CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF DEPOSIT TAKING SAVINGS AND CREDIT COOPERATIVE SOCIETIES IN MERU COUNTY, KENYA

EVA KANINI THARAMBA

A Project Submitted in Partial Fulfilment of the Requirement for Conferment of the Degree of Master of Business Administration of Meru University of Science and Technology

2025

DECLARATION

This project is my original work and has not been presented for a degree in any other Institution.

BS401/5623/17

Signature_____ Date _____

Eva Kanini Tharamba

DECLARATION BY SUPERVISORS

This project has been submitted with our approval as University supervisors.

Signature_____ Date _____

Dr. Gabriel Waweru, Ph.D

Meru University of Science & Technology, Kenya

Signature_____ Date _____

Prof. Shano Mohammed, Ph.D

Meru University of Science & Technology, Kenya

ACKNOWLEDGEMENT

Firstly, I thank God for enabling me to come this far. I sincerely thank my supervisors, Dr. Gabriel Waweru and Professor Shano Mohammed, for tirelessly guiding me in developing project. I also sincerely acknowledge my research respondents, directors of Deposit-Taking SACCOs in Meru County, for the support they gave me in responding to the questionnaires. My appreciation also goes to my entire family for supporting me both morally and financially during my studies and in my project.

DEDICATION

I dedicate my project to my parents, who supported me in my education, and my husband and my children, who gave me motivation and inspiration during my research work.

ABSTRACT

Corporate governance is a critical tool for enhancing the performance of Deposit-taking Savings and Credit Cooperative Societies (SACCOs) and ensuring they meet their members' economic and social needs. Properly structured cooperatives can contribute to equitable development and justice. However, a significant challenge facing these SACCOs is the issue of corporate governance. Some have faced mismanagement problems, resulting in the cessation of their operations. This study aimed to investigate the relationship between corporate governance and the financial performance of deposit taking SACCOs in Meru County by focusing on the impact of the audit committee, board size, and transparency. The study design involved 92 directors from all the eleven deposit taking SACCOs in Meru County, with a sample of 75 directors selected using stratified random sampling with proportional allocation. The questionnaire's reliability was validated through a pilot study. Data collection employed questionnaires containing close-ended questions and secondary data collected from the SACCO supervision annual report; the analysis encompassed descriptive and inferential statistics, including multiple regression analysis using SPSS software (Version 26). The results were presented in tables, highlighting the significant associations discovered among the audit committee, board size, transparency, and the performance of Deposit-taking SACCOs in Meru County. Correlation and multiple regression analysis were carried out to establish the relationship between the study variables. The findings disclosed a significant association between the audit committee, board size, transparency and financial performance of Deposit Taking SACCOs. The main contribution of the research revealed that the audit committee members were transparently selected and held frequent meetings. In addition, the study found that these SACCOs had effectively managed their liquidity, retaining funds for reinvestment rather than distributing all profits as dividends. The implications of these findings are substantial, particularly for the directors of Deposit-taking SACCOs and other cooperative organizations. Directors of SACCOs can employ strategies to enhance governance practices within their societies, ultimately improving their overall performance. The study recommends that audit committee members maintain regular meetings to assess the SACCOs' performance, ensuring smooth operations from the findings. Additionally, Deposit-Taking SACCOs should engage with their customers frequently to keep them informed of the SACCO's progress and involve them in governance through voting rights in board decisions. These recommendations can contribute to better governance and improve SACCO's financial performance.

TABLE OF CONTENTS

DECLARATION ii
ACKNOWLEDGEMENT iii
DEDICATION iv
ABSTRACT v
LIST OF TABLES viii
LIST OF FIGURES ix
LIST OF APPENDICES x
ABBREVIATIONS AND ACRONYMS xi
CHAPTER ONE: INTRODUCTION 1
1.1 Background of the Study 1
1.1.1 Deposit Taking SACCOs 7
1.1.2 Financial Performance of Deposit-Taking SACCOs 10
1.1.3 Corporate Governance of Deposit-Taking SACCOs 11
1.1.4 Financial Transparency of Deposit-Taking SACCOs 11
1.2 Statement of the Problem 14
1.3 Purpose of the Study 15
1.4 Research Objectives 15
1.4.1 General Objectives 15
1.4.2 Specific Objectives 16
1.5 Research Hypotheses 16
1.6 Justification of the Study 17
1.7 Significance of the Study 17
1.8 Limitations and Delimitation of the Study 18
1.8.1 Limitations of the Study 18
1.8.2 Delimitation of the Study 19
1.9 Assumption of the Study 19
CHAPTER TWO: LITERATURE REVIEW 20
2.1 Introduction 20
2.2 Theoretical Literature Review 20
2.2.1 Agency Theory 20
2.2.2 Stewardship Theory 23
2.2.3 The Stakeholder Theory 26
2.2.4 Resource Dependence Theory 30
2.3 Empirical Review 33
2.3.1 Audit Committee and Financial Performance of SACCOs 33
2.3.2 Board Size and Financial Performance of SACCOs 37
2.3.3 Transparency and Financial Performance of SACCOs 43
2.4 Conceptual Framework 47
2.5 Summary of Literature Review 48
CHAPTER THREE: RESEARCH METHODOLOGY 51
3.1 Introduction 51
3.2 Research Design 51
3.3 Location of the Study 51
3.4 Target Population 52
3.5 Sampling Procedure and Sample Size 53
3.5.1 Sample Size 53
3.5.2 Sampling Procedure 53
3.6 Research Instruments 54
3.7 Pilot Testing of the Instruments 55

3.7.1 Reliability of Measurement Instruments 55
3.7.2 Validity of Measuring Instrument 55
3.8 Data Collection Methods 56
3.9 Data Analysis Techniques and Presentation of Data 56
3.10 Diagnosis Tests for Ordinary Least Squares 57
CHAPTER FOUR: RESULTS AND DISCUSSION 58
4.1 Introduction 58
4.2 Response Rate 58
4.3 Reliability of Research Instrument 58
4.4 Validity of Research Instrument 59
4.5 Demographic Characteristics of the Respondents 60
4.5.1 Distribution of the Respondents by Gender 60
4.5.2 Distribution of the Respondents by Level of Education 61
4.5.3 Distribution of the Respondents by Age 62
4.5.4 Distribution of the Respondents by Sub-County 63
4.5.5 Respondents' Designation 65
4.5.6 Respondents' Length of Service 65
4.5.7 Deposits Growth 66
4.6 Descriptive Analysis of the Variables 71
4.6.1 Influence of Audit Committee on financial Performance of Deposit-Taking SACCOs 71
4.6.2 Influence of Board Size on Financial Performance of Deposit-Taking SACCOs 73
4.6.3 Influence of Transparency on Financial Performance of Deposit-Taking SACCOs 76
4.7 Diagnostic Tests Results 78
4.7.1 Multicollinearity Tests 78
4.7.2 Normality Tests 79
4.7.3 Heteroscedasticity Tests 82
4.8 Inferential Statistics 83
4.8.1 Correlation analysis 84
4.8.2 Regression Analysis 87
4.9 Regression Coefficient Table for the Variables 90
4.10 Test of Hypothesis 94
4.10.1 Hypothesis Testing for Financial performance 95
4.10.2 Hypothesis Testing for Audit Committee 96
4.10.3 Hypothesis Testing for Board Size 97
4.10.4 Hypothesis Testing for Transparency 99
CHAPTER FIVE:CONCLUSION,RECOMMENDATIONS AND PUBLICATION 101
5.2 Summary of the Findings 101
5.3 Conclusion 105
5.4 Recommendations of the Study 106
5.4.1 Policy Recommendations 106
5.4.2 Recommendations for Further Research 108
5.5 Publication 108
REFERENCES 109

LIST OF TABLES

Table 1 Distribution of Directors' Population 52
Table 2 Sample Size of Directors' Distribution 54
Table 3 Questionnaire Return Rate 58
Table 4 Reliability Analysis 59
Table 5 KMO and Barlett's Test 60
Table 6 Respondents by Gender 61
Table 7 Level of Education 62
Table 8 Age Category 63
Table 9 Sub-County Descriptive Statistics 64
Table 10 Designation in the SACCO 65
Table 11 Duration they have Held the Post 66
Table 12 Response Opinions and Descriptive Statistics for Audit Committee 71
Table 13 Response Opinions and Descriptive Statistics for Board Size 74
Table 14 Response Opinions and Descriptive Statistics for Transparency Index 76
Table 15 Multicollinearity and Singularity Test 78
Table 16 Correlation for all Variables 85
Table 17 Model summary for Audit Committee 88
Table 18 Model summary for Board Size 89
Table 19 Model summary for Transparency Index 90
Table 20 All Variables Included 91
Table 21 All Variables Excluding Board Size 92
Table 22 All Variables Excluding Audit Committee 93
Table 23 All Variables Excluding Transparency Level. 94
Table 24 ANOVA Summary Table for financial performance 95
Table 25 ANOVA Summary Table for audit committee 97
Table 26 ANOVA summary Table for Board Size 98
Table 27 ANOVA Summary Table for Transparency 99
Table 28 Multiple Linear Regression Model 100

LIST OF FIGURES

Figure 1 Conceptual Framework 48
Figure 2 Deposit Growth of SACCOS over the Years 67
Figure 3 Line Graph of Deposit Growth of SACCOs 69
Figure 4 Normality Test for Financial Performance.....79
Figure 5 Normality Test for audit committee 80
Figure 6 Normality Test for Board Size 81
Figure 7 Normality Test for Transparency Index 82
Figure 8 Heteroscedasticity Test.....83

LIST OF APPENDICES

Appendix I Introduction Letter.....115
Appendix II Questionnaire.....116
Appendix III Secondary Data Collection.....119
Appendix IV Publication.....120
Appendix V Plagiarism Report.....121

ABBREVIATIONS AND ACRONYMS

AC	Audit Committee
CEO	Chief Executive Officer
CGAP	Consultative Group to Assist the Poor
CGI	Corporative Governance Index
ICPAK	Institute of Certified Public Accountants of Kenya
ICURN	International Credit Union Regulators Network
IFRSs	International Financial Reporting Standards
IMF	International Monetary Fund
KUSCO	Kenya Union of Savings and Credit Cooperative
OEDC	Organization for Economic Development and Cooperation
SACCO	Savings and Credit Cooperative Society
SASRA	SACCO Societies Regulatory Authority
SPSS	Statistical Package for Social Sciences
WOCCU	World Council of Credit Unions

DEFINITION OF TERMS

Audit committee SACCOs are required to have a board that is constituted to manage the affairs of the organisation (SASRA, 2010). The number of its members determines the size of a board, which is in turn dependent on the profitability and financial sustainability of the SACCO (Guest, 2009; Chenuos et al., 2014). The optimal size of a board is not clear for any firm, as different scholars have suggested different figures. Andreou et al. (2014) and Guest (2009) suggested a number between seven and nine members; Chenuos et al. (2014) suggested an average of eight members; Horváth and Spirollari (2012) suggested a minimum of five and a maximum of 18 members; Kiel and Nicholson (2003) suggested an average of around six members; while Postma, van Ees, and Sterken (2001) suggested an average board size of three members. Ceteris paribus, a SACCO with an average board size should be more financially sustainable (Guest, 2009; Horváth & Spirollari, 2012; Chenuos et al., 2014), because it will benefit from the diverse experience of the members and at the same time will reduce disagreements during the process of decision making (Horváth & Spirollari, 2012).

Board size of members

These are members who are elected during general annual meeting to present shareholder's interest. Kiel and Nicholson (2003) suggest that a board size of around six members is optimal, emphasizing the efficiency of smaller groups. On the other hand, Postma, van Ees, and Sterken (2001) argue for an even smaller board, with an average size of just three members, focusing on the potential for swift decision-making and reduced complexity. Despite these varying opinions, there is a consensus that a SACCO with an average board size—neither too large nor too small—tends to be more financially sustainable (Guest, 2009; Horváth & Spirollari, 2012; Chenuos et al., 2014). An appropriately sized board can leverage the diverse experiences of its members while minimizing conflicts during decision-making processes (Horváth & Spirollari, 2012). This balance ensures that SACCOs benefit from a range of perspectives and expertise, which enhances strategic planning and governance effectiveness. Ultimately, the optimal board size for a SACCO may depend on its unique circumstances, including its size, complexity, and specific operational challenges. Therefore, SACCOs must carefully consider these factors when determining their board composition to achieve financial sustainability and effective governance.

Corporate governance

Corporate governance is defined as a system in which an organisation is directed and controlled in order to make it more accountable to the stakeholders (Hassan, 2012; Mudibo, 2005;

Spear, 2004). It represents the way in which the power of an organisation is exercised in the management of its assets and other resources so as to satisfy the needs of all the stakeholders (Mudibo, 2005). Corporate governance can be measured using three components, namely board size, board independence and audit committee (Adams & Mehran, 2012; Andreou et al., 2014), all of which were used in this study. Board size represents the number of members on a BOD; board independence is measured using the number of independent/non-executive directors of a board, while an audit committee is the number of audit committee members of a SACCO.

Deposit-Taking SACCOs

These are SACCOs that have front office services where members enter the banking hall, deposit their monies, and withdraw their savings. Their operations are like that of commercial banks. Deposit-taking SACCOs play a crucial role in providing financial services to members, allowing them to save and access credit (SASRA, 2010). These SACCOs are required to adhere to strict regulatory standards to ensure financial stability and member trust. The board size of these SACCOs, influenced by profitability and sustainability, varies based on different scholarly recommendations. An optimal board size, typically between five to nine members, enhances governance by leveraging diverse experiences and reducing decision-making conflicts (Guest, 2009; Horváth & Spirollari, 2012; Chenuos et al., 2014). Effective board composition is key to their operational

success.

Financial Performance	This is a complete evaluation of a company's overall standing in categories such as assets, liabilities, equity, expenses, revenue, and overall profitability. Financial Performance in broader sense refers to the degree to which financial objectives being or has been accomplished and is an important aspect of finance risk management. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Financial performance refers to the ability of a company to generate profits and increase shareholder value over time. It is a measure of how well a company is managing its resources and achieving its financial goal.
SACCO Societies Regulatory Authority (SASRA)	SASRA is a statutory state corporation established under the SACCO Act of 2008, becoming fully operational following the gazettement of the Sacco Societies Regulations on June 18, 2010. Its functions include licensing SACCOs to conduct deposit-taking business, regulating and supervising SACCOs, and managing the SACCO fund. Additionally, SASRA performs other functions as conferred by the SACCO Act of 2008. These roles are essential in ensuring the stability, transparency, and efficiency of SACCOs, thereby safeguarding the interests of members and promoting sustainable financial practices within the cooperative sector.

Transparency This refers to the clear, open, and honest disclosure of information regarding their operations, financial status, and governance. Transparency ensures that all stakeholders, including members, regulators, and the public, have access to accurate and timely information. This openness helps build trust and confidence in the SACCOs' management and operations. In addition, it is the disclosure of SACCOs information to external stakeholders for decision making. By adhering to transparent practices, SACCOs can demonstrate their commitment to accountability and ethical conduct. This includes regular financial reporting, clear communication of policies and decisions, and compliance with regulatory requirements. SASRA's role in supervising and regulating SACCOs further enhances transparency by ensuring that these institutions operate under strict guidelines, reducing the risk of fraud and mismanagement. Transparent operations ultimately lead to a more robust and trustworthy financial cooperative sector, benefiting all members and contributing to the overall economic stability.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Corporate governance comprises a set of rules and policies designed to protect shareholders' interests and prevent managers from misusing shareholder assets. It establishes a virtuous cycle that integrates the roles of the board of directors, shareholders, management, staff, clients, and the broader community. The essence of corporate governance lies in fostering transparency, fairness, and accountability within the corporate structure (Akingunola, 2013).

Corporate governance in deposit-taking Savings and Credit Cooperative Societies (SACCOs) needs to be consistently applied (Micheni, 2014). Effective governance within these SACCOs plays a crucial role in economic development, as it disciplines top management to maximize shareholder wealth. In turn, it attracts more customers to invest in deposits, taking SACCOs, leading to job creation to accommodate the growing customer base. The governance of cooperative societies poses unique challenges due to their broad ownership and the complexity of decision-making, which is governed by democratic principles, setting them apart from traditional corporations (Mugo & Otieno, 2015). Despite the establishment of strict regulations, a report by the Association of Microfinance Institutions in Uganda (AMFIU, 2008) noted that governance within Savings and Credit Cooperative Organizations still encounters difficulties, mainly due to the high risk associated with pooling member funds and providing loans to qualifying members based on SACCO rules and policies. Cuevas and Fischer (2006) further identified that SACCOs operate under significant credit and operational risks.

Deposit-taking SACCOs that implement robust corporate governance can curtail unprofessional managerial behaviour, thereby averting performance decline (Akdogan & Boyacioglu, 2022). Njeru (2015) found that, of three initially established SACCOs, two

ceased operations due to mismanagement or collapsed because of poor governance. Kenani and Bett (2018) referenced a study by the World Council of Credit Unions (WOCCU), which observed a downward trend in loans disbursed by SACCO organizations since 2008. This report highlighted an increase in loan defaults due to inadequate corporate governance, rising by 23.15% from 2005 to 2006 and 26.71% from 2006 to 2007. Additionally, the trend showed a decrease of 3.46% in 2007-2008, followed by another decrease of 23.25%. Okwee (2011) concluded that Deposit-taking SACCOs have faced numerous challenges, significantly tarnishing their previously esteemed reputation as financial service providers.

The government regulates Savings and Credit Cooperative Societies (SACCOs) through the Sacco Societies Regulatory Authority (SASRA) in Kenya. Established by the Sacco Societies Act of 2008 and launched in 2009, SASRA is tasked with licensing and supervising Deposit-taking SACCO Societies. Its authority is derived from the Sacco Societies Act 2008 and its accompanying regulations. As per the Act, SASRA's duties include licensing SACCO societies for deposit-taking business, regulating and supervising SACCO societies, managing the General Fund of the Authority, and levying contributions. Within a SACCO, the shareholders are the supreme authority as per Kenyan law, exercising their power primarily through Annual General Meetings or Special General Meetings. Members vote on officials in these meetings, make critical decisions, and amend clauses to reflect their interests. The Board of Directors, elected by the members, oversees the management of SACCO resources. Within the Board is the supervisory committee, which monitors SACCO’s credit operations and reports to the Board. The management team, led by the Chief Executive Officer (CEO) and including other functional managers, handles SACCO's day-to-day operations. The SACCO staff,

under the management team's direction, supports the execution of these operations (Otieno & Mugo, 2015).

Under the SACCO Societies (Deposit Taking SACCOs Business) Regulations 2010, SACCOs are mandated to establish audit committees. These committees, functioning as sub-committees of the board of directors, trace their origins back to the 1940s following recommendations by the Securities Exchange Commission (SEC) in the United States (Sanga, 2017). From the 1990s, numerous publicly listed companies voluntarily formed audit committees to showcase their commitment to good governance (Razaee et al., 2003). Over time, creating an Audit Committee as a sub-section of the board of directors became mandatory. These committees have become pivotal as "the ultimate monitoring mechanism" within the corporate financial reporting assurance process (Tsui & Gul, 2003). Sanga (2017) notes that audit committees are now a critical component of the corporate governance framework, tasked with overseeing the financial reporting process for Australia's S&P300 listed firms. The audit committee's primary function is to ensure the disclosure of high-quality financial reporting to stakeholders, enhancing the company's market performance.

Pincus et al. (1989) suggested that the audit committee's role would evolve and be redefined from a voluntary monitoring mechanism used in situations of high agency costs to improve the quality of information shared with shareholders. Today, it is recognized as a crucial component of the oversight function, focusing on addressing increasing public and regulatory interest (Sang, 2017). The audit committee members are mandated to oversee the company's accounting, auditing, and financial reporting processes (Sarbanes-Oxley Act 2002, Section 2). This suggests that an appropriately knowledgeable and dedicated independent audit committee is an effective guardian of public interest (Abbott et al., 2002).

The SACCO Act of 2008, along with the Co-operative Societies Act, Cap 490 of the Laws of Kenya, mandates that SACCOs prepare accounts aligning with International Financial Reporting Standards (IFRSs) as per the Government of Kenya's directive (GOK, 2008; Revised, 2012). Beyond adhering to IFRSs, the World Council of Credit Unions (WOCCU), via the International Credit Union Regulators Network (ICURN), has set forth additional disclosure requirements concerning governance, corporate social responsibility, consumer protection, and financial stability (WOCCU, 2005). Kenya embraced IFRSs in 1999, actively working towards enhancing financial reporting across diverse organizations.

In pursuit of improved disclosure, transparency, and comparability among SACCOs, the Institute of Certified Public Accountants of Kenya (ICPAK), in partnership with SACCO regulators, introduced specific requirements in November 2010. These include illustrative financial statements and disclosures for a prototype SACCO (ICPAK, 2010), applicable by law to all SACCOs, whether deposit or non-deposit. Developed by a collaborative team of auditors, SACCO regulatory representatives, and academics have endorsed these for use within Kenyan SACCOs (Muthuva, 2016). The promulgation of ICPAK's guidelines represents a regulatory effort to boost the standard of disclosure and transparency among SACCOs.

SASRA (2014) endorsed the ICPAK guidelines for crafting annual reports, making them a resource for stakeholders in deposit taking SACCOs. Corporate transparency and disclosure reveal coverage which a corporation's status can be assessed by external parties for decision-making (Akhtaruddin et al., 2009). Chiang et al. (2005) suggest that corporate transparency correlates with a firm's quality performance, and firms demonstrating high levels of disclosure and transparency usually possess robust corporate governance. From an external viewpoint, transparency is perceived as the

quality of information a firm willingly disseminates (Muthee & Theuri, 2021). Corporate transparency encompasses two critical dimensions of information disclosure: accuracy and clarity. Lord et al. (2005) discovered that the annual report on SACCOs plays a vital role in informing members about the cooperative's performance and the fair value of their shares. They realized that members of the deposit taking SACCOs show a keen interest in the profits of the SACCO upon the disclosure of the annual report.

The primary function of Deposit-Taking SACCOs is to enhance credit access for their members. Typically, these SACCOs operate by pooling funds contributed by members, which are then loaned out based on each member's share contribution (Were, 2009). As a result, SACCOs are user-owned entities that provide a full range of financial services to their members (WOCCU, 2005-2008). However, like many private sector enterprises, deposit taking SACCOs have faced challenges related to corporate governance failures (Shaw, 2006). Ssemwanga (2009) defined SACCO governance as the framework guiding operations, ensuring leaders are accountable and manage the SACCOs for the members' benefit.

