporate guidelines	620	4.6032	.57743
Committee for CEO succession planning available	620	3.9081	1.32074

From the results in Table 3, majority of respondents strongly agreed that the board accountability practices undertaken included: board members were subjected to annual election by shareholders, the board’s performance was evaluated periodically, the SACCOs disclosed the code of ethics for senior executives and there was the disclosure of corporate policies and guidelines with a mean of 4.87, 4.74, 4.65 and 4.60 and was supported by the standard deviation of 0.335, 0.525, 0.477 and 0.577 respectively. These results also show that the respondents agreed that there was a committee responsible for succession planning as represented by a mean of 3.91. However, there was a deviation on the consensus as shown by the standard deviation of 1.32. Further results show that the respondents were neutral on whether non-executive board members had a formal session without executives with a mean of 3.36. However, there was a deviation on the consensus as shown by the standard deviation of 1.50.

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Regression analysis

Regression analysis was aimed at testing the research hypothesis and the robustness of the variables.

Table 4. Regression results of board accountability and performance of SACCOs in Kakamega County

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.367[a]	.134	.133	.38791

a. Predictors: (Constant), Board accountability

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.444	1	14.444	95.989	.000[b]
	Residual	92.992	618	.150		
	Total	107.435	619			

a. Dependent Variable: Performance

b. Predictors: (Constant), Board accountability

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.912	.178		16.396	.000
	Board accountability	.398	.041	.367	9.797	.000

a. Dependent Variable: Performance

Table 5 indicates R^2 of 0.134 indicating that 13.4% of the performance of SACCOs in Kakamega County could be explained by the board accountability. Further results show that the correlation coefficient (R) is 0.367 implying that board accountability had a positive effect on the performance of SACCOs. The results agree with Mwangi, Nyachwaya and Cheruyoit (2015) who established that board of directors' acts greatly influenced the performance of SACCOs.

The ANOVA results indicate that the overall regression model was feasible in measuring the study variables since the board accountability regression results are significant at 99% confidence level (F=95.989, p=0.000, where p<0.01). From the results of the regression

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coefficients, the simple linear regression model can be written as; $Y = 2.912 + 0.398X_1 + \varepsilon$. The beta value of 0.398 indicates that for every 0.398 units of board accountability practice leads to a corresponding 1 unit increase in performance of SACCOs in Kakamega County and it was significant at 1% significance level. Therefore, this study rejects the first null hypothesis that; H_{01}: Board accountability has no significant effect on performance of Sacco's in Kakamega County.

CONCLUSION AND RECOMMENDATIONS

Corporate governance is a term often used to describe the way a company is managed, monitored, and held accountable. Good corporate governance ensures that the varying interests of stakeholders are balanced, decisions are made in a rational, informed and transparent fashion and decisions contribute to the overall efficiency and effectiveness of the organization. Poor financial management decisions, bad governance and leadership problems are critical elements that affect efficiency of cooperative movement in the whole of African countries. In Kenya, the reasons for collapse of cooperatives include but not limited to poor leadership and governance, corruption, financial indiscipline and political interference.

The objective is aimed at examining the contribution of board accountability on the performance of Sacco's in Kakamega County and guided by the hypothesis "Board accountability has no significant effect on performance of Sacco's in Kakamega County". The findings were that the board accountability practices undertaken included: board members were subjected to annual election by shareholders, the board's performance was evaluated periodically, the SACCOs disclosed the code of ethics for senior executives and there was the disclosure of corporate policies and guidelines with a mean of 4.87, 4.74, 4.65 and 4.60 and was supported by the standard deviation of 0.335, 0.525, 0.477 and 0.577 respectively. It was also established that at 99% confidence interval, the board accountability had positive and significant relationship with the performance of SACCOs at 0.416 and P value = 0.00 <0.01.

The study found that board accountability practices that included board members being subjected to annual election by shareholders, the board's performance being evaluated periodically, the SACCOs disclosing the code of ethics for senior executives and the disclosure of corporate policies and guidelines had positive and significant relationship with performance of SACCOs in Kakamega County.

The SACCOs regulating authority should have in place constituted a board leadership of SACCOs that is able to conduct their activities in the best interest of the organization, power should be exercised in a manner that demonstrates effectiveness and efficiency so as enhance the financial growth of SACCOs.

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