Various corporate and social scandals have sparked the discussion on effective corporate governance, laying the groundwork for developing regulatory principles by nations and international bodies such as the OECD (Organization for Economic Cooperation and Development). It prompted international organizations like the OECD to issue their guiding principles in 1999. In response to corporate failures, such as the Enron collapse, the United States introduced the Sarbanes-Oxley Act (SOA) in 2002. South Africa saw significant advancements in international governance through the efforts of the King's Committee (Atieno, 2009).

Over the years, there has been a notable increase in funds fraud cases, often attributed to the leadership within SACCOs (Ondabu, 2015). For example, the Alut Kot SACCO in

Lira, Uganda, disbursed Ug loans. Sh. 841,000,000 from 2002 yet had only managed a 26% repayment rate by 2010 (Ojwee, 2010). Similarly, a SACCO in Kisumu, Kenya, collapsed in 2012, taking down more than Kshs—sixty million in members' contributions. More recently, the Ekeza Saving and Credit Cooperative Society in Thika faced collapse due to fraud, as SACCO's owner diverted members' funds to finance his political campaign for the gubernatorial seat in the 2017 national elections. These instances highlight poor loan recovery and mismanagement of funds by leaders as critical factors leading to SACCO failures (Otieno, 2012). Such situations underscore the challenges in managing risks, particularly credit risk, which contributed to the collapse of SACCOs (Wenner et al., 2007).

In Kenya, deposit-taking SACCOs play a crucial role in economic growth. The Kenya Vision 2030 recognizes these SACCOs as significant contributors to economic and financial resource mobilization, aiming to foster a vibrant and globally competitive financial sector. Managed democratically, deposit taking SACCOs strive to address their members' social and economic needs by providing short-term loans. These cooperatives have permeated nearly all sectors of the economy, supporting the livelihood of 63% of Kenyans through both direct and indirect means. As of 2006, domestic savings within the financial sector were estimated at Kshs. 150 billion, with the sector witnessing an annual growth of 20%. Deposit-taking SACCOs have also contributed to job opportunities to over 250,000 people directly or indirectly and facilitating contracts with various organizations, farms, and markets through collective and individual investments (Ministry of Cooperative Development and Marketing, 2006). Mwaka (2019) reports that eleven SACCOs in Meru County have been licensed to carry out businesses of deposit-taking SACCOs.

1.1.1 Deposit Taking SACCOs

Kenya's SACCOs sector comprises both Deposit-Taking and Non-Deposit-Taking SACCOs. The Deposit-Taking SACCOs are authorized to conduct their operations under the supervision and management of the SACCO Societies Regulatory Authority (SASRA), as stipulated in the SACCO Societies Act of 2008 (Mumanyi, 2014). These SACCOs provide Front Office Service Activities (FOSA), enabling them to offer essential banking services to their members/customers, including deposit-taking, payment services, automated teller machines, and currency exchange, enhancing their operational capital.

Under Kenya's Vision 2030, the economic pillar emphasizes the need for a dynamic and stable financial system capable of attracting more savers and efficiently allocating resources in profitable financial markets (Government of Kenya, 2013). Deposit-taking SACCOs play a critical role in achieving this vision, particularly by motivating individuals to purchase shares and become members, targeting those who mainstream banks financially marginalize. It has been found that while only 19 percent of Kenyans use services provided by commercial banks, deposit taking SACCOs have a unique opportunity to expand access to financial services, especially to those in rural areas (Olando et al., 2012).

In 2015, Kenya authorized 181 Deposit-Taking SACCOs (DT-SACCOs) to engage in deposit-taking business as per the Sacco Societies Act. Five DT-SACCOs received licenses to operate with six-month renewable, conditional, and restricted licenses throughout the year (SACCO et al., 2015). However, according to Section 25 of the Act and Regulation 5(1) of the 2010 regulations, DT-SACCOs must apply to renew their deposit-taking licenses for the following year by September 30th of the current operating year. In 2015, all DT-SACCOs applied for license renewal except for M/S Maono Daima

Sacco Society Ltd, leading to the revocation of its license (SASRA Report, 2015). By the start of 2019, there were 175 operating DT-SACCOs, but three ceased operations by year-end, leaving 172 active DT-SACCOs (SACCO Annual Report, 2019). In Meru County, 12 DT-SACCOs are operational. Notably, in 2019, Solution SACCO moved up from the medium to the large-tiered DT-SACCOs peer group. That year, Solution SACCO saw an asset growth of 17.57%, Trans Nation SACCO 16.93%, Yetu SACCO 11.78%, Capital SACCO 10.54%, Times U 24.59%, and Centenary SACCO 18.57%.

All deposit-taking SACCOs, with Solution SACCO as a prime example, have progressed to the large-tiered peer group, illustrating the pathway for Deposit-Taking SACCOs to advance from one peer group to another. In Kenya, Deposit-Taking SACCOs significantly contribute to job creation within the economy, employing 9,060 individuals as reported in the SACCO Annual Report (2019). DT-SACCOs' profits primarily stem from the interest earned on disbursed loans (Mugambi et al., 2015). SACCOs have attracted salaried individuals to open accounts with SACCOs and thus offering them loans of lower interest rates than commercial banks and this leads to broadening of SACCOs sector. The Government of Kenya (Gok, 2011) acknowledges the sector's expansion, attributing it to the competitive loan interest rates that draw in members. Based on trend analysis rather than a cross-sectional methodology, this analysis highlights the critical factors contributing to the SACCOs' growth.

On the other hand, the profits of Deposit-Taking SACCOs are augmented by the Sacco Link Debit Card Services, a result of a partnership between the Co-operative Bank of Kenya and Deposit-Taking SACCOs in Kenya. This collaboration enables SACCO members to access Co-operative Bank ATMs using Sacco Link debit cards (Co-operative Bank of Kenya, 2008). SACCOs incur costs for connectivity, software upgrades, and bridging services to integrate with the Co-operative Bank system. Through the Sacco

Link debit card, members can interact with their Front Office Services Activity (FOSA) accounts at Co-operative Bank-operated ATMs. They can withdraw cash, deposit funds, make utility payments, request account statements, check balances, and conduct other transactions (Co-operative Bank of Kenya, 2008; SASRA, 2013; Wachira, Muturi & Sirma, 2014)—Deposit-taking SACCOs profit by imposing a nominal fee on members for withdrawals or deposits. Meanwhile, members enjoy considerable benefits from the Sacco Link Debit Card, such as 24/7 cash access without queueing in banking halls, checking account balances, and making merchant payments at supermarkets and petrol stations without any charges. Deposit-Taking SACCOs in Meru County, for instance, Yetu SACCO in 2019, have capitalized on these benefits by introducing Visa-branded ATM cards, which are accepted at all ATMs displaying the Visa logo (Yetu SACCO Gazette, 2021).

Furthermore, deposit-taking SACCOs have leveraged mobile technology to enhance their revenue streams. Numerous scholars assert that mobile technology services can significantly impact business performance, leading to improvements in organizational efficiency, customer base expansion, service quality, competitive edge, cost reduction, productivity growth, knowledge dissemination, employee satisfaction, profitability, data processing capacity, and operational performance (Kagan et al., 2005; Zhang & Mao, 2008; Abadi et al., 2013; Aboelmaged & Gebba, 2013; Maina & Gekara, 2014; Stoica et al., 2015). Yetu SACCO, for instance, has embraced technology to offer products and services to members worldwide. The advancement of technology has transformed mobile phones into essential tools for SACCO members, enabling them to access a wide range of services. Mobile banking facilitates members obtaining micro-loans via their mobile phones and conducting various banking transactions from the convenience of their businesses or homes, thereby diminishing the necessity of visiting traditional banking

halls (Yetu SACCO Gazette, 2021). Yetu SACCO members can apply for or repay loans autonomously through these digital platforms, ensuring that SACCO continues generating income outside regular banking hours. The utility of mobile applications became even more pronounced during the COVID-19 pandemic, as members could initiate cash transfers, borrow, or repay loans, request statements, or contribute to their shares, all from their mobile devices (Yetu SACCO Gazette, 2021).

1.1.2 Financial Performance of Deposit-Taking SACCOs

Performance is an indicator that reflects the results of a firm's operations and strategic planning (Tjahjadi, 2011). Businesses often gauge performance by how much a firm fulfills its goals, objectives, and mission. Furthermore, corporations strive to utilize their resources efficiently to achieve their targets. For a firm to sustain itself economically and remain significant to its customers, employees, and stakeholders, it must adapt to their evolving needs.

Deposit-Taking Savings and Credit Cooperatives (SACCOs) assess their performance based on customer satisfaction with their services, which can include introducing new customers to SACCO, the affordability of loans, growth in member deposits and membership, and introducing innovative loan products. A SACCO's performance is also evaluated against the objectives outlined in its by-laws. The primary role of SACCO is to provide deposit services, create a financial savings platform, and support members through loan services to fulfill their needs (Onchomba, 2018). It consolidates members' savings and invests these funds in other financial markets, offering credits to members who repay under the terms and conditions established during general meetings. Loans are dispensed according to policies set by each SACCO, including metrics such as returns on assets, profits, and return on investment.

1.1.3 Corporate Governance of Deposit-Taking SACCOs

A robust corporate governance framework within an organization and across the economy provides a level of confidence crucial to the efficient operation of a market economy. As a result, the cost of capital is reduced, and companies are motivated to use resources more efficiently, thereby supporting growth (OECD, 2004). Effective corporate governance fosters sustainable economic development by enhancing organizational performance and facilitating access to external capital. In emerging market countries, solid corporate governance diminishes the vulnerability to financial crises, strengthens property rights, and lowers transaction costs and the cost of capital, supporting capital market development (Das, 2010). A weak corporate governance system diminishes shareholders' confidence, thus deterring investment from external sources. Superior corporate governance increases firm value; effective governance strengthens shareholders' trust. Firms perceived as well-governed are considered safer investments, leading to a lower required rate of return and, consequently, a higher company valuation. Additionally, better-governed companies are likely to have more efficient operations, resulting in higher expected future returns, which translate into improved firm performance.

1.1.4 Financial Transparency of Deposit-Taking SACCOs

Branch and Baker (2008) posited that a financially self-sufficient or balanced intermediary requires the presence of both savers and borrowers. Also, managing these two groups' conflicts of interest is crucial for maintaining equilibrium. Borrowers typically seek loans with low-interest rates, minimal transaction costs, and relaxed regulations, whereas savers prefer high deposit rates and stringent financial disciplines. Savers are motivated by solid incentives that enhance institutional viability through

profitability, while borrowers' short-term preferences for lenient conditions can undermine the credit union's financial stability.

Allen and Maghimbi (2009) observed that some cooperatives need help to operate effectively due to a low liquidity ratio. This observation was corroborated by the African Microfinance Transparency (AMT) report (2008), which noted that growth in deposit-taking SACCOs was primarily funded by debt rather than savings, aligning with earlier findings by AMFIU (2007) that highlighted over-indebtedness as a significant challenge for many deposit-taking SACCOs.

Branch and Baker (2008) argued that other objectives needed to be considered than generating high profits for credit unions. However, the WOCCU report (2005) presented a different perspective on the profitability of credit unions. Deposit-taking SACCOs have channeled members' savings into profitable market ventures, benefiting the members who act as both owners and beneficiaries of the credit union's services. This implies that increased profits result in lower loan interest rates, reduced service fees, and higher member dividends. Echoing the WOCCU report (2005), Bauer (2007) argued that the primary objective of credit union is to fulfill members' needs, suggesting that surplus profits in deposit taking SACCOs lead to lower interest rates on loans, increased dividends for members and reinvestment into the SACCOs.

The IMF Report (2001) found that many Deposit-Taking SACCOs in Kenya need help with significant arrears. Some face overdue loan repayments stretching back due to poorly defined lending policies and inadequate systems for tracking and managing these arrears. Additionally, a majority of these SACCOs encounter challenges in realizing collateral. Allen & Makhumbi (2009) noted that evaluating loan applications overlooks the members' repayment capacity within the designated timeframe, relying instead on the

mutual trust fostered by the common bonds among members in the cooperative finance model.

Governance encompasses the structures and processes of accountability, decision-making, control, and behaviour at an organization's highest level. Corporate governance serves as a mechanism to oversee company management. More broadly, it involves how organizations are directed, controlled, and held to account for their actions. It reflects the dynamic interactions among various stakeholders, contributing to the organization's performance by providing resources (Brownbridge, 2007). Adequate corporate governance safeguards against potential financial distress (Barde & Hamida, 2015). It enables deposit taking SACCOs to utilize resources efficiently and adapt to external factors, leading to improved performance (Donaldson, 2003). Consequently, well-governed firms tend to perform better, attracting more customers to deposit-taking SACCOs and enhancing their profitability. Each country has its own role in cooperatives, and it is heavily influenced by environmental factors. With the rapid changes brought about by globalization and liberalization, countries must monitor these developments to ensure that the pace of cooperative development remains aligned with other sectors.

A CGAP (2005) report highlighted that Deposit-Taking SACCO societies are overseen by a board of directors, elected by members during the annual general meeting, to manage the shareholders' resources for a specified period. Labie and Perilleux (2009) identified the primary governance conflict as a 'moral hazard' among stakeholders, borrowers, and savers, indicating situations where some clients receive loans exceeding their savings. The core issue arises when borrowers potentially exert undue influence, leading the board to favour conditions in loan disbursement that may compromise the

credit union's viability. Conversely, if net savers predominate, the board might impose overly restrictive credit conditions.

Branch & Baker (2008) elaborated on the governance challenges from various perspectives, noting the unique situation where society members serve as customers. This dual role results in borrowers seeking loans with low interest rates, minimal transaction costs, extended repayment periods, and lenient policies. However, savers demand high interest rates on deposits and stringent financial disciplines.

1.2 Statement of the Problem

In Meru County, the growth of Deposit-Taking SACCOs (Savings and Credit Cooperative Societies) has created economic opportunities and improved access to credit for members. However, this expansion has been accompanied by serious challenges that threaten the sustainability and effectiveness of these institutions. Despite their potential, many SACCOs suffer from corruption, poor governance, and mismanagement of member funds. These issues often result in poor service delivery, financial instability, bankruptcy, and high employee turnover, undermining public trust and investor confidence.

A major weakness in many SACCOs is the lack of effective corporate governance. Boards are frequently composed of officers from other professional fields that lack technical expertise in SACCO operations, leading to flawed decision-making and operational inefficiencies. Mwangi (2015) notes that these SACCOs, being voluntary organizations, allow members to elect directors who may need to gain the requisite operational skills. Poor loan monitoring, weak recovery mechanisms, and members receiving less than the approved loan amounts are widespread. This highlights a structural gap in oversight, despite the SACCO Act of 2008 and the creation of SASRA

(SACCO Societies Regulatory Authority) to enforce financial discipline and transparency.

Moreover, SACCOs in Meru County struggle with adapting to innovation, integrating into the formal financial system, and remaining competitive. Challenges include outdated business models, insufficient technological adoption (e.g., mobile banking), limited financial resources, and resistance to change. Regulatory compliance is also a concern due to varying management capacities and the scale of SACCO operations.

Given their crucial role—holding over 78% of the industry's deposits and significantly contributing to GDP—there is a clear need for research focused on strengthening SACCO governance, credit risk management, and institutional capacity in Meru County. This study seeks to address that gap by investigating the relationship between corporate governance and the financial performance of deposit taking SACCOs.

1.3 Purpose of the Study

The purpose of studying corporate governance and financial performance of deposit-taking SACCOs in Meru county is to empirically explore and determine the relationship between corporate governance and the financial performance outcomes of deposit taking SACCOs in Meru County. This study aims to assess how governance factors such as audit committee, board size and transparency influence SACCOs financial health, efficiency and overall performance measured through deposit growth.

1.4 Research Objectives

The study aimed to achieve determinants of the corporate governance and financial performance of Deposit Taking SACCOs in Meru County.

1.4.1 General Objectives

The general objective of this study was to investigate the relationship between corporate governance and the financial performance of deposit taking SACCOs in Meru County.

1.4.2 Specific Objectives

The specific objectives of the study were to:

i. Examine the influence of the audit committee on the financial performance of Deposit Taking SACCOs, in Meru County.
ii. Investigate the influence of board size on the financial performance of Deposit Taking SACCOs in Meru County.
iii. Establish the effect of transparency on the financial performance of Deposit Taking SACCOs in Meru County.
iv. Assess the combined effect of corporate governance, board size, audit committee and transparency on financial performance (deposit growth) of Deposit Taking SACCOs in Meru County.

1.5 Research Hypotheses

The study was guided by the following null hypotheses:

i. **$H_0$1** Audit committee does not exert significant influence on the financial performance of Deposit Taking SACCOs in Meru County.
ii. **$H_0$2** Board size does not exert significant influence on the financial performance of Deposit Taking SACCOs in Meru County.
iii. **$H_0$3** Transparency does not exert a significant effect on the financial performance of Deposit Taking SACCOs in Meru County.
iv. **$H_0$4** Combined variables of audit committee, board size, and transparency have no significant effect on financial performance of Deposit Taking SACCOs in Meru County.

1.6 Justification of the Study

Corporate governance is essential to deposit taking SACCOs governance because it provides supervision. Thus, efficient corporate governance improves the financial stability of SACCOs that accept deposits.

1.7 Significance of the Study

The findings of this study will significantly benefit various stakeholders, including SACCO directors, leaders of other cooperative societies, corporate policymakers, and the government. For SACCO directors, the insights gained from understanding the combined effects of corporate governance, board size, audit committees, and transparency on financial performance will provide a robust framework to enhance their operational efficiency. This can lead to improved decision-making processes, greater financial stability, and better member satisfaction, ultimately driving the growth and sustainability of their SACCOs.

Leaders of other cooperative societies can leverage the findings to adopt best practices in governance and operational transparency. By implementing similar strategies, these leaders can foster trust and accountability within their organizations, leading to increased member engagement and loyalty. The study's results can serve as a benchmark, enabling cooperative societies to measure their performance against industry standards and identify areas for improvement.

Corporate policymakers will find the study invaluable in shaping regulations and policies that support the growth and development of cooperative societies. The evidence-based insights will help in formulating policies that promote good governance, financial transparency, and accountability, which are crucial for the stability and growth of the cooperative sector. These policies can also address existing challenges and barriers, facilitating a more conducive environment for cooperatives to thrive.

For the government, the study's findings can inform broader economic and social policies aimed at strengthening the cooperative sector's role in national development. By understanding the key factors that drive financial performance in deposit-taking SACCOs, the government can design targeted interventions and support programs that enhance the sector's contribution to economic growth and social welfare. This can lead to job creation, poverty reduction, and improved financial inclusion, aligning with national development goals.

Overall, the study's insights will contribute significantly to the existing body of knowledge on cooperative societies, with a specific focus on deposit-taking SACCOs, thereby promoting global competitiveness and sustainable development within the sector.

1.8 Limitations and Delimitation of the Study

Limitations are difficulties a researcher has when conducting a study, whereas delimitation is boundaries a researcher establishes throughout the investigation. In this study researcher only considered deposit taking SACCOs and excluded non deposit taking SACCOs in Meru County.

1.8.1 Limitations of the Study

The present study sought to determine the influence of financial outreach, financial regulation, corporate governance, size and age on FSS, and makes important contributions to the management of SACCOs. Despite these, the study was affected by a number of limitations.

First, in terms of secondary data, some SACCOs had not supplied their required financial statements to the Ministry, and some had not filed their financial statements for some years, resulting in gaps in the data collected. Further, during the administration of the questionnaires, it became apparent that some directors were not familiar with the

regulatory rules and provisions, which could have affected the accuracy of the information they provided. Another limitation of the study was that it sampled SACCOs within the Mount Kenya region, which limited the generalisation of the findings. Finally, an accounting perspective was adopted in this study, and both the independent variables and the dependent variable were analysed in accounting terms.

1.8.2 Delimitation of the Study

This study was delimited strictly to deposit-taking Savings and Credit Cooperative Organizations that are in Meru County and that have been licensed by SASRA.

1.9 Assumption of the Study

The study assumed that all the deposit taking SACCOs were in operation for the entire period of the study without change in the directors.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In this chapter, the theoretical framework, empirical literature review, and conceptual framework guiding the study are presented in detail. The theoretical framework outlines the key theories and models that form the foundation of the research, providing context and rationale for the study's focus. The empirical literature review examines previous studies, highlighting relevant findings, gaps, and methodological approaches related to the research topic. Finally, the conceptual framework illustrates the relationships between the study's variables and serves as a visual guide to the research design.

2.2 Theoretical Literature Review

2.2.1 Agency Theory

Agency theory, introduced by Jensen and Meckling in 1976, addresses the issue of ownership and control separation within the context of corporate governance (Onyim, 2017). It highlights the conflict between shareholders who own the firm and agents who are managers, and their interest is to gain more from shareholders (Giaever, 2002). In the 1930s, Berle and Means observed that corporate governance led to a division between ownership and management, resulting in principle-agent problems. They regarded corporate governance as a mechanism, with boards of directors as crucial instruments to mitigate issues stemming from the principal-agent dynamic. Dalton & Cannella (2003) note that agency theory hinges on two premises: the alignment of managers' and shareholders' interests and the inherent self-interest of individuals.

Jensen and Meckling (1976) found that aligning the interests of principals and agents is only possible with effective monitoring incentives, as agents may prioritize their benefits over those of the principals. It necessitates using corporate governance to oversee agents' actions and ensure they align with the principal's interests. Gedajilovic and Shapiro

(1998) identified misalignments as decisions favouring corporate expansion over profit maximization, which could deter potential investors. Fama & Jensen (1983) recognized the role of the board of directors in governance as correcting managerial decisions and overseeing their execution. Agency theory posits that the board's primary duty is to maximize asset returns and minimize risk. The principle of transparency is crucial when agents invest shareholders' money, as share prices indicate all detailed information about the shares.

Collins (2017) highlights that agency conflict raises questions on how to motivate agents to act in the best interest of the principals, which can be addressed through agency costs. Ricardo (2005) discussed that through applying corporate governance practices positively impact performance in conflicts between agents and principals. Management actions may decrease firm profits, but effective corporate governance relies on the owners' ability to monitor and guide agents, especially when agents lack the motivation or incentive to maximize profits.

Agency theory focuses on resolving issues arising in agency relationships due to conflicts of interest between principals and agents stemming from the separation of ownership and control, as confirmed by Davis, Schoorman, and Donaldson (1997). Managers may exhibit opportunistic behaviour due to their legitimate authority over shareholders, leading to conflicts of interest and agency problems. Principals expect compensation for any agent actions that could damage their investment. For instance, if the board of directors decides to invest in riskier projects, shareholders may demand compensation, thereby increasing the cost of capital. Aligning the interests of principals and agents is challenging due to conflicts over moral hazard, earnings retention, time horizon, and risk perception, which are agency problems (Jensen & Meckling, 1976;

Shleifer & Vishny, 1989). Agency theory suggests that employees prioritize their interests, with rewards and punishments being paramount.

Shareholders typically seek cash flow over an extended period through dividends and increased firm value, whereas management prefers cash flows within their tenure. This discrepancy leads to a time horizon agency conflict. Dechow and Sloan (2011) observed that investment in research and development and fixed assets decreases in the final years of a CEO's tenure, and this makes the CEO not benefit in such investments at the end of its tenure term. Additionally, management might use creative accounting to inflate earnings and maximize performance-based bonuses before leaving office (Ermina & Mariamp, 2010). In the SACCO sector, agency issues become more difficult to solve because of the involvement of multiple parties (shareholders, management, and government/regulators) in the conflict.

SACCO shareholders might invest capital beyond or below the levels mandated by regulatory authorities, aiming to take advantage of other funding sources, primarily institutional investors and minority shareholders who hold a significant portion of shares (Beasley, 2012). Institutional investors possess sufficient authority to oversee and influence management to the point where management reveals secretive information about the SACCO that could be used to disadvantage minority shareholders. Given these circumstances, the government assumes the role of regulator through SASRA to safeguard minority shareholders and other Stakeholders' interests.

In case of board size as an objective of this research thesis, the agency theory is used to solve the problem of board size of directors where corporate governance is used as a tool to monitor excess power of agent when performing their duties. This is established in Meckling (1976) where it is stated that the interest of principal and agents is hard to be the same. The agency theory is used to solve the problem of audit committee. This is

established where the audit committee act as an agent between independent external auditors and board to avoid powerful executive directors manipulating financial reports (Odhiambo, 2018). The theory of agency underpins the transparency variable. This is where agent invests wealth of shareholders to profitable projects. In agency theory the primary role of board of directors is to maximize the assets returns and minimize the assets risk, this is applied where the agent invests the wealth of shareholders to projects where information is well known to outsiders. Transparency is a legal requirement to be complied with (Roman, 2014)

2.2.2 Stewardship Theory

This theory, grounded in organizational psychology and sociology, was developed by Davis, Schoorman, and Donaldson in 1997. It posits that a steward safeguards and enhances shareholders' wealth through the firm's performance, optimizing the steward's benefits. According to this theory, managers are seen as stewards acting in the owners' best interests (Tarbell, 2003). Clarkson (1995) contends that stewardship theory is based on a human relations perspective, with its foundations in social psychology, emphasizing executive behaviour within an organizational setting. It presumes a strong link between managerial actions and firm performance, encouraging stewards to safeguard and augment shareholder wealth diligently, increasing dividends and reducing loan interest rates.

Stewardship theory assigns stewardship responsibility to managers as guardians of the organization's resources. It emphasizes training and induction to ensure managers perform their duties optimally for the owners' benefit. However, within the cooperative movement, democratic participation sometimes supersedes professionalism in leadership selection, challenging the stewardship theory's applicability. Conforth (2004) notes the

paradox in cooperative governance, suggesting that board members should be selected based on their expertise to enhance organizational value.

The concept of stewardship draws from McGregor's work in 1960, with Theory Y highlighting autonomy, self-regulation, and diligence as critical motivators for managers to achieve corporate objectives. Afza and Nazir (2014) observed that managers perform better when given sufficient decision-making authority. Individuals holding CEO and chairperson roles wield managerial power and control over the board of directors, thus endorsing the stewardship theory's support for managerial power within organizations. The theory aligns with Maslow's hierarchy of human needs (1958), focusing on achievement, social fulfillment, and self-actualization, suggesting that managers, beyond survival needs, require compensation to excel as stewards.

A critical critique of stewardship theory is its oversight of human nature's inherent complexities. Numerous studies have identified the moral hazard problem as a significant factor explaining why managers might not act honestly to maximize owners' wealth (Acharya & Viswanathan, 2011).

The fundamental aspect of stewardship theory is its emphasis on fostering greater trust among managers, which needs to be more present in agency theory (Afza & Nazir, 2014). This theory posits that insider (executive) directors, possessing in-depth knowledge about their companies, are more likely to enhance organizational performance than non-executive (outsider) directors, who primarily contribute to board decision-making. Additionally, having the same individual serve as both the board chairman and chief executive is seen as beneficial for company performance, as this arrangement is believed to facilitate swift decision-making and circumvent bureaucratic delays. Donaldson & Davis (1991) further argue that executive directors, being well-informed about various company aspects, exert more significant effort towards achieving

organizational goals rather than pursuing personal objectives. In contrast to agency theory, stewardship theory maintains that managers and insider directors are ideally positioned to maximize shareholder wealth and always act in the shareholders' best interest.

Directors can access confidential company information, giving them an advantage over independent directors (L. Donaldson, 1990; L. et al., 1991; Fama & Jensen, 1983). Daily, Dalton, and Cannella (2003) contend that managers and directors safeguard shareholders' interests by making informed decisions to boost organizational performance, thereby preserving their reputations as competent decision-makers. Fama (1980) suggests that managers and executives aim to protect their careers so that they can be seen as successful stewards. Shleifer and Vishny (1997) observed that effective stewards utilize surplus cash through prudent dividend policies to enhance their reputations, enabling future capital market re-entry. Inside directors are deemed the most effective stewards of company resources (Nicholson & Kiel, 2007), leading to superior company performance. Kent, Routledge, and Stewart (2010) noted that individuals with extensive experience and knowledge contribute to better decision-making. This is why stewardship theory advocates for less board independence, which correlates with higher financial performance. The stewardship model is particularly prevalent in countries like Japan, where workers are viewed as stewards committed to the organization's best interest.

Stewardship theory assumes there is a strong relationship between managers and performance of the firm. This theory allows directors to disclose important information about deposit taking SACCOs to its members during annual general meeting. Transparency of information gave members more confidence to invest in deposit taking SACCOs thus increasing financial growth of deposit taking SACCOs. One of the characteristics of stewardship theory is managers to be trustworthy. Members vote for

the board of directors who trust them during annual general meetings to manage their wealth. The board of directors and managers should protect shareholders' interests by making the right decisions to increase the performance of their organization Daily, Dalton and Cannella (2003). Stewardship theory insists the board be independent and this is associated with higher financial performance. This theory underpins the audit committee variable where (Kallamu & Saat 2015) established that the independence of audit committee from managers make independent decision during reporting of financial information and this is linked with high quality of financial reporting and lowers occurrence of fraudulent reporting.

2.2.3 The Stakeholder Theory

The stakeholder theory was established within the management discipline by Freeman in 1984, introducing the concept of corporate accountability from a wide-ranging perspective. Freeman (1984) defined a stakeholder as any individual or group within an organization that can influence or is influenced by the organization's objectives. This theory sheds light on issues affecting stakeholders within an institution, acknowledging that there are stakeholders beyond members who take an interest in the organization's performance and decisions (Ortiz, 1998). It suggests that corporations should identify and address the concerns of their various stakeholders to ensure their satisfaction, thus enabling stakeholders to make informed decisions about corporations. However, this theory is limited by legal definitions, which often recognize only shareholders as stakeholders. Kabaiya (2012) pointed out that cooperative movements are institutions committed to delivering quality services to their members while also addressing the interests of all stakeholders.

Corporate governance plays a crucial role in addressing issues about external stakeholders like suppliers, contractors, financiers, and customers through internal

controls that consistently manage their concerns. Rodriguez et al. (2002) categorized stakeholders into substantial, contractual, and contextual groups. Essential stakeholders for the business's long-term survival include shareholders, investors, strategic partners, and employees. Contractual stakeholders, bound by formal agreements for a specific duration, encompass customers, subcontractors, suppliers, and financial institutions. Contextual stakeholders, representing entities within the business environment that play an important role in maintaining business credibility, include public administration, local communities, countries, societies, and opinion leaders. Within the cooperative context, there are limitations regarding the level of involvement of different stakeholders in the cooperative boards.

The agency theory has narrow focus, and it has been criticized by identifying shareholders as the sole stakeholders interested in corporate decisions, which Ian Mitroff in 1983 argued necessitates further exploration. The stakeholder theory has gained prominence as researchers acknowledge that corporate activities impact the external environment, requiring accountability to a broader audience than shareholders. McDonald and Puxty (1979) suggested that companies are not merely instruments of shareholders but exist within society and thus have responsibilities towards it. This broader recognition of corporate responsibility has only recently become widespread.

Freeman & McVea (2004) noted that economic value is generated by individuals who voluntarily collaborate to enhance everyone's situation. Jensen (2001) criticized theory of stakeholders focusing on a singular objective, arguing that a firm's performance should not be measured solely by the benefits it provides to stakeholders. Important considerations include the flow of information from senior management to lower ranks, interpersonal relations, and the working environment. An advanced version of the

enlightened stakeholder theory was proposed, though empirical testing challenges have limited its applicability (Sanda et al., 2005).

Wheeler et al. (2002) contended that stakeholder theory merges sociological and organizational disciplines, focusing on values and beliefs regarding the proper relationships among individuals, enterprises, and the state. It discusses the distribution of responsibilities, accountability, and power across society and is more of a philosophical outlook on corporate governance than a predictive theory. Blair (1995) defined stakeholders as contributors of firm-specific assets, while Donaldson and Preston (1995) described stakeholders as those affected or potentially affected by the firm's actions or inactions. Turnbull (1997) referred to 'strategic stakeholders,' emphasizing that strategic issues are related to a firm's survival ability.

The stakeholder theory posits that the essence of corporate governance lies in evaluating the effectiveness of various governance systems in fostering long-term investment and commitment among diverse stakeholders (Williamson, 1985). Kester (1992) highlighted that the fundamental challenge of governance involves creating specialized incentives, safeguards, and mechanisms for resolving disputes to encourage the sustainability of business relationships in the face of self-interested opportunism. Blair (1995) contended that corporate governance should be viewed as the framework governing the interactions among all stakeholders contributing firm-specific assets. Stakeholders maintain that companies have obligations to all those impacted by their actions. This perspective necessitates that directors are accountable and responsible to a broader array of stakeholders, extending well beyond the legal obligations to shareholders defined by current company law. Advocates of stakeholder theory argue that such responsible conduct ought to be the societal expectation placed on companies in exchange for the

benefits of incorporation, which includes granting shareholders limited liability for the company's debts.

In the objective of transparency means information being open to outsiders. This means when deposit taking SACCOs are accessible to people who are willing to invest in SACCOs they invest with trust since they are aware of information of deposit taking SACCOs. This theory sheds light on issues affecting stakeholders within an institution, acknowledging that there are stakeholders beyond members who take an interest in the organization's performance and decisions (Ortiz, 1998). Rodriguez et al. (2002) categorized stakeholders into substantial, contractual, and contextual groups. Essential stakeholders for the business's long-term survival include shareholders, investors, strategic partners, and employees. Contractual stakeholders, bound by formal agreements for a specific duration, encompass customers, subcontractors, suppliers, and financial institutions. Contextual stakeholders are presentatives who are in an environment where the deposit taking SACCOs operate and include public administration and local communities.

In the stakeholder theory (Freeman and Mcvea, 2004) I realized that economic value is created by people who voluntarily come together and cooperate to improve everyone’s position. This is seen in an objective of an audit committee where they solve issues regarding financial report before reaching board to avoid manipulation of financial report which will favour their own interest. This makes the audit committee protect the interest of shareholders and other stakeholders (Odhiambo, 2018). In stakeholder theory, it solves the problem of board size where members select adequate board size of directors who have a wide range of expertise and resources, and these make them able to deliver quality services to its stakeholders and other stakeholders beyond members who take an interest in the organization's performance and decisions (Ortiz, 1998).

2.2.4 Resource Dependence Theory

This theory, introduced by Jeff Pfeffer in 1972, emphasizes the significance of the relationship between power and exchange within and around organizations. Pfeffer (1972) suggested that a company's success relies on maximizing power over essential resources necessary for smooth operations. Resource dependence theory investigates managers interacting with the external environment to secure critical resources for the firm. According to Korac-Kakabadse et al. (2001), the board should leverage its experience and expertise to connect the firm with vital resources, enhancing performance (Pfeffer, 1973; Pfeffer & Salancik, 1978). The board is a crucial resource due to its connections with the external environment (Palmer & Barber, 2001). The board's composition is instrumental in addressing challenges posed by the external environment (Hillman et al., 2000).

Resource dependence theory views corporate boards as tools for managing external dependencies (Pfeffer & Salancik, 1978), reducing environmental uncertainty (Pfeffer, 1972), and decreasing transaction costs associated with environmental interdependence (Williamson, 1984). Directors demonstrate an important role in linking the organization and its competitors in the industry, thus minimizing uncertainty. They introduce valuable resources into the firm, such as information, skills, and access to key stakeholders, which in turn boosts the firm's performance.

A board of directors' benefits to a firm depends on its ability to access crucial resources and information, lessen environmental dependency, and enhance its legitimacy (Daily & Dalton, 1994; Gales & Kesner, 1994; Certo et al., 2003). Resource dependence includes improving the firm's legitimacy and public image, offering expertise, advice, and counsel, connecting the firm to important stakeholders, facilitating resource access, building external relations, and contributing to strategic decision-making (Hillman &

Dalziel, 2003). The theory highlights the relational capital provided by board directors, encompassing various formal and informal connections, as the most vital resource. Well-connected directors can access diverse information, aiding in strategic decisions (Mizruchi, 1996) and information dissemination within the firm (Useem, 1984; Burt, 1980). For instance, networked directors can introduce knowledge of corporate governance, efficiency-enhancing technologies, and innovative compensation structures (Lacker et al., 2013).

Resource dependence theory posits that boards from different firms collaborate to provide scarce resources from the external environment, thereby increasing the firm's value (Zahra & Pearce, 1989). External directors act as boundary spanners, attracting valuable resources and establishing external connections with stakeholders and other organizations (Wang & Dewhirst, 1992; Mallin & Michelon, 2011), positively influencing business development and long-term prospects (Pfeffer & Salancik, 1978).

According to resource dependence theory, organizations control their environment by choosing the resources required to survive (Pfeffer & Salancik, 1978). Board directors enhance the likelihood of a firm's success (Carpenter & Westphal, 2001). Resource dependence theory posits that boards play a crucial role in acquiring resources from the external environment beyond merely overseeing firm management (Hermalin & Weisbach, 1988). It focuses on the need for connections between the firm and external resources, with directors acting as bridges to external factors. Outside directors provide the firm with essential resources to navigate external challenges. The benefits of these environmental connections include firstly the provision of specific resources like expertise and advice from individuals with diverse strategic experiences; secondly, establishing communication channels between the firm and external organizations; thirdly, securing commitments or support from vital external entities; and fourthly,

enhancing legitimacy (Pfeffer & Salancik, 1978). Outside directors offer independent advice (Charan, 1998) and play a critical role in facilitating access to necessary resources (Mizruchi, 1992, 1996). External board members contribute valuable resources, information, and networks that protect the firm from adversities.

Resource dependence theory underscores the role of the board of directors in securing vital resources through external linkages (Pfeffer, 1973). Outside the roles of directors as conduits to external resources, helping the firm mitigate uncertainty (Hillman et al., 2000) is crucial for the firm's survival. The theory asserts that directors should provide resources like information, skills, access to key stakeholders (suppliers, buyers, public policy decision-makers, social groups), and legitimacy to reduce uncertainty. Hillman et al. (2000) highlight the benefits of connecting the firm with external environmental factors and minimizing uncertainty in order to reduce costs which are connected with environmental dependence. The theory advocates for appointing multiple directors to aid in collecting the information necessary for the firm's performance improvement.

In resource dependence theory the board of directors are crucial resources due to its connection with the external environment (Palmer and barber, 2001). The board of directors are elected during the general meeting (SACCO report 2019). Mwendia (2018) indicated that performance improves with an increase in board size. This is seen where the board of directors' search for profitable investment companies where the wealth of shareholders is maximized and the cost is minimized. Directors act as a bridge to external factors. The benefit of environmental connection includes establishing communication channels between the firm and external organization. This is seen where directors are transparent with information of deposits taking SACCOs to stakeholders other than members of deposit taking SACCOs, they attract more investors to the SACCOs, and this increases deposit growth of deposit taking SACCOs.

2.3 Empirical Review

The review of empirical literature was guided by the study objectives.

2.3.1 Audit Committee and Financial Performance of SACCOs

Corporate governance practices have begun employing mechanisms to oversee the extensive duties of top management, aiming to protect shareholder wealth and enhance the attraction of more customers and foreign investments (Anum, 2010). The primary role of an audit committee is to mediate between independent external auditors and boards, preventing influential executive directors from developing a relationship with their auditors that is too close (Odhiambo, 2018). Audit committees address financial reporting issues before they reach the board to prevent the manipulation of financial reports for personal gain. They also mediate disputes between auditors and executive management. Audit committees are a crucial aspect of corporate governance, as they aid in supervising and monitoring managerial activities (Afify, 2013; Campbell & Mínguez-Vera, 2008).

Audit committee responsibilities further encompass advising the board on the company's internal management and control systems, overseeing internal audits, coordinating with external auditors, reporting on the audit process to the board, reviewing financial information prior to shareholder distribution, advising on board accountability, overseeing risk management, compliance of corporate governance, and recommending the appointment of external auditors (Odhiambo, 2018). Audit committees validate the accounting policies adopted by deposit taking SACCOs and encourage using recognized accounting standards to disclose financial statements. They also uphold compliance with corporate legal and ethical standards and ensure strict adherence to fraud prevention controls (Turley & Zaman, 2014).

Under the SACCO Societies (Deposit Taking SACCOs Business) Regulations 2010, SACCOs are mandated to establish audit committees. Their duties to be carried out under these regulations include enhancing internal controls, ensuring financial reports accurately reflect the society's status, coordinating with external auditors, and compliance with laws and policies. The audit committee reports on actions to implement recommendations and address findings to the board of directors. It plays a pivotal role in the SACCO reporting process by monitoring the integrity of financial reporting controls and procedures on behalf of the board and safeguarding the interests of shareholders and stakeholders (Porter, 2009). Audit committees are guided by unambiguous terms of reference and operational procedures to ensure optimal performance (SASRA Report, 2011). Transparency is essential for audit committees to bolster shareholder confidence and ensure the safety of deposits (Odhiambo, 2016).

Researchers have extensively analyzed the significance of audit committees. Wild (1996) emphasized that forming an audit committee is essential for ensuring investors receive accurate financial reports. Mullen (1996) found that companies which involve audit committees report fewer errors, irregularities, and other signs of unreliable financial reporting. Additionally, audit committees enhance the quality of financial reports and reduce mistakes, thus positively affecting the earnings reported by SACCOs (Abernathy et al., 2015; Contessotto & Moroney, 2014).

Nelson et al. (2019) explored how audit committee characteristics impact the financial performance of Kenyan deposit taking SACCOs. The study assessed the effects of audit committee size, composition, and independence on its effectiveness. The study involved 166 Deposit-Taking SACCO employees and utilized descriptive research design. The findings revealed a positive correlation between audit committee experience and business performance, employing descriptive and inferential statistics. Interestingly, the

research indicated that independent auditors negatively affect corporate performance. Consequently, the study suggested increasing the audit committee's size to enhance the SACCOs' financial performance through added expertise.

Liech (2011) investigated the relationship between corporate governance practices and the financial performance of local airlines in Kenya. The objective was to determine the impact of corporate governance practices on the financial performance of these companies. Corporate governance was assessed using a Corporate Governance Index (CGI), derived from various codes of the Capital Markets Authority, categorized into four sub-indices: Shareholders' rights, directors' composition and structure, ownership structure, disclosure and audit, and compensation policy. Data was collected from all 30 local airlines using a census approach. The results demonstrated a significant positive correlation between corporate governance practices and the financial performance of airlines, indicating that airlines with robust corporate governance practices exhibit better financial performance.

Osarumwense and Aderemi (2016) investigated a case study on effect of financial literacy and frequency of meetings of audit committee members on financial reporting quality in Nigerian quoted companies. The important goal was to determine the effect of Financial Literacy (FL) and Frequency of Meetings (FM) of Audit Committee members on financial reporting quality in Nigerian quoted companies. Data was collected from annual reports of one hundred and thirty-one (131) companies quoted on the Nigerian Stock Exchange over the period from 2006 to 2012. Descriptive, correlation and Ordinary Least Square (OLS) were utilized to analyze data of the study. The multivariate regression technique was employed to make an estimate of the model. The results revealed that members of the audit committee financial literacy and members of audit

committee frequency of meetings had a positive association on financial reporting quality.

The primary duty of an audit committee is to oversee management actions to enhance shareholder wealth (Kallamu & Saat, 2015). It has been determined that the effectiveness of an audit committee not only boosts shareholder dividends and lowers loan interest rates but also draws more investors to SACCOs, especially in a dynamic business environment that the company cannot control (Herdjiono & Sari, 2017).

A dedicated audit committee is expected to invest shareholder wealth into profitable ventures to maximize returns and regulate managerial actions to deter self-interest maximization (Bansal & Sharma, 2016). Audit committees' key roles and responsibilities include recommending the appointment or change of external auditors, overseeing managers, and reviewing the company's internal control system (DeZoort et al., 2002; Aldamen et al., 2012). It has been found that the expertise of the audit committee enhances the performance of SACCO societies, with effective audit committee characteristics linked to successful outcomes (Zabri et al., 2016).

An appropriately sized audit committee is essential for Deposit-Taking SACCOs to achieve better financial performance. Dalton et al. (1999) argued that SACCO audit committees become ineffective if their sizes of audit committees selected are too small or too large. A committee with many members may need more time to process decision-making and exhibit lower participation than smaller ones. Conversely, a committee with too few members might need more diverse skills and knowledge, leading to subpar outcomes. An optimally sized audit committee enables members to leverage their experience and expertise to safeguard shareholder wealth and curb managerial self-interest.

Aldamen et al. (2012) examined the impact of audit committee characteristics on performance during the financial crisis, finding that committees with fewer but more experienced and financially knowledgeable members were positively and significantly associated with company performance. Similarly, Al-Matari (2013) found a significant relationship between audit committee size and company performance. This positive correlation is supported by resource dependence theory (Pearce and Zahra, 1992; Aldamen et al., 2012), suggesting that the efficacy of an audit committee grows with each additional member as it brings more resources to address company challenges.

Jun et al. (2008) emphasized that for audit committees to be influential, they must operate independently from the influence and pressure of top management. This autonomy allows the audit committee to make impartial decisions when reporting financial information (Kallamu & Saat, 2015). Furthermore, audit committees led by independent directors are associated with higher-quality financial reporting and a reduced incidence of fraudulent reporting (Kallamu & Saat, 2015). It has been found that an audit committee's independence from top management enhances its ability to mitigate the principal-agent problem and discourages top management from pursuing their interests (Yeh et al., 2011). Such independence bolsters the committee's effectiveness in ensuring the transparency of financial reporting, acting impartially towards the executive team, and thus diminishing the agency conflict between executives and shareholders.

2.3.2 Board Size and Financial Performance of SACCOs

Deposit-taking SACCOs are governed by three statutory bodies: the board of directors, the supervisory committee, and the office of the executive officer (SACCO Report, 2019). In the deposit taking SACCOs the board of directors has an important role in governance and ensures that the SACCO operates effectively and smoothly. A firm's board of directors' safeguards shareholder investments from potential exploitation by

management, a fundamental aspect of corporate governance (Wanjare, 2017). The board size significantly impacts its ability to monitor and control activities; larger boards provide a broader range of expertise and resources. However, decision-making can be delayed with more board members, potentially diminishing the firm's value and effectiveness (Mwendia, 2018). The board comprises up to nine non-executive members elected during the general meeting (SACCO Report, 2019). Following the election, the board forms a committee of office bearers, including the chairman, vice chairman, secretary, treasurer, and other committees, such as the mandatory audit and credit committees (SACCO Report, 2019).

Wanjare (2017) suggests that the board chair should be a different individual from the Chief Executive Officer in deposit-taking SACCO societies. The CEO manages operational issues, while the board chair handles supervisory functions, strategic decisions, and board management and presents the financial statements and auditors' report at the Annual General Meetings. Effective corporate governance requires a separation of the roles of CEO and board chair. Wanjare (2017) argues that combining these roles in one person can compromise monitoring and implementation functions. Additionally, deposit-taking SACCOs with a combined leadership structure risk concentrating too much power on one individual, potentially impacting shareholder wealth negatively or positively.

Mwendia (2018) highlighted that board size significantly impacts a company's performance, indicating that performance improves with an increase in board size. However, the benefit of adding an extra board member diminishes as the company grows more extensively, with large companies gaining little from additional board members. Wanyonyi & Olweny (2013) found that the financial performance of listed Kenyan Insurance companies is significantly influenced by corporate governance practices, with

smaller board sizes being more effective than larger ones. Kathuri and Dash (1999) investigated on 504 corporations from 18 different Indian industries on board size and corporate performance. The findings showed that the board size is an important aspect influencing the company's performance.

Wambua (2011) explored the effects of corporate governance on the financial performance of SACCOs in Kenya, focusing on the relationship between board composition and SACCO financial performance, the impact of the number of non-executive directors, and the influence of SACCO leadership. The study incorporated agency theory, shareholder theory, and stakeholder theory. Findings indicated that 59% of respondents believed board size and composition minimally affected SACCO's financial performance. The presence of non-executive directors posed a significant challenge, as evidenced by a mean score of 4.20. The board's involvement in strategy formulation was strongly affirmed, with a mean score of 4.80. Similarly, 50% of respondents felt that the number of non-executive directors had a minor impact on financial performance.

The study also demonstrated that directors have an important role in internal corporate governance and reducing ownership concentration and increasing employee involvement notably influenced SACCO's financial performance. Despite 59% of respondents stating that SACCO leadership minimally impacted financial performance, financial monitoring and the frequency of board meetings were identified as having a substantial effect on financial outcomes. Leadership was deemed crucial in CEO selection, monitoring, and replacement processes. The study concluded that financial performances of SACCOs are not affected by the board size and composition.

The presence of non-executive directors posed challenges for SACCO's board, which was actively formulating the SACCO's strategy. The findings suggested that directors

played a role in establishing internal corporate governance mechanisms. Additionally, reducing ownership concentration and increasing employee involvement impacted SACCO's financial performance. Leadership within SACCO also influenced financial outcomes. Notably, the study found that financial oversight by the board was crucial to SACCO's performance.

Wangui & kinyua (2019) established that corporate governance affects SACCO performance in Nairobi County. A number of research objectives were covered including determining how board structure affects SACCO performance, determining how board committees influence SACCO performance, and determining how members' participation influences SACCO performance. The study, which concentrated on SACCOs in Nairobi County, used a descriptive research technique. All forty (40) SACCOs accredited by SASRA to operate in Nairobi County were included in the sampling frame. A structured questionnaire was employed to obtain primary data for the investigation. A total of 28 SACCOs participated in the study, with a response rate of 70%. The findings of the board structure versus performance analysis revealed R2 = 0.643 with a p-value of 0.01. Board independence (r=0.161), board diversity (r=0.072), and board diversity (r=0.059) have a favorable but statistically insignificant association with SACCO performance, according to the data on board structure subgroups. However, the entire data showed a favorable and statistically significant association between board structure (r=0.802) and SACCO performance in Nairobi County (p-value0.01).

Okwee (2011) investigated the impact of corporate governance practices on the financial performance of SACCOs in the Lango sub-region of Uganda, sampling 63 SACCOs from 75. The study discovered that many SACCOs needed higher compliance with corporate governance guidelines through questionnaires distributed via a drop-and-pick

method. Risks were weakly and negatively associated with corporate governance and financial performance, while a strong positive correlation was found between corporate governance and financial performance. The study identified several governance practices affecting organizational financial performance, including CEO dualism, board size, and board member skills.

Muganda (2015) analyzed the relationship between corporate governance mechanisms and the performance of 424 publicly listed Malaysian companies (233 family-controlled and 191 non-family-controlled) from 2003 to 2007. The study utilized board size, board independence, directors' qualifications, directors' professional qualifications, and leadership structure as governance mechanisms, with Tobin's Q measuring company performance. A panel data methodology with generalized least squares estimation was used to carry out hypothesis testing, categorizing the sample by firm type. The research indicated that directors' qualifications, represented by the proportion of degree-holding directors, improved performance in non-family-controlled firms but were insignificant for family-controlled firms. Board size and leadership duality negatively affected the performance of family-controlled firms but were inconsequential for non-family-controlled firms. Firm age negatively correlated with family-controlled firms' performance and positively correlated with non-family-controlled firms. A significant negative relationship existed between firm size and performance for both firm types, while board independence and directors' professional qualifications had no significant impact on either category.

Belkhir (2006) carried out a study on the impact of board size on the performance of SACCOs in Kenya, highlighting monitoring management behavior and providing guidance are duties done by board of directors. A common belief is that a larger board size correlates with decreased performance, attributed to the challenges in

communication, task coordination, and decision-making efficiency within larger groups. Thus, the study suggested that a smaller, more streamlined board is likely more efficient and effective in enhancing performance than a larger one, aiming to explore the influence of board size on SACCO performance in Kenya.

Lipton and Lorsch (2012) examined the reasoning behind limiting board sizes within organizations, finding that constrained board size generally enhances firm performance across all levels. The difficulties in communication and the complexity of decision-making processes negate the disadvantages of increased monitoring by larger boards. Empirical evidence consistently shows that larger boards are less effective in substantive discussions and management oversight, often becoming more susceptible to CEO influence. Thus, board size significantly affects the prosperity of any organization.

Hermalin and Weisbach (2003) analyzed the impact of board size on corporate governance, indicating that board size significantly influences governance quality. The study concluded that larger boards could become dysfunctional, associating smaller boards with higher activity levels and effectiveness due to minimized free-rider and monitoring issues. For instance, Yermack (2006) and Eisenberg et al. (2008) identified a negative correlation between board size and firm value, supporting that smaller size boards are efficient with their streamlined communication and quicker decision-making.

Shivdasani and Zenner (2004) noted that boards must increase meeting frequency when heightened supervision and control are required. Other research, such as Vafeas (2009), suggested that boards weigh advantages and disadvantages of meeting frequency, indicating that SACCO societies with frequent board meetings recover more swiftly from poor performance. Jensen (2003) argued that the separation of CEO and chairperson roles should align with shareholders' interests, with Yermack (2006) demonstrating that large firms with separate roles often enjoy higher price-to-book multiples, return on

assets, and cost-efficiency ratios compared to firms where one individual hold both positions.

2.3.3 Transparency and Financial Performance of SACCOs

Transparency implies openness and the absence of hidden agendas. For deposit taking SACCOs, this involves making their operations and transactions accessible to external scrutiny, adhering to necessary disclosure requirements, informing all stakeholders about decisions, and fulfilling legal obligations. The OECD (1999) highlights that complete transparency, and the disclosure of financial information is pivotal to the corporate governance framework. Firms with superior corporate governance standards tend to provide more comprehensive disclosures (Beeks & Brown, 2005). Strategic information disclosure fosters a mutual understanding of a firm's structure, activities, and policies, enhancing investor confidence and attraction (Junarso, 2006). A lack of transparency has been identified as a primary cause of financial crises within organizations (Hellwig, 2009). Companies that are proactive in governance disclosure can benefit from lower equity capital costs (Collet & Hrasky, 2008). Moreover, the extent of information disclosure indicates the relationship between corporate governance and firm performance (Habib, 2008), with timely disclosure being directly linked to economic profitability (Haat et al., 2008).

Increase in financial scandals in early 2000s, transparency become increasingly crucial in preventing fraud and promoting a positive reputation for deposit taking SACCOs. Trust from shareholders, fostered by transparency, encourages further investment, effectively reducing capital costs and enhancing return on investment (ROI) (Alexandrea, 2019). Transparency is an essential element of corporate governance, ensuring that external parties can always verify the actions of deposit taking SACCOs. It is not merely an ethical choice but a legal mandate (Roman, 2014).

Transparency is vital across all levels of SACCO, particularly at the leadership level where strategic planning and decision-making occur. Shareholders expect openness from the corporate board to maintain trust; a breach of trust can lead shareholders to seek investment opportunities elsewhere (Alexandrea, 2019). Beeks and Brown (2005) note that SACCOs with robust corporate governance engage more in informative disclosures. SACCOs with formalized governance structures tend to be more transparent than those with weaker governance frameworks. It is generally accepted that well-governed SACCOs are more forthcoming with information, resulting from heightened oversight. Consequently, such SACCOs are characterized by more frequent and timely disclosures (Bokpin, 2015).

Clear, relevant, transparent, reliable, and timely disclosure of financial activities and structural processes within organizational units, operating in the interest of stakeholders, provides a genuine insight into the firm's operations and the quality of its corporate governance standards. Adequate transparency and disclosure mechanisms are essential for safeguarding the rights of minority shareholders, creditors, and other external parties who lack direct knowledge of the firm and its potential. These mechanisms are crucial in mitigating informational asymmetry and fraud within the firm. One benefit of robust transparency and disclosure practices is that they enhance investor confidence and trust, reducing the uncertainty of returns for capital suppliers. This is expected to lower the firm's external capital costs and increase its value (Hambrick & Jackson, 2000).

Additionally, adhering to transparency and disclosure standards helps avoid the political costs associated with non-compliance, reducing the risks of increased taxation, litigation, and excessive regulation. Transparency, disclosure, and trust, which are fundamental to corporate governance, create a drive for improved financial performance. The McKinsey quarterly surveys indicate that institutional investors are willing to pay nearly 28% more

for shares of well-governed companies in emerging markets (Mutuku, 2016). A study in Kuala Lumpur on the 2002 corporate governance survey by the stock exchange and accounting firm PricewaterhouseCoopers found that companies with higher corporate governance practices attracted investors willing to pay a 20% premium.

An efficient capital market is one where prices fully reflect all available information (Malkiel, 2003). The weak form of the Efficient Market Hypothesis posits that current financial asset prices integrate all existing historical financial information. The semi-strong form suggests that asset prices indicate all market information, including historical data, and adjust quickly to incorporate any new public information. The strong form of EMH assumes that prices assimilate all available market information, encompassing historical financial data, all new public information, and any private information related to a financial asset (Ţiţan, 2015).

Kariuki (2016) explored the link between corporate governance and the financial stability of authorized deposit taking SACCOs in Kenya, measuring financial soundness through the PEARLS monitoring system. The study findings showed that internal controls are crucial to corporate governance, identifying board responsibility, transparency, disclosure, and internal controls as critical factors influencing the financial stability of SACCOs.

Mwenda (2018) conducted a study focusing on the impact of corporate governance on the financial performance of Deposit-Taking SACCOs. The research examined several factors, including transparency, to determine their influence on the financial performance of deposit-taking Savings and Credit Cooperatives in Nairobi City County. The study explored aspects such as board size, gender diversity, board members' education level, ethnic diversity of the board, CEO duality, transparency, and accountability. The results

indicated that all the independent variables had a positive association with the financial performance of the SACCOs.

Kipkirong and Omandi (2013) researched Business Case for Corporate Transparency. Data was collected from 42 listed firms in Nairobi Stock exchange over the period of 2005 to 2010. Fixed effects on regression model were employed, and they found a positive and significant effect of corporate transparency on firm performance. Later Njeri (2013) carried out a study on transparency, disclosure and financial performance of insurance companies in Kenya. The study made use of census research design that included all insurance companies under the Insurance Regulatory Association for the period of 2008 to 2012. The findings of the study revealed that financial performance was positively correlated to transparency and disclosure of financial information, transparency and disclosure of ownership structure and investor relation information, transparency and disclosure of board management structure.

Edogbanya and Kamardin (2015) researched the relationship between organizational transparency and firm performance among 62 non-financial firms out of 136 listed in Nigeria from 2010 to 2013. The findings demonstrated that both board and financial transparency positively correlated with the firm Tobin's Q, underscoring the significance of transparency and material data disclosure in enhancing firm performance. Mutua (2016) investigated the factors influencing the extent of disclosure by deposit taking SACCOs in Kenya. The study employed correlation and multivariate fixed effects panel regression methods to examine six hypotheses by analyzing audited annual reports of 202 SACCOs from 2008 to 2013. The findings indicated that the disclosure level was significantly and positively affected by total asset value, governance score, and the ratio of non-performing loans to gross loans. However, SACCOs audited by government auditors showed lower levels of disclosure. Given the reliance on disclosures in audited

annual reports, further evaluation of disclosures across a broader set of cooperatives in Kiambu was deemed necessary to verify if the determinants of disclosure would vary with a different disclosure index.

Sinan (2008) analyzed the impact of board characteristics, such as information technology maturity and transparency, on the financial performance of companies listed on the Istanbul Securities Exchange. The study revealed a positive relationship between corporate transparency and company performance.

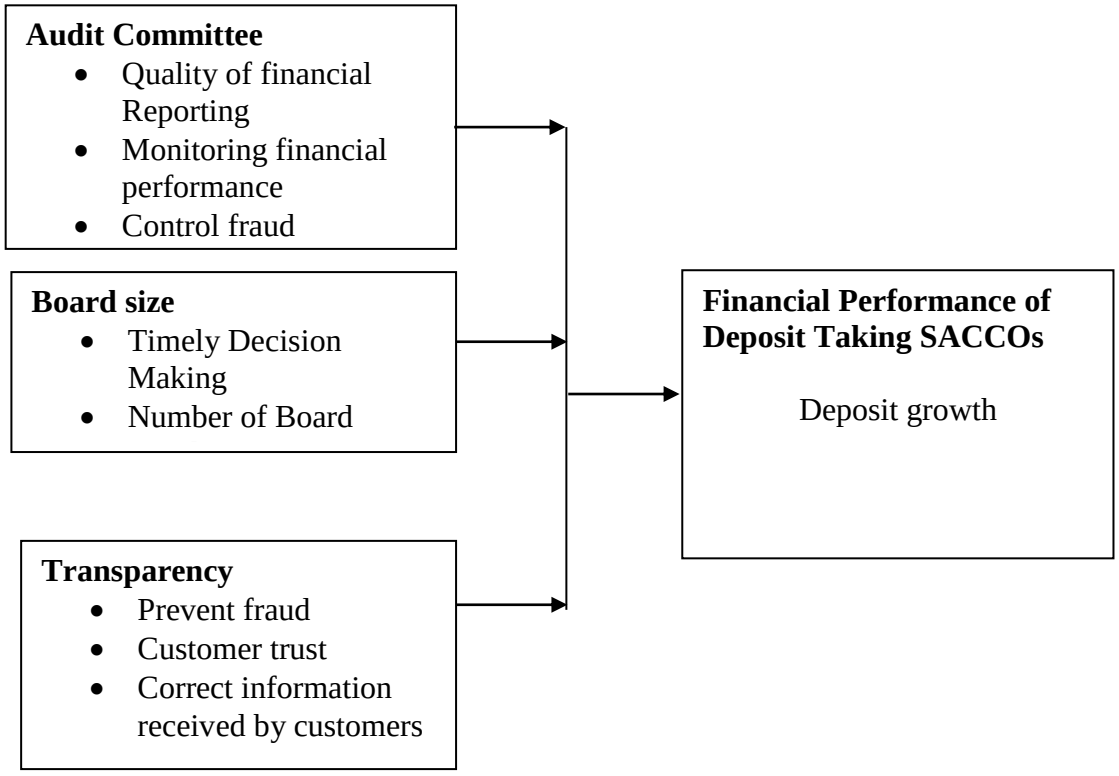
The Australian Treasury (2009) examined the influence of corporate governance on financial performance within an Australian context, specifically how the adoption of corporate governance principles and best practices outlined by the Australian Securities Exchange affected the financial performance of Australia's top 300 listed companies. The findings indicated that companies adhering to these corporate governance principles and practices showed better results than those with poor implementation. The study concluded that corporate governance significantly contributes to an organization's financial performance.

2.4 Conceptual Framework

Mugenda and Mugenda (2003) describe the conceptual framework diagram as a model that identifies the concepts under study and their interrelationships. It provides a coherent illustration of the research approach, outlining the relationships between independent and dependent variables and detailing the anticipated outcomes. The diagram of conceptual framework is presented in Figure 1.

Figure 1

Conceptual Framework



The conceptual framework is grounded in the study's objectives and the literature reviewed. It illustrates the relationship between the study's independent and dependent variables. The dependent variable is the performance of cooperative societies in Meru County, explicitly focusing on Deposit-Taking Savings and Credit Cooperatives (SACCOs). The independent variable is corporate governance, encompassing the audit committee, board size and transparency.

2.5 Summary of Literature Review

Corporate governance and organizational performance have drawn significant attention from researchers recently. Many studies have primarily explored corporate governance's impact on organizations' overall performance, encompassing financial, social, and environmental aspects. However, there is a limited need to focus more on the

relationship between corporate governance and the performance of specific entities, particularly deposit taking SACCOs.

There is a considerable body of literature on corporate governance and the financial performance of organizations, presenting varied perspectives. The agency theory posits that owners are not involved in the firm's day-to-day operations, highlighting the relationship between agents (managers) and principals (shareholders). Shareholders entrust a team of professionals with the expectation that they will act in the organization's best interest. The agency problem emerges when managers prioritize their self-interest over their duties. Agents are provided with incentives tied to their performance to mitigate this issue.

The stewardship theory suggests that stewards are committed to protecting and enhancing shareholders' wealth through the firm's performance. According to this theory, managers are appointed to efficiently oversee the firm's operations, with their success gauged by the satisfaction derived from the firm's achievements. The primary goal of managers is to increase the firm's value. The stakeholder theory proposes that a corporate firm strives to balance the interests of its diverse stakeholders, ensuring each receives a level of satisfaction. Managers in this framework make decisions and exert efforts to secure benefits that meet the expectations of all shareholders.

Empirical research, both internationally and locally, indicates a correlation between corporate governance and the performance of organizations. Despite numerous studies in this field, there has been limited examination of the relationship between corporate governance practices—such as audit committee effectiveness, board size, and transparency—and the performance of deposit-taking SACCOs. Over the past five years, significant developments in Kenya, including adopting a new constitution in 2010, have impacted various business aspects. Additionally, in 2011, the regulator introduced

corporate governance guidelines, requiring cooperative societies to comply. The absence of research focusing on the intersection of corporate governance and the financial performance of deposit-taking savings and credit cooperative organizations in Meru County highlights a significant research gap. This study aims to address this gap.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter details the research methodology utilized in the study. It encompasses several key sections, including research design, the scope of the study, the target population, sample size, sampling procedures, research instruments, a pilot study, and the validity and reliability testing of instruments. Additionally, it discusses data collection and data analysis techniques.

3.2 Research Design

Kumar (2005) describes research design as a strategic framework that researchers adopt to address questions in a valid, objective, accurate, and cost-effective manner. This framework serves as a roadmap, guiding researchers through their study and ensuring that the methods employed are appropriate for securing valid, objective, and accurate responses to research inquiries.

The study utilized a descriptive research design, a methodology focused on collecting data to test hypotheses or respond to questions about the current state of the subject being examined. Mugenda and Mugenda (2003) emphasize that descriptive research design is adequate for evaluating current conditions and exploring and documenting existing situations.

3.3 Location of the Study

The study focused on deposit taking SACCOs in Meru County, selected due to the challenges which they face such as poor governance, loan defaults and limited technology adoption. Meru County have over 10 deposit taking SACCOs which provide adequate detailed information on the financial performance of deposit-taking SACCOs under corporate governance.

The target population consisted of members of the Board of Directors. The aim was to understand how they manage member deposits as agents for the principals.

3.4 Target Population

Mugenda and Mugenda (2003) define the target population as the entire group in which a researcher is interested or aims to conclude. The study's population comprised of directors from eleven deposit taking SACCOs in Meru County, which are licensed by the SASRA. The unit of analysis for this study is the deposit taking SACCOs.

Table 1

Distribution of Directors' Population

Name of SACCOs	**No of SACCOs**	**Directors**
Capital Sacco Society Ltd	1	9
Centenary Sacco Society Ltd	1	9
Dhabiti Sacco Society Ltd	1	9
Golden Pillar Sacco Society Ltd	1	7
MMH Sacco Society Ltd	1	9
Nexus Sacco Society Ltd	1	10
Nyambene Arimi Sacco Society Ltd	1	9
Siraji Sacco Society Ltd	1	3
Solution Sacco Society Ltd	1	9
Times U Sacco Society Ltd	1	9
Yetu Sacco Society Ltd	1	9
Total	**11**	**92**

Source: (Mwaka, 2019)

3.5 Sampling Procedure and Sample Size

3.5.1 Sample Size

This study comprised a sample size of seventy-five (75) directors who were drawn from a target population of ninety-two (92) directors by applying the formulae suggested by Israel (1992).

3.5.2 Sampling Procedure

This adopts a stratified random sampling with proportional allocation to choose the sample size of directors where the study segment was directors while the strata were Deposit-taking SACCOs. The study used the formulae by Israel (1992) to calculate the sample size. The formulae are as follows:

$$n = \frac{N}{1+N(e)^2} \qquad (3.1)$$

where;

n : sample size

N : Target population

e : Acceptable error (5% for this study)

Such that; $n = \frac{92}{1+92(0.05)^2} = 75$

The sample size was dispensed as shown in table 2.

Table 2

Sample Size of Directors' Distribution

Name of SACCOs	Target Population	Sample Size	Percentage
Capital Sacco Society Ltd	9	7	9.78%
Centenary Sacco Society Ltd	9	7	9.78%
Dhabiti Sacco Society Ltd	9	7	9.78%
Golden Pillar Sacco Society Ltd	7	6	7.61%
MMH Sacco Society Ltd	9	7	9.78%
Nexus Sacco Society Ltd	10	8	10.88%
Nyambene Arimi Sacco Society Ltd	9	7	9.78%
Siraji Sacco Society Ltd	3	2	3.27%
Solution Sacco Society Ltd	9	7	9.78%
Times U Sacco Society Ltd	9	7	9.78%
Yetu Sacco Society Ltd	9	7	9.78%
Total	**92**	**75**	**100%**

Source: (Annual SACCO Supervision Report, 2019)

3.6 Research Instruments

A data collection instrument is used to gather data systematically and objectively for research purposes (Mugenda & Mugenda, 2003). Questionnaires were utilized to collect primary data, while secondary data was obtained from annual reports of deposits taking SACCOs to gather information on deposit growth. The questionnaire was divided into four sections: Section One captured demographic information; Section Two assessed the audit committee's role in SACCOs; Section Three evaluated board size; Section Four examined SACCO transparency.

3.7 Pilot Testing of the Instruments

Before distributing questionnaires to participants, this study conducted a pilot study to pre-test the instruments for accuracy, clarity, relevance, and consistency. The pilot aimed to estimate the time needed for respondents to complete the questions. The pilot test involved ten directors who were part of the target population but were not selected for the main study. This process measured respondents' time to complete the questionnaire and assessed how directors responded to questions. Any ambiguity issues were identified and rectified before the questionnaires were administered to the study participants.

3.7.1 Reliability of Measurement Instruments

The reliability of data refers to the measure of an instrument's consistency and stability in data collection. It gauges the degree to which a research tool yields consistent results across repeated applications in identical situations (Heale & Towycross, 2015). The test-retest method was applied to questionnaires to assess data reliability. A pre-test involving ten directors, randomly selected from the accessible population, was conducted to perform the questionnaire's test-retest. The pilot data was analyzed using SPSS software (version 26), which calculated Cronbach’s Alpha of 0.6725, 0.6898, and 0.6788 for the three variables of Audit committee, Board size, Transparency respectively. These values, close value to the threshold of 0.7, indicated that the data collection instruments (the questionnaires) were reliable and thus deemed acceptable, per Cooper & Schindler (2008).

3.7.2 Validity of Measuring Instrument

Validity refers to being well-grounded, justifiable, relevant, meaningful, and logical, adhering to accepted principles, and possessing soundness, justice, and a solid foundation (Cypress & Brigitte, 2017).

By using Exploratory Factor Analysis (EFA), the potential factor structure among audit committees, board size, and transparency were uncovered. Confirmatory Factor Analysis (CFA) was used to validate this structure, providing evidence that these variables accurately measure the intended constructs. This process ensured that the measures used in research are both reliable and valid, thereby strengthening the study's overall findings and contributing to a more robust understanding of the relationships among these key governance variables.

3.8 Data Collection Methods

This research incorporated both qualitative and quantitative data. Both primary and secondary data were collected. Interview meetings were conducted with directors. Questionnaires were distributed to the directors, who were given sufficient time to complete them. These were then collected by a designated assistant 24 hours later.

3.9 Data Analysis Techniques and Presentation of Data

The data collected for this study were cleaned, organized, coded, and entered into SPSS software (Version 26) for analysis. Qualitative data were utilized to obtain additional information about the study and were thoroughly investigated for further insights. The findings were presented using frequency tables and other descriptive statistical methods. The regression model proposed was as follows:

$$Y = \beta_o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e \qquad (3.2)$$

Where: Y= Performance of SACCOs measured by the growth in membership

β_o = Constant term

β_i= Beta coefficient, β_1, i= 1,2,3 are rates at which X_1, X_2, and X_3 are affected respectively

X_1 = Audit committee is measured by the quality of financial report and control of fraud

X_2= Board size is measured by number of board members and timely decision making

X_3= Transparency is measured by customer trust and correct information received by customers

e = Random error term assumed to be independently and identically normally distributed with zero mean and constant finite variance.

3.10 Diagnosis Tests for Ordinary Least Squares

In examining the effect of corporate governance on the performance of Deposit-Taking SACCOs in Meru County, it is imperative to ensure the validity, reliability, and robustness of the Ordinary Least Squares (OLS) regression model used. Diagnostic tests are conducted to verify whether the assumptions underlying the classical linear regression model hold true. Violations of these assumptions can result in biased, inefficient, or inconsistent estimators, undermining the credibility of the research findings.

CHAPTER FOUR: RESULTS AND DISCUSSION

4.1 Introduction

This chapter outlines findings and discussions from the analysis for both primary and secondary data. It also reports the findings of the study as analyzed from the primary data that was collected through questionnaires.

4.2 Response Rate

A total of 75 questionnaires were given out to respondents. However, only 64 returned as shown in Table 3.

Table 3

Questionnaire Return Rate

Category of Respondents	**Questionnaires issued**	**Returned**	**Return rate**
Directors of SACCOs	75	64	85.3%

Source: Research Data (2024)

From Table 3, the response rate was 85.3%. According to (Mugenda and Mugenda, 2003) a 50% response rate is adequate, 60% good and above 70% rated very good. The response rate was 85.3%, which was above 70% according to (Mugenda and Mugenda, 2003) the response rate was therefore very good.

4.3 Reliability of Research Instrument

The questionnaires were tested for reliability through conducting a pilot study to establish the consistency of the instrument using Cronbach's Alpha with the number of respondents being 64.

Table 4

Reliability Analysis

Reliability statistics Analysis

Variables	Cronbach's Alpha	Remarks
Financial Performance	0.725	Accepted
audit committee effectiveness	0.745	Accepted
board size	0.760	Accepted
transparency	0.755	Accepted

Source: Research Data (2024)

From Table 4, Cronbach's Alpha coefficients were all above the recommended value of 0.7 therefore, the research instrument was reliable. This value is below the often-recommended threshold of 0.7, suggesting potential improvements in the scale's reliability. Consider revising or removing poorly correlating items, especially for high-stakes applications. However, for exploratory research or complex constructions, this level of reliability may still be acceptable. Further analysis can help optimize the scale's consistency. A higher value, close to one, shows a more reliable generated scale. Cooper &Schindler (2008) has indicated 0.7 as an acceptable reliability coefficient.

4.4 Validity of Research Instrument

To assess the validity of the research instruments, the study employed the Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy and Bartlett's Test of Sphericity. These tests were essential in determining whether the data collected was suitable for factor analysis. The KMO test produced a value of 0.749, which falls within the acceptable range of 0.7 to 0.8, indicating a good level of sampling adequacy and suggesting that the sample was sufficient to proceed with factor analysis. Additionally, Bartlett's Test of Sphericity returned to a significant result, with an approximate Chi-Square value of

143.795, degrees of freedom (df) = 35, and a p-value less than 0.001. This significance implied that the correlation matrix was not an identity matrix, hence supporting the suitability of the data for exploration factor analysis. These findings validated the structure of the instrument and confirmed that the collected data was appropriate for further multivariate analysis. The results were tabulated in Table 5 below.

Table 5

KMO and Barlett's Test

KMO and Barlett's Test		
Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy and Bartlett's Test of Sphericity		0.705
	Approx. Chi-Square	**1**43.795
	DF	35
	Sig	0.001

Source: Research Data (2024)

4.5 Demographic Characteristics of the Respondents

To fulfill the primary objective of this study, the demographic information was gathered from the respondents, including their gender, level of education, age, the sub-county in which they work, their designation within the SACCOs, and the number of years they have held their current positions in the deposit taking SACCOs.

4.5.1 Distribution of the Respondents by Gender

The distribution of the respondents by gender was an important attribute of the study.

Table 6

Respondents by Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	26	40.6	40.6	40.6
Female	38	59.4	59.4	100.0
Total	**64**	**100.0**	**100.0**	

Source: Research Data (2024)

Table 6 presents the gender composition of the study's respondents. Out of 64 participants, 26 are male, representing 40.6% of the sample, and 38 are female, accounting for 59.4%. These percentages are consistent with both overall and valid percentages, indicating there are no missing gender data. The cumulative percent shows a tally across categories, starting with males at 40.6%, and reaching 100% with females, reflecting the total sample. The higher female percentage suggests a gender imbalance in the respondent group. This indicated that majority of the directors of Deposit- Taking SACCOs in Meru County were females.

4.5.2 Distribution of the Respondents by Level of Education

Distribution of the respondents by level of education was considered due to its relevance in understanding the governance of the Deposit Taking SACCOs.

Table 7

Level of Education

	Frequency	Percent	Valid Percent	Cumulative Percent
Primary	1	1.6	1.6	1.6
Secondary	6	9.4	9.4	10.9
Diploma/Certificate	15	23.4	23.4	34.4
Graduate	42	65.6	65.6	100.0
Total	**64**	**100.0**	**100.0**	

Source: Research Data (2024)

Table 7 displays the educational levels of respondents in a study. There were 64 respondents in total: 1 with primary education (1.6%), 6 with secondary education (9.4%), 15 with a diploma or certificate (23.4%), and 42 were graduates (65.6%). The valid and cumulative percentages match the individual percentages, adding up to 100%. The table suggests educated sample, with 88.6% having at least a diploma/certificate level of education, indicating a propensity for effective decision-making in Deposit-Taking SACCOs, likely due to the required governance skills and expertise.

4.5.3 Distribution of the Respondents by Age

The age distribution of the respondents was considered because experience in governance depends on the number of years of exposure to the relevant work.

Table 8

Age Category

	Frequency	Percent	Valid Percent	Cumulative Percent
Below 18 years	4	6.3	6.3	6.3
18-25	7	10.9	10.9	17.2
26-33	12	18.8	18.8	35.9
34-41	16	25.0	25.0	60.9
42-49	11	17.2	17.2	78.1
Above 49	13	20.3	20.3	98.4
9	1	1.6	1.6	100.0
Total	**64**	**100.0**	**100.0**	

Source: Research Data (2024)

From Table 8, the predominant age group of the respondents is 34-41 years, comprising 38.5% of the sample. A significant proportion, 29.4%, falls within the 42-49 age category. The distribution also shows 7 respondents aged 18-25 years, 10 respondents aged 26-33 years, and 4 respondents above 49 years. The data indicates that most of the directors fall within the age ranges of 34-41 and 42-49 years, suggesting that they possess considerable experience. This experience is likely a factor in the efficacy and speed of decision-making processes within Deposit-Taking SACCOs.

4.5.4 Distribution of the Respondents by Sub-County

Distribution of respondents by Sub-counties was a necessary attribute in understanding the distribution of the deposit taking SACCOs in the county.

Table 9

Sub-County Descriptive Statistics

	Frequency	Percent	Valid Percent	Cumulative Percent
Igembe North	3	4.7	4.7	4.7
Igembe Central	6	9.4	9.4	14.1
Igembe South	2	3.1	3.1	17.2
Tigania East	5	7.8	7.8	25.0
Tigania West	12	18.8	18.8	43.8
Buuri	4	6.2	6.2	50.0
Imenti Central	8	12.5	12.5	62.5
Imenti South	3	4.7	4.7	67.2
Imenti North	21	32.8	32.8	100.0
Total	**64**	**100.0**	**100.0**	

Source: Research Data (2024***)***

From Table 9, it is evident that the majority of respondents are from Imenti North Sub-County, accounting for 21 individuals or 32.8% of the sample. This is likely reflective of the concentration of deposit-taking SACCOs' headquarters in that area. Tigania West follows with 12 respondents (18.8%), and Imenti Central has 8 participants (12.5%). Lower representation is noted from Igembe Central, Buuri, Igembe North, and Imenti South with 3 respondents each (4.7%), and 2 individuals (3.1%) from Igembe South. The distribution suggests that the location of deposit taking SACCOs headquarters influences the representation of respondents from various sub-counties.

4.5.5 Respondents' Designation

To understand the leadership structure of the SACCOs, information was sought on the designation of the respondents.

Table 10

Designation in the SACCO

	Frequency	Percent	Valid Percent	Cumulative Percent
Accountant	7	10.9	10.9	10.9
Finance officer	21	32.8	32.8	43.8
HR manager	24	37.5	37.5	81.3
Administrative Manager	12	18.8	18.8	100.0
Total	**64**	**100.0**	**100.0**	

Source: Research Data (2024)

From Table 10, the largest proportion of respondents hold the position of HR manager within their SACCOs, making up 37.5% of the sample. Finance officers represent 32.8%, while 18.8% of the participants are Administrative Managers. Accountants constitute the smallest group at 10.9%. This distribution of roles suggests a sample with a diverse range of responsibilities within the SACCOs, potentially reflecting a comprehensive view of the operations from multiple managerial perspectives.

4.5.6 Respondents' Length of Service

The experience of the respondents was a key attribute influencing their governance. Information was therefore sought on the respondents' length of service.

Table 11

Duration they have Held the Post

	Frequency	Percent	Valid Percent	Cumulative Percent
Less than one year	5	7.8	7.8	7.8
1-5 years	15	23.4	23.4	31.3
More than 5 years	42	65.6	65.6	96.9
4	2	3.1	3.1	100.0
Total	**64**	**100.0**	**100.0**	

Source: Research Data (2024)

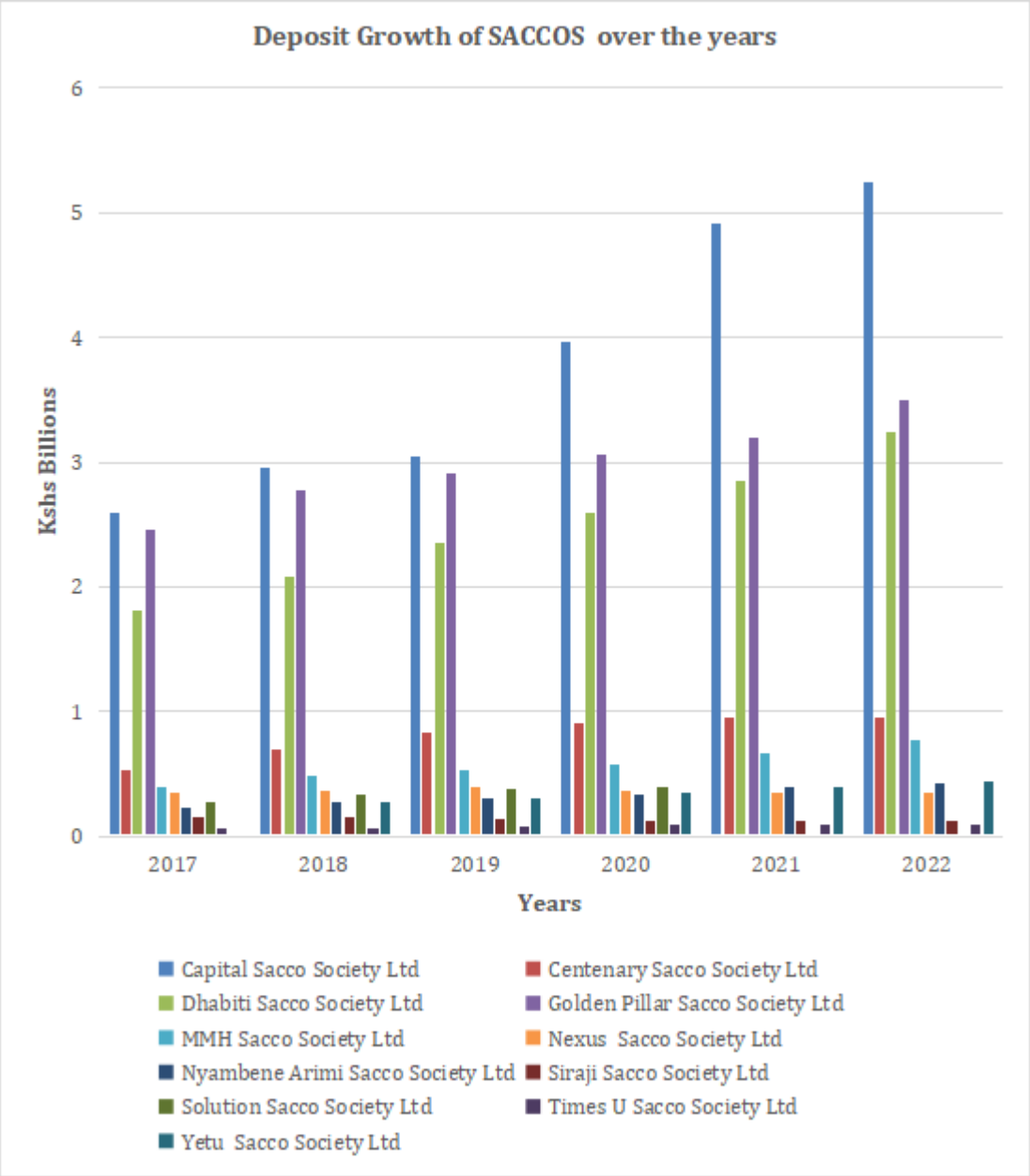
From Table 11, it is observed that the predominant portion of respondents, amounting to 65.6%, have been in their current role for more than 5 years. A smaller group, 23.4%, have held their post for 1-5 years, while only 7.8% have been in their position for less than one year. An additional entry shows a count of 2 for an unspecified category. The data implies that many respondents are well-versed in their duties, likely providing reliable insights into the governance practices and performance of SACCOs due to their longer tenure.

4.5.7 Deposits Growth

Understanding the factor structure of audit committee, board size, and transparency can illuminate their impact on financial performance, specifically deposit growth of the deposit taking SACCOs. Reliable governance measures enhance trust and operational efficiency, leading to increased member deposits and overall financial stability in SACCOs.

Figure 2

Deposit Growth of SACCOS over the Years



Source: Research Data (2024)

Figure 2 details the deposit growth of various Savings and Credit Cooperative Societies (SACCOs) from 2017 to 2022 visualizes changes in deposits over the years, represented in billions on the Y-axis. Each SACCO is denoted by a unique color, with the height of each bar corresponding to the deposit amount for that year. This representation helps

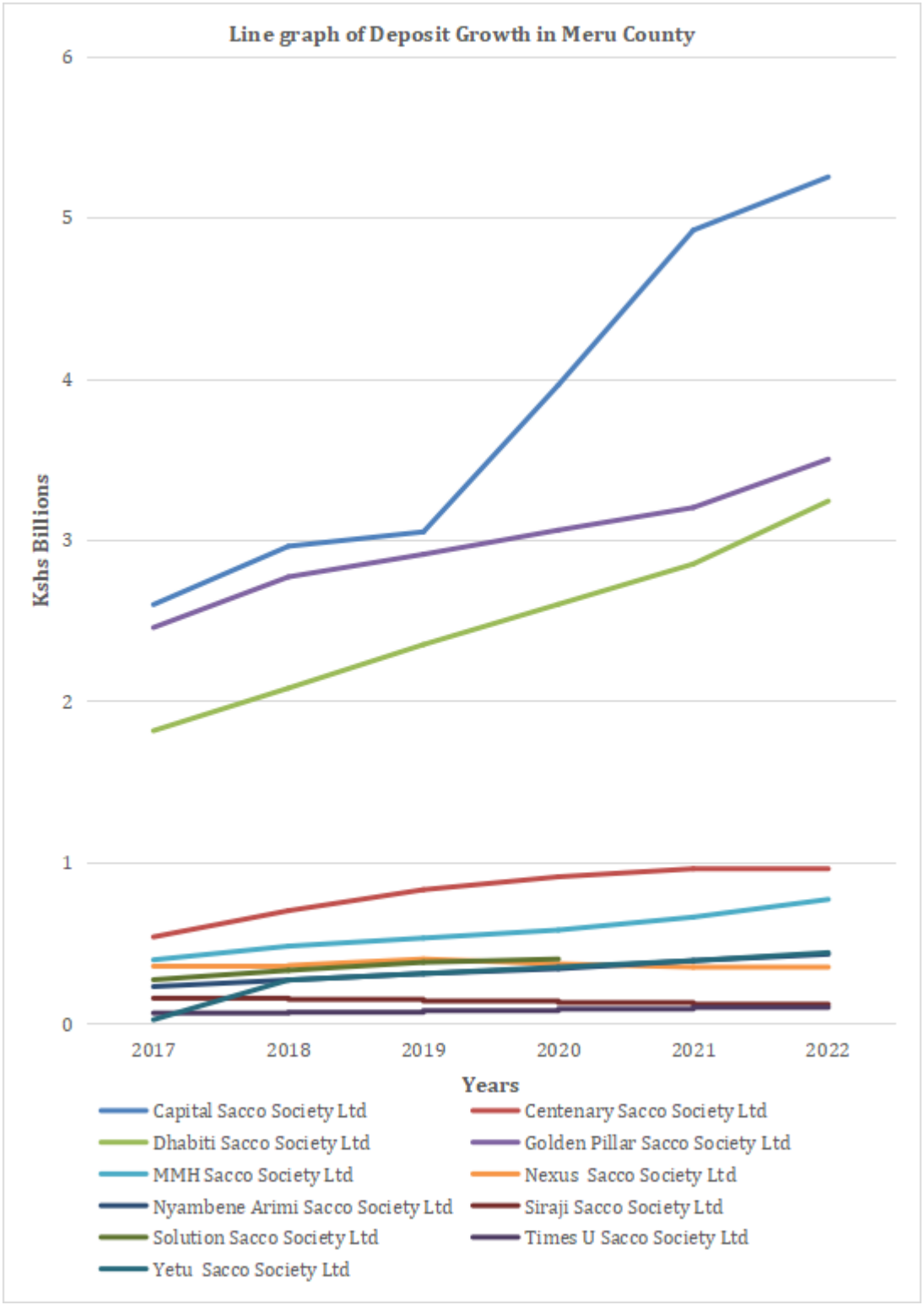
illustrate the scale of deposit growth or contraction across different SACCOs during the specified period.

Significant fluctuations in deposits are evident across different years and SACCOs, with some showing growth in particular years and a decrease in others. Notably, many SACCOs experienced an increase in deposits around 2020 and 2021, suggesting a possible trend or event that encouraged higher savings among members during this period. A comparative analysis of the SACCOs reveals varying patterns: some display consistent growth in deposits over the years, while others are characterized by volatility or generally lower deposit levels.

However, not all SACCOs have data available for each year, as shown by missing bars for some in certain years. This lack of data can impede a comprehensive analysis and understanding of trends. Such gaps highlight the need for consistent data collection and reporting to better gauge the financial health and growth trajectories of these cooperative societies.

Figure 3

Line Graph of Deposit Growth of SACCOs



Source: Research Data (2024)

Figure 3 illustrates the deposit growth of various Savings and Credit Cooperative Societies (SACCOs) from 2017 to 2022 provides a clear visual representation of financial trends over this period. Positioned on the X-axis are the years, which serve as a timeline for tracking deposit changes, while the Y-axis quantifies these deposits in billions to gauge the financial scale managed by each SACCO annually. Each SACCO is designated by a distinct color, making it easier to observe their individual deposit trajectories, showing increases, decreases, or stability in their deposit volumes.

From the graph, it is evident that several SACCOs have exhibited a consistent upward trend in deposits, suggesting a robust growth in trust and membership or an uptick in savings rates among members. On the other hand, some SACCOs display relatively flat lines, indicating little to no growth in their deposits, which contrasts sharply with their peers showing progressive increases. Notably, the graph does not reveal any significant declines, implying that most SACCOs have maintained or even improved their deposit levels over the years.

This graphical representation is particularly insightful for SACCO managers, investors, and regulatory bodies as it highlights growth trends and comparative performances across SACCOs. By analyzing these trends, stakeholders can discern which SACCOs are more successful in attracting new deposits and retaining their membership base. Furthermore, the data provides valuable insights for strategic planning, allowing decision-makers to tailor their strategies concerning resource allocation and operational adjustments to foster growth and stability within their institutions. This analysis is crucial for ensuring the sustained health and competitiveness of SACCOs in the financial sector.

4.6 Descriptive Analysis of the Variables

The study aimed to determine the impact of the audit committee, transparency, and board size on the financial performance of deposit taking SACCOs, employing correlation analysis to elucidate the relationships. Additionally, multiple regression analysis was utilized to assess the influence of these independent variables on the dependent variable, financial performance. The findings reveal a significant association between the audit committee, board size, transparency, and the financial performance of deposit taking SACCOs.

4.6.1 Influence of Audit Committee on financial Performance of Deposit-Taking SACCOs

To establish the influence of audit committee and financial performance null hypothesis was tested that there is no significant association between the influence by the audit committee and financial performance of Deposit Taking SACCOs, in Meru County. Table 12 shows the correlation between the audit committee and the financial performance of Deposit-Taking SACCOs.

Table 12

Response Opinions and Descriptive Statistics for Audit Committee

Audit Committee	N	SA %	A %	N %	D %	SD %	Mean	Std. Dev
Audit committees enhance financial oversight and accountability	64	62.8	22.4	2.8	1.0	0.0	4.36	0.517
Presence of an audit committee	64	61.6	24.9	2.2	1.9	0.0	4.57	0.535

improves transparency in financial reports								
Audit committees influence internal control systems	64	62.8	22.4	2.4	1.0	0.0	4.42	0.535
The audit committee reviews and monitors financial performance regularly	64	65.8	21.4	2.1	1.2	0.0	4.61	0.507
The existence of an audit committee enhances investor confidence	64	61.5	24.9	2.8	1.9	0.0	4.57	0.535
Audit committees help ensure compliance with regulatory requirements	64	65.8	28.4	2.8	1.0	0.0	4.25	0.507
Audit committee members bring expertise to	64	62.4	22.8	2.4	2.3	0.0	4.50	0.535

financial decision-making								
Regular meetings of audit committees improve financial performance	64	61.8	23.4	2.8	1.0	0.0	4.66	0.507
Audit committees improve risk management practices	64	62.1	25.8	2.4	2.1	0.0	4.64	0.466
Average Score							**4.48**	**0.587**

Source: Research Data (2024)

Table 12 shows that respondents strongly agree that audit committees positively influence the financial performance of Deposit-Taking SACCOs. High mean scores (above 4.48) and low standard deviations indicate a strong consensus on their role in enhancing transparency, accountability, compliance, risk management, and decision-making. Overall, audit committees significantly strengthen financial oversight and contribute to better governance and performance outcomes in SACCOs.

4.6.2 Influence of Board Size on Financial Performance of Deposit-Taking SACCOs

To establish the influence of board size on financial performance null hypothesis was tested that there is no significant association between the influence by the Board size and financial performance of Deposit Taking SACCOs, in Meru County. Table 13 shows the correlation between the board size and the financial performance of Deposit-Taking SACCOs.

Table 13

Response Opinions and Descriptive Statistics for Board Size

Board Size Influence	N	SA %	A %	N %	D %	SD %	Mean	Std. Dev
Larger boards enhance financial oversight and accountability	64	62.2	28.4	2.1	2.0	0.0	4.46	0.507
Optimal board size improves transparency in financial reports	64	61.5	34.9	2.3	1.9	0.0	4.57	0.535
Board size influences effectiveness of internal control systems	64	62.8	28.4	2.5	2.2	0.0	4.67	0.523
Appropriately sized boards monitor financial performance regularly	64	63.8	28.4	2.8	2.4	0.0	4.26	0.507
Optimal board composition enhances investor confidence	64	61.5	34.9	2.4	1.9	0.0	4.37	0.535
Right-sized boards	64	68.8	28.4	2.8	2.1	0.0	4.46	0.507

help ensure compliance with regulations								
Board size affects expertise in financial decision-making	64	64.8	68.8	2.2	2.8	0.0	4.20	0.515
Regular meetings of appropriately sized boards improve performance	64	60.8	28.4	2.8	1.9	0.0	4.36	0.507
Board size influences effectiveness of risk management practices	64	62.4	68.8	2.5	1.8	0.0	4.30	0.466
Average Score							**4.45**	**0.587**

Source: Research Data (2024)

Table 13 shows that respondents strongly agree that board size positively influences financial performance in Deposit-Taking SACCOs. High mean scores (above 4.45) and low standard deviations reflect a strong consensus on the board's role in enhancing transparency, accountability, compliance, risk management, and decision-making. Therefore, board size significantly contributes to effective financial governance and improved SACCO performance.

4.6.3 Influence of Transparency on Financial Performance of Deposit-Taking SACCOs

To establish the influence of the transparency on financial performance, a null hypothesis was tested stating that there is no significant association between the transparency and the financial performance of Deposit-Taking SACCOs in Meru County. Table 14 presents descriptive statistics and respondents' views on the role of transparency in financial performance.

Table 14

Response Opinions and Descriptive Statistics for Transparency Index

Transparency Index	**N**	**SA %**	**A %**	**N %**	**D %**	**SD %**	**Mean**	**Std. Dev**
Transparency improves financial oversight and accountability	64	62.8	32.8	2.5	1.2	0.0	4.16	0.507
High transparency enhances clarity in financial reports	64	61.5	34.9	2.2	1.9	0.0	4.25	.535
Transparency strengthens internal control systems	64	68.8	28.4	2.3	1.4	0.0	4.66	0.438
Transparent practices improve financial monitoring and reporting	64	68.8	28.4	2.8	2.0	0.0	4.66	0.507
Transparency fosters	64	61.5	34.9	2.4	1.9	0.0	4.57	0.535

investor and member confidence								
Transparency supports compliance with regulatory standards	64	68.8	28.4	2.8	1.0	0.0	4.66	0.522
Transparency brings clarity and expertise to financial decision-making	64	64.4	28.8	2.4	2.8	0.0	0.0	0.453
Regular disclosure and open communication enhance performance	64	68.8	28.4	2.8	1.4	0.0	4.66	0.450
Transparency reduces financial risk and supports sound management	64	65.4	58.4	3.2	2.2	0.0	0.0	0.3656
Average Score							**4.66**	**0.456**

Source: Research Data (2024)

Table 14 indicates that respondents overwhelmingly agree that a higher transparency significantly enhances the financial performance of Deposit-Taking SACCOs. With high mean scores (above 4.66) and low standard deviations, there is a clear consensus that transparency strengthens financial oversight, improves reporting, promotes accountability, fosters compliance, and boosts confidence among stakeholders. Overall, the transparency plays a critical role in fostering effective governance and improving financial performance outcomes.

4.7 Diagnostic Tests Results

In this section, several diagnostics checks were done as per the model assumptions as follows. The results were as follows:

4.7.1 Multicollinearity Tests

Tests for the Assumptions were carried out to authenticate validity of the Regression model.

Table 15

Multicollinearity and Singularity Test

Variable	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
Constant	3.754	3.111		1.207	0.267		
Audit committee members have knowledge in accounting matters	-0.556	0.642	-0.359	-0.865	0.416	0.722	1.385
Appointment of member's in audit committee is transparent	-0.248	0.577	-0.152	-0.429	0.681	0.986	1.014
No board of directors or members	0.205	1.354	0.063	0.151	0.884	0.715	1.399

Dependent variable: How often do customers join SACCO as members

Source: Research Data (2024)

Since all VIF were less than 10, it shows that there was no multicollinearity in all the three variables given below.

4.7.2 Normality Tests

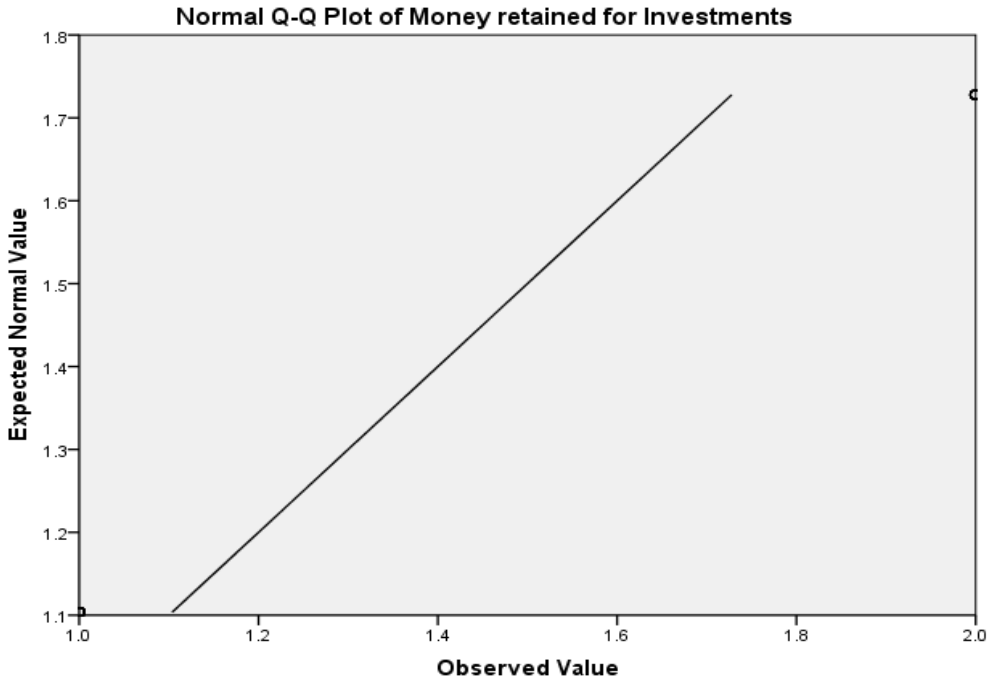
Tests for the Assumptions were carried out to authenticate validity of the Regression model.

i) Financial Performance

Figure 4 revealed a significant positive correlation between many variables as discussed above and the financial position of Deposit-Taking SACCOs. These findings are supported by Kathuri and Dash (1999), who examined 504 companies across 18 Indian industries and found that board size plays a crucial role in shaping an organization's financial stability. Their research aligns with the current study by emphasizing the importance of board composition in promoting strong financial outcomes since many board structures significantly contribute to the financial health of financial institutions.

Figure 4

Normality Test for Financial Performance

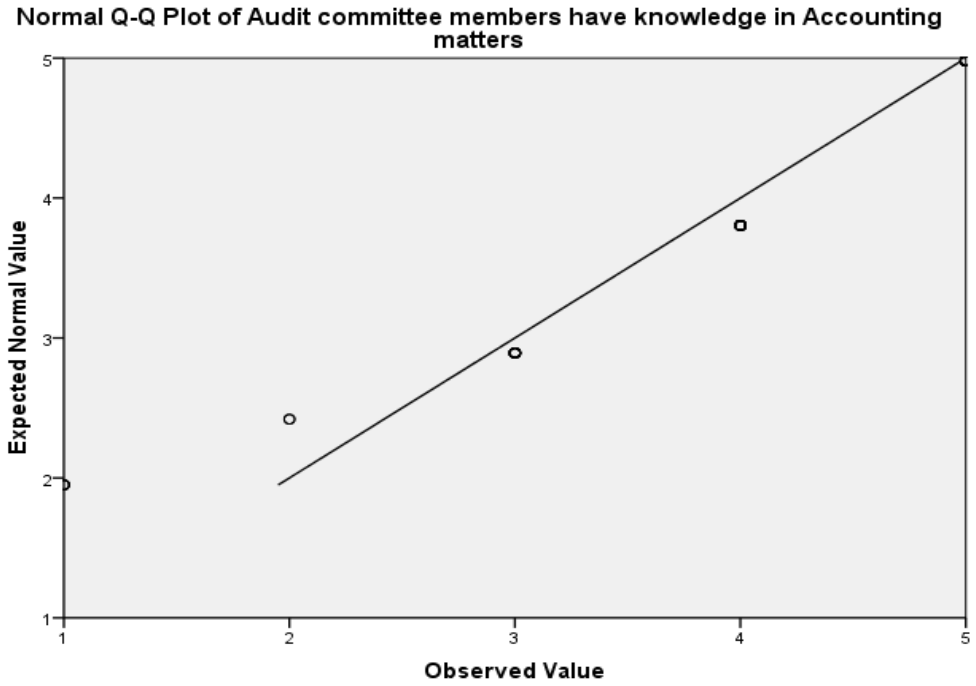


ii) Audit Committee

Figure 5 illustrates a notable and statistically significant positive link between audit committee and the financial performance of Deposit-Taking SACCOs. This outcome resonates with findings by Aldamen et al. (2012), who examined the impact of audit committee characteristics on performance during the financial crisis, finding that audit committees with fewer but more experienced and financially knowledgeable members were positively and significantly associated with company performance. These consistent results highlight the relevance of well-structured audit committee enhancing corporate governance and driving better performance outcomes.

Figure 5

Normality Test for audit committee



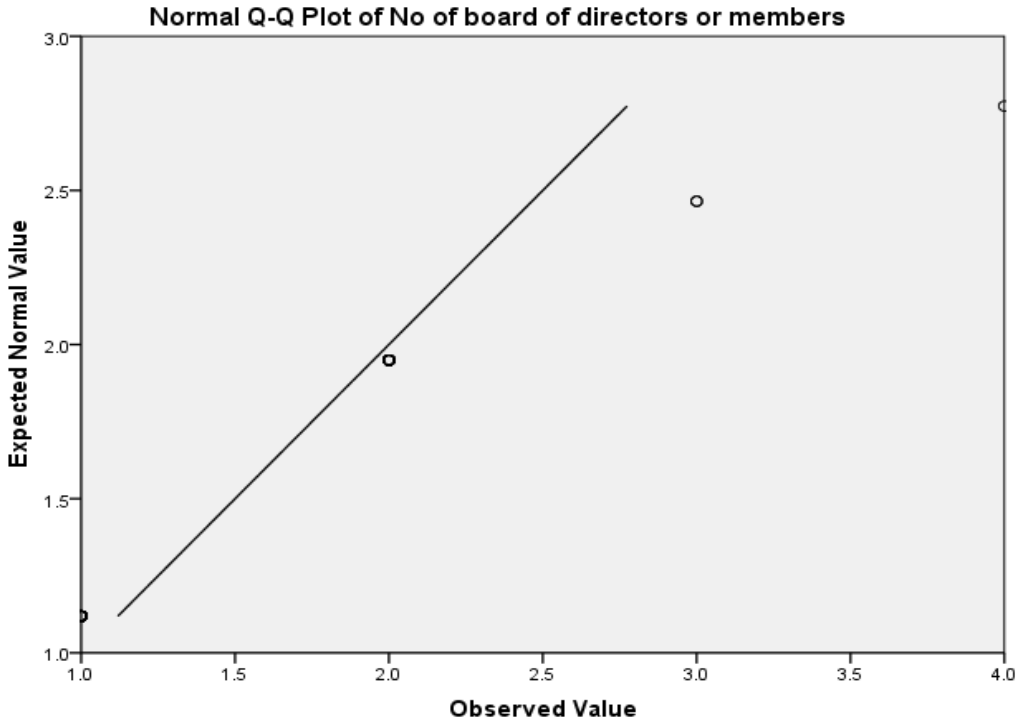
iii) Board size

The results presented in Figure 6 reveal a strong and positive correlation between board size and the performance of Deposit-Taking SACCOs. These findings align with the earlier research conducted by Kathuri and Dash (1999), which examined 504 companies

across 18 diverse industries in India. Their study concluded that board size plays a critical role in shaping corporate performance. This correlation supports existing literature, reinforcing the idea that optimal board composition significantly influences organizational success and effectiveness across various sectors.

Figure 6

Normality Test for Board Size



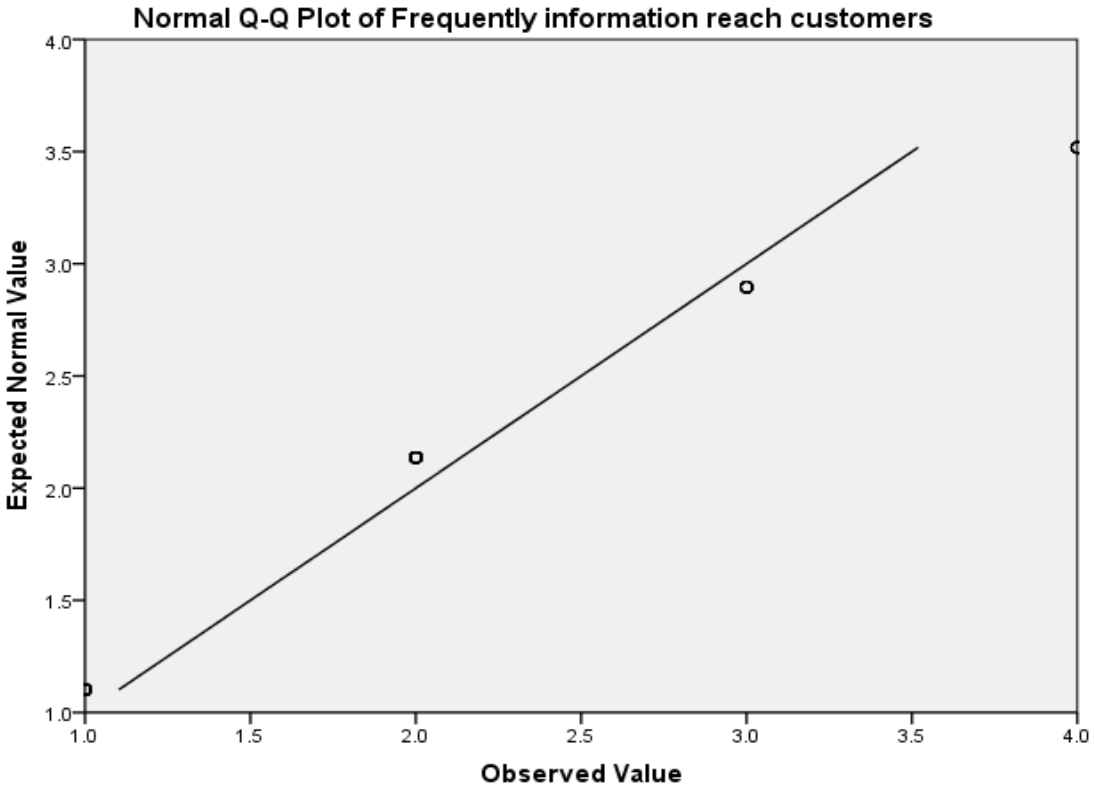
iv) Transparency

On Figure 7, the findings showed that there exists a positive significant relationship between transparency and performance of the Deposit-Taking SACCOs. The results agree with the study which was carried out by Mutua (2016) on factors influencing the extent of disclosure by deposit taking SACCOs in Kenya. The study employed correlation and multivariate fixed effects panel regression methods to examine six hypotheses by analyzing audited annual reports of 202 SACCOs from 2008 to 2013. The results showed that the disclosure level was significantly and positively affected by total

asset value, governance score and the ratio of non-performing loans to gross loans. The findings and results of Mutua (2016) are in line with the study findings of studies carried out earlier. Similarly, Wangui & kinyua (2019) findings corroborate with the current study findings.

Figure 7

Normality Test for Transparency Index

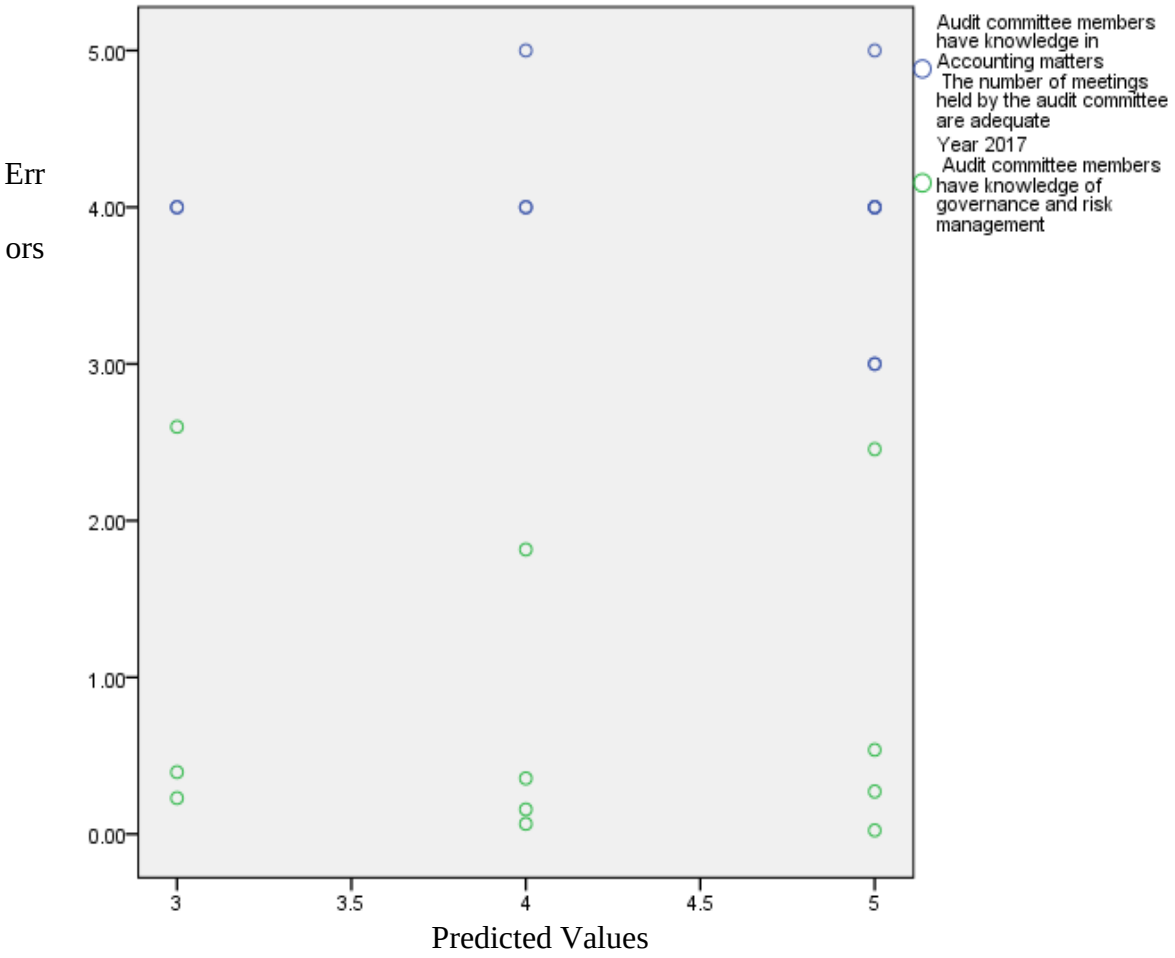


4.7.3 Heteroscedasticity Tests

Tests for the Assumptions were carried out to authenticate validity of the Regression model.

Figure 8

Heteroscedasticity Test



From figure 8, the scatter plot does not form a definite pattern. This implies that the error terms do not have a constant variance. Thus, the error terms did not spread out uniformly between the independent variables, the points are at widely varying distances in the regression line and therefore this indicates the data did not violate the assumption of heteroscedasticity.

4.8 Inferential Statistics

Inferential statistics refer to the use of statistical methods to draw conclusions about a population based on data collected from a sample. In this study, inferential analysis was employed to examine the relationship between audit committee characteristics and the financial performance of Deposit-Taking Savings and Credit Cooperative Organizations

(SACCOs). The results underscore a strong positive influence of knowledgeable and experienced audit committees on SACCO financial performance. Notably, 88% of audit committee members were found to possess professional qualifications in accounting and auditing, which was associated with reduced operational errors and improved financial reporting accuracy across SACCOs. This supports the assertion that technical expertise within audit committees contributes to more robust oversight.

These findings align with Mcmullen (1996), who reported that audit committees play a critical role in minimizing financial irregularities. Similarly, Nelson et al. (2019) confirmed that audit committee expertise enhances financial performance, though they also noted that excessive audit independence may have an adverse effect. The study further suggests that increasing the size of audit committees could strengthen financial oversight functions, a view echoed by Sanga (2018), who highlighted the positive impact of committee size, independence, professionalism, and gender diversity—particularly female representation—on SACCO performance.

4.8.1 Correlation analysis

Correlation analysis assesses the strength and direction of the relationship between two variables. In this study, it was used to examine the association between board size and the financial performance of Deposit-Taking SACCOs in Meru County. The null hypothesis stated that no significant relationship exists, while the alternative posited a significant link. Results presented in Table 16 revealed a measurable correlation, suggesting that board size may influence SACCO financial performance through enhanced oversight and governance structures.

Table 16

Correlation for all Variables

		Financial Performance	Audit committee	Board Size	Transparency Index
Financial Performance	Pearson Correlation	1	.155	.367**	.328**
	Sig.(2-tailed)		.222	.003	.008
	N	64	64	64	64
Audit committee	Pearson Correlation	.033	.207	.157	.154
	Sig.(2-tailed)	.795	.101	.216	.224
	N	64	64	64	64
Board Size	Pearson Correlation	.155	1	.163	.335**
	Sig.(2-tailed)	.222		.199	.007
	N	64	64	64	64
Transparency Index	Pearson Correlation	.367**	.163	1	.457**
	Sig.(2-tailed)	.003	.199		.000
	N	64	64	64	64

Source: Research Data (2024)

From Table 16, all the variables measuring influence by the audit committee, more than 70% to be precise (74.1%) of the respondents strongly agreed that selection of audit committee members is transparent, audit committee members have knowledge in accounting matter (88.0%), audit committee members have financial reporting experience in audit related fields (88.0%), audit committee members hold meetings frequently (88.0%), and number of meetings held by audit committee members were adequate (86.2%). In addition, more than 70% of the respondents did not experience liquidity problems in their D-T SACCOs. The results of correlation tests show that: r3 = 0.090, r2= 0.33, r4= 0.244, r5 = 0.229. Therefore, $r \neq 0$. We reject the null hypothesis and conclude that there is a significant association between the influence by the audit committee and performance of Deposit Taking SACCOs, in Meru County.

The study's goal was to figure out how corporate governance affects SACCO performance in Nairobi County. Several research objectives were covered including determining how board structure effects SACCO performance, determining how board committees influence SACCO performance, and determining how members' participation influences SACCO performance. The study, which concentrated on SACCOs in Nairobi County, used a descriptive research technique. All forty (40) SACCOs accredited by SASRA to operate in Nairobi County were included in the sampling frame. A structured questionnaire was employed to obtain primary data for the investigation. A total of 28 SACCOs participated in the study, with a response rate of 70%. The findings of the board structure versus performance analysis revealed R2 = 0.643 with a p-value of 0.01. Board independence (r=0.161), board diversity (r=0.072), and board diversity (r=0.059) have a favorable but statistically insignificant association with SACCO performance, according to the data on board structure subgroups.

4.8.2 Regression Analysis

Regression analysis is a statistical method used to determine the strength and nature of the relationship between one dependent variable and one or more independent variables. In this study, regression analysis was employed to examine the influence of board structure on the financial performance of Deposit-Taking SACCOs. The findings revealed a strong and statistically significant positive association ($r = 0.802$, $p = 0.01$), indicating that board structure is a critical determinant of SACCO performance in Nairobi County. These results align with Muiru et al. (2018), who found that effective corporate governance significantly improves SACCO performance. The study underscores the importance of structured, well-composed boards in promoting transparency, accountability, and sustainable financial growth in SACCOs.

i) Model Summary

To establish the effect of transparency on the performance of Deposit-Taking SACCOs null hypothesis was tested and indicated that there is no significant association between transparency and performance of Deposit Taking SACCOs in Meru County. In alternative hypothesis, it showed that there is a significant association between transparency and performance of Deposit Taking SACCOs in Meru County. Model tables show the correlation among variables and performance.

Table 17

Model summary for Audit Committee

Model	R	R Square	Adjusted R Square	Std error the Estimated	Change Statistics				
					R square change	F change	Df1	Df2	Sig.F Change
	0.962	0.918	0.822	.9431	.072	215.847	3	60	.172

Independent variable: Audi Committee

Source: Research Data (2024)

Table 17 presents the model summary for the audit committee, showing a strong correlation (R = 0.962), with R Square = 0.918 and Adjusted R Square = 0.822. The standard error of the estimate was 0.9431, and the model's significance level was p = 0.172, indicating moderate model fit. Correlation analyses show varied associations between audit committee indicators and performance measures: liquidity issues (r = 0.082 to 0.234), dividend release frequency (r = -0.174 to 0.253), and reinvestment practices (r = 0.032 to 0.155). Since none of the correlations equal zero, we reject the null hypothesis and confirm a significant association exists between audit committee and financial performance in Deposit-Taking SACCOs in Meru County.

Table 18

Model summary for Board Size

Model	R	R Square	Adjusted R Square	Std error the Estimated	Change Statistics				
					R square change	F change	Df 1	Df 2	Sig.F Change
	0.966	0.918	0.812	.923	.069	234.0736	3	60	.122

Independent variable: Board Size

Source: Research Data (2024)

The regression model in Table 18 revealed a strong positive relationship between board size and financial performance in Deposit-Taking SACCOs. The model showed a correlation coefficient (R) of 0.966, R Square of 0.918, and an Adjusted R Square of 0.812, with a standard error of the estimate at 0.923. The significance value ($p = 0.122$) and F-change of 1.458 indicate a moderately significant predictive capacity. These findings align with Mwenda (2018), who also observed a positive association between board size and financial performance in SACCOs. The study explored board size alongside factors like gender diversity, education, ethnic representation, CEO duality, and accountability, highlighting board structure as a key driver of SACCO performance in Meru County.

Table 19

Model summary for Transparency Index

Model	R	R Square	Adjusted R Square	Std error the Estimated	Change Statistics				
					R square change	F change	Df1	Df2	Sig.F Change
	0.923	0.912	0.802	.924	.0715	108.971	3	60	.178

Independent variable: Transparency Index

Source: Research Data (2024)

Table 19 presents the regression results for the Transparency Index and its influence on the financial performance of Deposit-Taking SACCOs. The model exhibited a strong positive correlation (R = 0.923), with an R Square of 0.912 and Adjusted R Square of 0.802, indicating that 91.2% of the variance in financial performance is explained by the transparency index. The standard error of the estimate was 0.924, with a non-significant F change (p = 0.178), suggesting moderate predictability.

While transparency showed a positive relationship with financial performance (r = 0.144), other corporate governance elements such as board gender diversity (r = 0.154), education level (r = 0.220), and ethnic mix (r = 0.131) also contributed positively. The study confirmed that effective corporate governance, particularly transparency and accountability, significantly affects SACCO performance. As such, embedding transparency within SACCO operations is critical for sustainable financial growth in Meru County.

4.9 Regression Coefficient Table for the Variables

To evaluate the relationship between governance practices and the performance of Deposit-Taking SACCOs in Meru County, multiple linear regression analysis was

conducted. The analysis focused on three key independent variables—Board Size, Audit Committee, and Transparency Level—believed to significantly influence SACCO performance. The regression coefficient table presents the strength, direction, and statistical significance of each variable's impact on the dependent variable (SACCO performance). Additionally, alternate models were tested by systematically excluding one variable at a time to assess its individual contribution to the overall model's explanatory power (R^2). This approach helps clarify which governance factors have the greatest influence on SACCO effectiveness and financial stability.

4.9.1 All variables Under the Study

All variables in the models were included in the analysis of the coefficients as shown in Table 20.

Table 20

All Variables Included

Variable	Coefficient (β)	p-Value
Constant (β_0)	1.125	0.001
Board Size (β_1)	0.155	0.030
Audit Committee (β_2)	0.280	0.005
Transparency Level (β_3)	0.320	0.001
R^2	**0.78**	

Source: Research Data (2024)

Table 20 shows Model 1 includes all three independent variables and serves as the baseline model. All predictors are statistically significant ($p < 0.05$), suggesting they each have a meaningful impact on SACCO performance. The coefficient for Transparency Level ($\beta = 0.320$) is the highest, indicating it has the strongest positive influence on performance among the three variables. An R^2 of 0.78 means that 78% of

the variation in SACCO performance is explained by the combination of Board Size, Audit Committee, and Transparency Level. This suggests a strong model with high explanatory power.

4.9.2 All variables Excluding Board Size

All variables in the models were included except the board size in the analysis of the coefficients as shown in Table 21.

Table 21

All Variables Excluding Board Size

Variable	Coefficient (β)	p-Value
Constant (β_0)	0.980	0.005
Audit Committee (β_2)	0.290	0.004
Transparency Level (β_3)	0.300	0.003
R^2	**0.81**	

Source: Research Data (2024)

In Table 21, Board Size is removed from the regression. Interestingly, the R^2 slightly increases to 0.81, suggesting that the remaining variables explain slightly more of the variance in performance. However, this doesn't necessarily mean Board Size is unimportant—it may indicate that its influence overlaps with the other variables or that its effect is more indirect. The continued significance of Audit Committee and Transparency Level suggests that oversight and openness are more directly tied to SACCO performance than the sheer size of the board.

4.9.3 All variables Excluding Audit Committee

All variables in the models were included except the audit committee in the analysis of the coefficients as shown in Table 22.

Table 22

All Variables Excluding Audit Committee

Variable	Coefficient (β)	p-Value
Constant (β_0)	1.020	0.002
Board Size (β_1)	0.170	0.025
Transparency Level (β_3)	0.310	0.002
R^2	**0.78**	

Source: Research Data (2024)

In Table 22, the Audit Committee is excluded, and R^2 drops slightly back to 0.78, the same as the baseline model. However, this suggests that the Audit Committee's role may be somewhat redundant if strong board size and transparency structures are already in place. Even so, the coefficients of Board Size and Transparency remain significant, showing they retain independent contributions to performance. The audit committee, typically responsible for internal controls and compliance, appears to enhance performance, but perhaps less than transparency efforts do.

4.9.4 All variables Excluding Transparency Level.

All variables in the models were included except the transparency levels in the analysis of the coefficients as shown in Table 23.

Table 23

All Variables Excluding Transparency Level.

Variable	Coefficient (β)	p-Value
Constant (β_0)	0.890	0.010
Board Size (β_1)	0.145	0.040
Audit Committee (β_2)	0.250	0.009
R^2	**0.75**	

Source: Research Data (2024)

In Table 23, by Excluding Transparency Level causes the R^2 to drop to 0.75, the lowest among all models. This indicates that transparency has the most substantial impact on SACCO performance. When it is removed, the model loses significant explanatory power.

Transparency, likely in financial reporting, decision-making, and accountability, plays a critical role in building trust, reducing misuse of funds, and improving overall operational efficiency. While the Board Size and Audit Committee remain significant, their combined effect does not fully compensate for the loss of transparency-related influence.

4.10 Test of Hypothesis

The coefficients show no significant predictors (Sig. > 0.05). The Constant has a B value of 3.754. Audit committee knowledge of accounting (B = 0.556) and board size (B = 0.205) are not statistically significant. Tolerance values are acceptable (all > 0.1), and VIF scores are below 5, indicating no concerning multicollinearity among the independent variables affecting the model's integrity.

4.10.1 Hypothesis Testing for Financial performance

The survey sought 120 SACCO staff from Kenya's sixteen private universities, and 110 of them answered. Descriptive research design and purposive sampling were used in this study. Multiple regression analysis was performed using SPSS Version 21. The test of hypothesis revealed that corporate governance has a favorable and significant impact on the performance of SACCOs in Kenyan private universities. The findings of the study back up agency theory and stakeholder theory, both of which explain how corporate governance affects organizational performance.

Table 24

ANOVA Summary Table for Financial Performance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	52.670	3	17.557		
Residual	2.997	60	0.05	246.8082	.000[b]
Total	**55.667**	**63**			

a) Dependent variable: SACCO Performance (growth in customers)

b) Independent variable: Financial Performance

Source: Research Data (2024)

Table 24 presents the ANOVA summary for the regression analysis examining the relationship between financial performance and SACCO performance, measured by customer growth. The regression model indicates a sum of squares of 52.670 for regression and 2.997 for residuals, totaling 55.667. With 3 and 60 degrees of freedom respectively, the mean square values are 17.557 for regression and 0.05 for residuals. The F-statistic was 246.8082, with a significance level of .000, suggesting the model is statistically significant.

The analysis reveals potential multicollinearity within the regression model, highlighted by a high condition index of 23.567 for one dimension. Significant variance proportions associated with variables such as audit committee members' accounting knowledge and board size suggest these factors may contribute to multicollinearity, potentially affecting the reliability of regression coefficients.

Feedback on the frequency and adequacy of audit committee meetings was positive, with 88.0% and 86.2% of respondents expressing satisfaction, respectively. This underscores the importance of a well-functioning audit committee in maintaining robust corporate governance, thereby supporting the operational and financial health of SACCOs.

Furthermore, the study established a strong positive correlation between the effectiveness of the audit committee and SACCO liquidity, with correlation coefficients of $r_3 = 0.090$, $or_2 = 0.33$, $r_4 = 0.244$, and $r_5 = 0.229$. This indicates that a robust and effective audit committee significantly enhances SACCO liquidity. These findings align with Odhiambo (2016), who argued that diligent corporate governance is essential for efficient organizational management, particularly concerning investments. His research also supported the notion that good corporate governance is key to ensuring the financial strength of a business organization.

4.10.2 Hypothesis Testing for Audit Committee

Table 25 illustrates that the error terms of the predictor variables are approximately normally distributed, satisfying the normality assumption. The histogram depicts responses regarding the transparency of audit committee appointments, measured on a scale where higher values indicate greater transparency. The average response is 4.13, with a standard deviation of 1, suggesting that most responses range between 3 and 5, indicating a tendency toward higher transparency. The slight left skew of the curve suggests fewer lower ratings among the 64 respondents.

Table 25

ANOVA Summary Table for Audit Committee

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	51.880	3	17.293		
Residual	4.807	60	0.080117	215.847	.000[b]
Total	**56.687**	**63**			

a) Dependent variable: SACCO Performance (growth in customers)

b) Independent variable: Audit committee

Source: Research Data (2024)

From table 25, the ANOVA (Analysis of Variance) summary table shows that the regression model has an F value of 215.847 with 3 and 60 degrees of freedom for the regression and residual, respectively. The significance value (p-value) is .000, which is well below the conventional alpha level of 0.05, indicating that the regression model is statistically significant. This means that Audit committee has a statistically significant effect on the performance of deposit-taking SACCOs.

4.10.3 Hypothesis Testing for Board Size

Hence the assumption of normality is satisfied. The histogram displays responses on the transparency on selection of board of members. On a scale where higher numbers signal more transparency, the average response is 4.13. With a standard deviation of 1, responses cluster mainly between 3 and 5, leaning toward higher transparency. The curve's slight left skew hints at fewer lower ratings among the 64.

Table 26

ANOVA summary Table for Board Size

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	53.440	3	17.813		
Residual	4.565	60	0.0761	234.0736	.000[b]
Total	**58.005**	**63**			

a) Dependent variable: SACCO Performance (growth in customers)

b) Independent variable: Board Size

Source: Research Data (2024)

Based on the ANOVA summary table provided in Table 26 for the Board size, the regression model evaluates the influence of the independent variable (Board Size) on the dependent variable (SACCO Performance, measured by growth in customers). The model reveals the following key findings:

From the ANOVA results, the regression sum of squares (SSR) is 53.440 with 3 degrees of freedom (df), while the residual sum of squares (SSE) is 4.565 with 60 degrees of freedom, giving a total sum of squares (SST) of 58.005 with 63 total degrees of freedom. The mean square for regression is calculated as 17.813, while that for the residuals is 0.0761. This yields an F-statistic of 234.0736, which is considerably large.

The significance value (p-value) is .000, which is well below the conventional alpha level of 0.05, indicating that the regression model is statistically significant. This means that Board Size—as part of the transparency index—has a statistically significant effect on the performance of SACCOs.

These results support the conclusion that the relationship between board size and SACCO performance is not due to random chances. Hence, board size, as a dimension of governance and transparency, plays a meaningful role in influencing SACCO growth.

4.10.4 Hypothesis Testing for Transparency

Table 27 presents the distribution of responses regarding the transparency. On a scale where higher values indicate greater transparency, the average rating was 4.13, with a standard deviation of 1. This suggests that most responses clustered between values 3 and 5, leaning toward the higher end, indicating a generally positive perception of transparency. The slight left skew of the curve indicates that fewer respondents rated transparency at the lower end of the scale.

Table 27

ANOVA Summary Table for Transparency

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	49.560	3	16.52		
Residual	9.097	60	0.1516	108.971	.000[b]
Total	**58.657**	**63**			

c) Dependent variable: SACCO Performance (growth in customers)

d) Independent variable: Transparency Index

Source: Research Data (2024)

From Table 27, the ANOVA summary demonstrates that the regression model yields a statistically significant F-value of 108.971 with a p-value of .000 ($p < 0.001$), confirming a strong statistical significance. This indicates that the Transparency Index is a significant predictor of SACCO financial performance, as measured by customer growth. The results underscore that enhanced transparency significantly contributes to stronger performance outcomes for deposit-taking SACCOs in Meru County.

Table 28

Multiple Linear Regression Model

	Unstandardized coefficients		Standardized Coefficients		
Model	B	Std Error	Beta	t	Sig
(Constant)	3.118	.936		3.331	.001
Board Size	1.295	.556	.459	2.329	.060
Transparency	0.615	.315	0.97	1.952	.084
Audit Committee	.056	.115	.021	4.869	.046

Dependent variable: SACCO Performance (growth in customers)

Source: Research Data (2024)

From Table 28, the multiple linear regression model was proposed as follows:

$$Y = 3.118 + 1.295X_1 + 0.615X_2 + 0.056X_3 \quad (4.1)$$

The above multiple linear regression model reveals the influence of board size, transparency, and the audit committee on the performance of SACCOs. Specifically, board size shows a positive influence (Beta = 0.459, t = 2.329) with a p-value of .060, indicating marginal significance. Transparency is positively correlated (Beta = 0.97, t = 1.952) with a p-value of .084, suggesting a positive but not statistically significant relationship. The audit committee variable has a small positive impact (Beta = 0.021, t = 4.869) with a p-value of .046, which is significant at the 5% level. The constant term (B = 3.118) with t = 3.331 and p = .001 indicates a significant interception. These results suggest that, except for transparency, the board size and the audit committee significantly affect the financial performance of deposits taking SACCOs, with the audit committee being a stronger predictor.

CHAPTER FIVE: CONCLUSION, RECOMMENDATIONS AND PUBLICATION

This chapter contains a summary of the findings and conclusions based on the study objectives and research and policy recommendations for further studies.

5.2 Summary of the Findings

The study explored the transparency of 11 selected deposit-taking SACCO societies in Meru County as part of a broader investigation into corporate governance. The findings revealed a positive correlation between transparency and the performance of these SACCOs. Using the Pearson Product Moment Correlation, the research established a significant statistical relationship between transparency and the frequency of dividend distribution to members ($r = 0.253$, $p = 0.005$). Employees value the sharing of information about SACCO operations with shareholders, enhancing organizational trust and engagement.

Most managing directors of the selected SACCOs confirmed that their organizations implemented transparency policies, which significantly influenced their operational effectiveness and overall financial performance. This observation supports the conclusions of Kariuki (2016), who identified a link between corporate governance and financial stability in Kenyan-authorized deposit-taking SACCOs. Kariuki's study utilized PEARLS monitoring systems to measure financial soundness and found that internal controls were paramount in corporate governance. The research highlighted three critical variables—board responsibility, transparency, disclosure, and internal controls—as essential factors in maintaining the financial health of the SACCOs.

The study examined the role of the audit committee in promoting corporate governance within SACCO organizations. It found that the process for selecting audit committee members is highly transparent, with 74.1% of respondents affirming this. Additionally, a

significant majority of the members are well-versed in accounting matters and possess financial reporting experience in audit-related fields, as reported by 88.0% of respondents.

The frequency and adequateness of meetings held by audit committee members also received positive feedback, with 88.0% and 86.2% of respondents, respectively, indicating satisfaction. These findings suggest that a well-functioning audit committee is crucial for maintaining robust corporate governance, which in turn supports the sound operation and financial health of SACCO organizations. Moreover, the study established a strong positive correlation between the effectiveness of the Audit Committee and the liquidity of SACCOs, with correlation coefficients of r3 = 0.090, r2 = 0.33, r4 = 0.244, and r5 = 0.229. This indicates that a more robust and effective Audit Committee significantly enhances SACCO's liquidity. These results are in line with Odhiambo (2016), who argued that diligent corporate governance is essential for managing an organization efficiently and effectively, particularly in terms of investment. His research also supported the notion that good corporate governance is key to ensuring the financial strength of a business organization.

The study examined board size as a key component of corporate governance, focusing on its formation and impact on the financial performance of SACCO organizations. It was found that most SACCOs have well-established mechanisms for electing board members, along with formal criteria for determining board size. These organizations typically feature well-structured and influential boards, which appear to positively affect their financial performance. This observation is supported by Kariuki's (2011) research on corporate governance and its impact on Elimu SACCO's performance, which highlighted that effective governance frameworks help define the SACCO and its operating environment, bridging management and firm control. Similarly, Ekadah & Mboya (2011)

investigated the relationship between corporate governance and financial performance in SACCOs across Kiambu County. Their findings suggested that organizational structure and culture significantly influence the financial outcomes of deposit-taking SACCOs.

Further analysis using the Pearson Product Moment Correlation indicated a positive correlation between board size and the incidence of liquidity issues within SACCOs ($r = 0.164$, p-value = 0.178). This suggests that more effective boards can enhance the financial performance of SACCOs. These results align with Lipton's (2018) study on the benefits of limiting board size in organizations, which concluded that maintaining a smaller, more manageable board size is generally believed to bolster performance across various organizational levels.

The study aimed to examine the influence of audit committees on the financial performance of Deposit-Taking SACCOs in Meru County, the influence of board size on the financial performance of deposit-taking SACCOS, and the influence of transparency on the financial performance of deposit-taking SACCOs in Meru County.

The study found a positive and significant relationship between audit committee performance and the performance of Deposit-taking SACCOs from the p-value of 0.001. In addition, $R^2 = 0.9456$ value would confirm that the performance of audit committees is a good predictor of SACCO financial performance. Several variables were used to measure how the audit committee carried out itself, including their accounting and financial reporting knowledge. The SACCOs members believed that the audit committee members who had vast knowledge in accounting and financial reporting improved the performance of SACCOs and, hence, avoided liquidity problems. This ensured that the performance of deposits taking SACCOs was at its peak. Transparency in selecting audit committee members also affected SACCO's financial performance.

In the second objective, the research sought to establish the relationship between board size and Deposit-taking SACCO's financial performance. The study found a positive, significant relationship between the size of the board members and the performance of the SACCOs from a p-value of 0.006. The members believed the size of the board and how they were elected influenced the performance of the SACCOs. In addition, if the CEO was fully empowered to run Sacco, it played a positive role in the performance of SACCOs.

The third objective sought to establish how transparency affected the performance of deposits by taking SACCOs. The study found a positive, significant relationship between the two variables with the p-value of 0.008. Most SACCOs used general annual meetings and texts to convey messages to their members. The information relayed to the customers impacted on the performance of SACCOs. When assessing the combined effect on financial performance of Deposit Taking SACCOs in Meru County all variables established a strong variable with a p-value of 0.0046. Several SACCOs also passed information to the customers through their SACCOs' websites, brochures, and adverts.

The fourth objective aimed to determine the combined effect of board size, audit committee, and transparency on the financial performance of Deposit Taking SACCOs in Meru County. The study revealed a positive, significant relationship between these variables, with a p-value of 0.006. Most SACCOs used general annual meetings and texts to communicate with their members, and the information conveyed significantly impacted their performance as per the hypothesis. When assessing the combined effect on financial performance, all variables demonstrated a strong relationship with a p-value of 0.0056. Additionally, several SACCOs communicated with customers through websites, brochures, and advertisements.

5.3 Conclusion

The first hypothesis (H01) posits that the audit committee does not exert a significant influence on the financial performance of Deposit Taking SACCOs in Meru County. The second hypothesis (H02) suggests that board size does not have a significant impact on the financial performance of these SACCOs. The third hypothesis (H03) asserts that transparency does not significantly affect the financial performance of Deposit Taking SACCOs in Meru County. Finally, the fourth hypothesis (H04) states that the combined variables of the audit committee, board size, and transparency do not have a significant effect on the financial performance of Deposit Taking SACCOs in Meru County.

The first objective was to find out if there exists any correlation between the audit committee and SACCO's financial performance. The study results showed a positive and significant relationship between the two variables. This implied that the transparency in the selection of the audit committee, the financial reporting skills of the audit committee members, and the accounting skills of the audit committee members positively affected the performance of deposit-taking SACCOs. Based on our findings, deposit taking SACCOs should ensure transparency in selecting audit committees and that the committee members are knowledgeable in accounting and financial reporting.

The second objective was to determine the interrelationship between the board size and financial performance of the deposit taking SACCOs. The findings showed a positive and significant relationship between the two variables. The majority preferred an optimal board size of 10 members, while others considered seven members. Members also agreed that CEOs fully empowered to run the SACCOs performed better than their counterparts. In conclusion, SACCOs should consider an optimal number of board members and ensure that the CEOs are fully empowered through benchmarking and team building to ensure that they are motivated.

The third objective was to determine the influence of transparency on the performance of the deposit taking SACCOs. The study findings showed that transparency positively predicted the performance of the SACCOs. SACCOs conveyed information to its customers using several channels, including text messages, general meetings, brochures, adverts, and social media platforms. The information was often transferred to the members. This information affected the performance of deposit taking SACCOs. SACCOs should be transparent about the operations and performance of the SACCO to its members.

The fourth objective aimed to determine the combined effect of board size, audit committee, and transparency on the financial performance of Deposit Taking SACCOs. The study findings showed that all three variables positively predicted the performance of the SACCOs. SACCOs conveyed information to its customers using several channels, including text messages, general meetings, brochures, adverts, and social media platforms. The information was often transferred to the members.

5.4 Recommendations of the Study

Based on the study findings, the following recommendations were made.

5.4.1 Policy Recommendations

Based on the findings of this study, several recommendations can be made to enhance the financial performance of Deposit Taking SACCOs in Meru County, benefiting various stakeholders. For SACCO directors, it is essential to enhance governance practices by implementing the study's insights on corporate governance, board size, audit committees, and transparency to improve operational efficiency. This includes ensuring that audit committees are active and effective, optimizing board size for diverse yet manageable decision-making, and maintaining high levels of transparency. Additionally, continuous training and development for board members and audit committees are

crucial to keeping them updated on the best practices in governance and financial management, enabling them to make informed decisions that boost financial stability and member satisfaction.

Leaders of other cooperative societies can benefit by adopting the best practices from the study's findings, such as similar governance and transparency strategies, which foster trust and accountability, thereby increasing member engagement and loyalty. Furthermore, they can use the study's results as a benchmark to measure performance against industry standards, identify areas for improvement, and implement necessary changes to enhance overall performance.

Corporate policymakers should formulate supportive policies using evidence-based insights to promote good governance, financial transparency, and accountability. This includes creating frameworks that encourage best practices in governance and address challenges facing the cooperative sector. Additionally, they need to identify and address existing regulatory barriers that hinder the growth and development of SACCOs, potentially streamlining regulations and offering incentives for SACCOs demonstrating strong governance and transparency.

For the government, it is recommended to design targeted interventions using the study's findings to inform broader economic and social policies that strengthen the cooperative sector's role in national development. This can involve creating support programs that enhance the sector's contribution to economic growth, job creation, poverty reduction, and financial inclusion. Furthermore, promoting financial inclusion through initiatives aimed at improving infrastructure and access to financial services, particularly in rural areas, will support the growth of SACCOs and enhance their impact on local communities.

The stakeholders can leverage the study's insights to foster a more robust, transparent, and efficient cooperative sector. This will contribute to the overall sustainability and competitiveness of deposit-taking SACCOs, aligning national development goals and promoting economic growth within the region.

5.4.2 Recommendations for Further Research

The study was carried out in Meru County. Similar studies should be carried out in other counties involving different SACCOs so as to enhance knowledge in this area.

The finding focused on the relationship between audit committee, board size, and transparency and performance of the deposit taking SACCOs. Findings showed that the variables are significantly related. Further studies should be done on these factors to enhance the performance of the SACCOs.

5.5 Publication

Tharamba, E. K; Waweru, G & Shano, M. (2024). Influence of Audit Committee on the Financial Performance of Deposit Taking SACCOs in Meru County, Kenya. Journal of African Interdisciplinary Studies, 8(9), 37 – 51.

REFERENCES

Abernathy, J. L., B. Beyer, A. Masli, & C. M. Stefaniak. (2015). How the source of audit committee accounting expertise influences financial reporting timeliness? *Current Issues in Auditing*, 9(1), 1-9.

Afza, T., & Nazir, M. S. (2014). Theoretical perspective of corporate governance: A Review. *European Journal of Scientific Research*, *119*(2), 255-264.

Akhtaruddin, M., Hossain, M. A., Hossain, M. and Yao, L. (2009) "Corporate governance and voluntary disclosure in corporate annual reports of Malaysian listed firms" Journal of Applied Management Accounting Research, Vol. 7, No. 1,

Akingunola, R. O., Adekunle, O. A., & Adedipe, O. A. (2013). Corporate governance and bank's performance in Nigeria (Post–bank's consolidation). *European Journal of Business and Social Sciences*, *2*(8), 89-111.

Aldamen, H., K. Duncan, S. Kelly, R. McNamara, & S. Nagel. (2012). Audit committee characteristics and firm performance during the global financial crisis. *Accounting & Finance*, 52(4), 971-1000.

Al-Matari, Y. A. A. T. (2013). Board of Directors, Audit Committee Characteristics and The Performance of Public Listed Companies in Saudi Arabia, Universiti Utara Malaysia.

Baker, A. (2008). Credit union regulation and the financial services authority: less is more, but better. *International journal of law and management*, *50*(6), 301-315.

Bansal, N., & A. K. Sharma. (2016). Audit committee, corporate governance, and firm performance: empirical evidence from India. I*nternational Journal of Economics and Finance*, 8(3), 103.

Bebchuk, L., Cohen, A. & Ferrell, A. (2009). What Matters in Corporate Governance? *The Review of Financial Studies, 22* (2): 783-807.

Beeks, W., & Brown, P. (2005). Do better-governed Australian firms make more informative disclosures? *Journal of Business Finance & Accounting, 32*(3-4), 421–450.

Clarkson, M. B. E. (1995). *A Stakeholder Framework for Analyzing and Evaluating Corporate Social Performance. Academy of Management Review,* 20 (1): 92-117.

Donaldson, T., and Preston, L.E. (1995): *The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications. Academy of Management Review, 20(1): 65-91*.

Donaldson. L and Davis. J. (1991): Stewardship Theory or Agency Theory: CEO Governance and Shareholder Returns. Academy of Management Review, 20(1):1-64.

Duncan, N. M., Njeru, A., & Tirimba, O. I. (2015). Effect of loan repayment on financial performance of deposit taking Saccos in Mount Kenya Region. *International Journal of Innovation and Applied Studies*, *10*(4), 1238.

Duncan, N. M., Njeru, A., & Tirimba, O. I. (2015). Effect of loan repayment on financial performance of deposit taking Saccos in Mount Kenya Region. *International Journal of Innovation and Applied Studies*, 10(4), 1238.

Edogbanya, A., Kamardin, H. (2015). Adoption of international financial reporting standards in Nigeria: Concepts and issues. Mediterranean Journal of Social Sciences, 6(3), doi:10.5901/mjss. 2015.v6n3p206

Freeman, R.E. (1999): Response. Divergent Stakeholder Theory. Academy of Management Review, 24(2): 233- 236.

Gani, I., A. Wijeweera, & I. Eddie. (2017). Audit Committee Compliance and Company Performance Nexus: Evidence from ASX Listed Companies. *Business and Economic Research*, 7(2), 135-145.

Herdjiono, I., & I. M. Sari. (2017). the Effect of Corporate Governance on the Performance of a Company. Some Empirical Findings from Indonesia. *Journal of Management and Business Administration*, 25(1), 33-52.

Jensen. M & Meckling. W. (1976) Theory of the firm: Managerial Behavior, agency costs.

Jun, S. G., Li, Y., & Lin, B. (2008). *Corporate governance and firm value: Evidence from Korean financial firms*. Journal of Economic Development, **33**(2), 47–70.

Kallamu, B. S., & N. A. M. Saat. (2015). Audit committee attributes and firm performance: evidence from Malaysian finance companies. *Asian Review of Accounting*, 23(3), 206-231.

Kariuki, D. K. (2016). Examination of the relationship between corporate governance and financial soundness of licensed deposit taking saccos in Kenya (Doctoral dissertation, Strathmore University).

Kenani, I. M., & Bett, S. (2019). Corporate governance and performance of savings and credit cooperative societies in Kisii county, Kenya. International Academic Journal of Human Resource and Business Administration, 3(4), 101-123.

Kipkirong D. T., Omandi E. M. (2013). Business case for corporate transparency: Evidence from Kenya. European Journal of Business and Management Vol.5, No.3.

Maina, J. N., Kinyariro, D. K., & Muturi, H. M. (2016). Influence of credit risk management practices on loan delinquency in savings and credit cooperative

societies in Meru County, Kenya. *International Journal of Economics, Commerce and Management. United Kingdom*, 4(2), 763-773.

Maina, J. N., Kinyariro, D. K., Muturi, H. M., & Muriithi, M. J. (2016). Credit information sharing and level of loan default in deposit taking SACCOs in Meru County, Kenya.

Micheni, S. (2014). Influence of Corporate Governance on Financial Performance of Cooperative Societies: A Case of Savings and Credit Cooperative Organizations in Meru County. Retrieved from http://erepository.uonbi.ac.ke/handle/11295/77351 on 22nd August, 2019.

Muiru, A. M., Kyongo, J. K., & Onchomba, M. (2018). Corporate governance and performance of savings and credit co-operative societies in selected private Universities in Nairobi County, Kenya.

Muthee, L. W., & Theuri, J. M. (2021). Corporate governance and financial performance of deposit taking Sacco's in Nakuru County, Kenya. *International Academic Journal of Economics and Finance, 3 (7), 264*, *285*, 2.

Mutua, R. K. (2016). *Impact of credit risk management on financial performance of savings and credit co-operative societies in Kitui County* (Doctoral dissertation).

Mutuku, D. M. (2016). Effects of corporate governance on financial performance of savings and credit cooperative societies in Machakos and Athi-River Sub-Counties (Doctoral dissertation).

Mwangi, J. K., Nyachwaya, Z. O., & Cheruyoit, R. K. (2015). Effect of Corporate Governance Practices on Financial Performance of Saccos in Kericho Municipality. *IOSR Journal of Economics and Finance (IOSR-JEF)*, 57-75.

Mwendia, R. (2018). Corporate governance practices and financial performance on deposit-taking savings and credit co-operatives in Nairobi city county, Kenya (doctoral dissertation, doctoral dissertation, Kenyatta university).

Nelson, M. M., & JKUAT, K. (2019) Effect of Audit committee characteristics on financial reporting of selected Saccos in Kisii County, Kenya.

Nelson, M. M., & JKUAT, K. Effect of Audit Committee Characteristics on Financial Reporting of Selected Saccos in Kisii County, Kenya.

Odhiambo, L. A. (2016). *Corporate governance practices and solvency of deposit taking sacco's in Kisumu County Kenya* (Doctoral dissertation, University of Nairobi).

Odhiambo, A. (2018). *The role of audit committees in enhancing corporate governance: A review of literature*. International Journal of Business and Management, 13(9), 185–195.

Okwee, A. (2011). Corporate Governance and Financial Performance of SACCOs in Lango Subregion. *Unpublished MBA Research Project, Makerere: Makerere University*.

Olando. C, Jagongo.A, Mbewa.M (2013). The contribution of SACCO financial stewardship to growth of SACCOs in Kenya. *International journal of humanities and social science, 13(17):112-137.*

Onyim, C., Wanjare, J., Ooko, J., & Oluoch, M. (2017). Corporate Governance Practices and Financial Performance of Deposit Taking Saccos in Western Kenya. *Scholars Journal of Economics, Business and Management*, *4*(3), 195-212.

Osarumwense, E. S., & Aderemi, A. K. (2016). The Impact of Financial Literacy and Frequency of Meetings of Members of Audit Committe on Financial Reporting Quality in Nigerian Quoted Companies. about this journal, 1.

Otieno, K., Mugo, R., Njeje, D., & Kimathi, A. (2015). Effect of Corporate Governance on Financial Performance of SACCOS in Kenya. *Research Journal of Finance and Accounting*, *6*(2), 48-58.

Ownership structure. *Journal of financial economics, 3, 305-360 Journal of Law & Economics*, 26 (2): 301-28.

Sanga, G. K. Association Between Audit Committee Characterictics and Financial Performance of Saccos in Kericho County, Kenya.

SASRA, (2013). Sacco Supervision Annual Report, pp. 18-25

Spira, L.F. (2003) Risk Management, the re invention of internal control and the changing role of internal audit, *Accounting, Auditing and Accountability Journal 16 (4): 640-661*.

Wachira, D. W. (2015). *The effect of corporate governance practices on financial perfomance of deposit-taking saccos in Kenya* (Doctoral dissertation, KeMU).

Wangui, G. K. (2019). *Influence of Corporate Governance on Performance of SACCOs in Nairobi County* (Doctoral dissertation, United States International University-Africa).

Wanjare, J. (2017). *Effect of board characteristics on financial performance of deposit-taking savings and credit co-operative societies in Kenya* (Doctoral dissertation, Jomo Kenyatta University of Agriculture and Technology).

WOCCU (World Council of Credit Unions). 2005. 2005 Statistical Report. Available at www.woccu.org (accessed October 24, 2012).

Zabri, S. M., K. Ahmad, & K. K. Wah. (2016). Corporate Governance Practices and Firm Performance: Evidence from Top 100 Public Listed Companies in Malaysia. *Procedia Economics and Finance*, 35, 287-296.

Appendix I: Introduction Letter

EVA THARAMBA,
P.O BOX 972-60200,
MERU.

Dear Sir/Madam.

DATA COLLECTION INSTRUMENT

I am Eva Kanini Tharamba of Registration number BS401/5623/17 studying Master degree in Business Administration (Finance Option) at Meru University of Science and Technology (MUST). I am currently carrying out a research study on Corporate Governance and Financial Performance of Deposit Taking Savings and Credit Cooperative Societies in Meru County.

The purpose of this letter is therefore to kindly request you to provide me with the information concerning the research study. Your response will be treated with utmost privacy and confidentiality and data collected will be used purely for academic purposes.

Thank you.

Yours faithfully,
Eva Tharamba.

Appendix II: Questionnaire

Questionnaire for directors

Kindly tick where appropriate.

SECTION I: Demographic Characteristics

1. What is your gender? Male [ ] Female [ ]

2. What is your educational level? Primary [ ] Secondary [ ] Diploma/certificate [ ] Graduate [ ]

3. What is your age category? Below 18 years [ ] 18-25 [ ] 26- 33 [ ] 34-41 [ ] 42-49 [ ] Above 49 [ ]

4. In which sub county is your SACCO?

   1) Igembe North [ ] 6) Imenti North [ ]
   2) Igembe Central [ ] 7) Buuri [ ]
   3) Igembe south [ ] 8) Imenti Central [ ]
   4) Tigania East [ ] 9) Imenti South [ ]
   5) Tigania West [ ]

5. What is your designation in the SACCO?
   _____

6. How long have you served in that position? Less than one year [ ] 1- 5 years [ ] More than 5 years [ ]

SECTION 2: Audit Committee

This section focuses on establishing the importance of audit committee on quality of financial reporting in Deposit taking SACCOs in Meru County. Kindly indicate the level of agreement in the statement by ticking as follows: (1) Strongly Disagree (2) Disagree (3) Neutral (4) Agree (5) Strongly Agree

S/N	Statements	1	2	3	4	5
1	Audit committee has non-executive members					
2	Selection of chairman in audit committee is transparent					
3	Appointment of members in audit committee is transparent					
4	Audit committee members have knowledge in Accounting matters					
5	Audit committee members have financial reporting experience in audit and related field					
6	Audit committee members have knowledge of governance and risk management					
7	Audit committee hold meeting frequently					
8	The number of meetings held by the audit committee are adequate					

Section 3: Board Size

1. How many members does the board of directors have? .....

2. How is the board of directors elected in your Sacco?
   1 Elected during AGM by majority [ ] 2 Nominated [ ] 3 Inherited [ ]
   4 Any other (Specify) [ ] ……

3. In your own opinion, what would you consider to be an optimal board size for an efficient and effective board? …….....

4. Is CEO fully empowered by the board to run the SACCO. Yes [ ] No[ ]

Section 4 transparency

1. How do you inform your customers about information of your SACCO?

   _____

2. Does information affect performance of the SACCO? Yes [ ] No [ ]

3. Do your employees appreciate when information of the SACCO is shared to stakeholders? Yes [ ] No [ ]

4. How frequently do information of SACCO reach your customers? 1. Very often [ ] 2.Often [ ] 3.Quite often [ ] 4.Not often [ ]

Appendix III: Secondary Data Collection

Deposit Growth of SACCOs over the years.

YEARS

SACCOS	**2017 KSHS MILLION**	**2018 KSHS BILLION**	**2019 KSHS BILLION**	**2020 KSHS BILLION**	**2021 KSHS BILLION**	**2022 KSHS BILLION**
Capital Sacco Society Ltd						
Centenary Sacco Society Ltd						
Dhabiti Sacco Society Ltd						
Golden Pillar Sacco Society Ltd						
MMH Sacco Society Ltd						
Nexus Sacco Society Ltd						
Nyambene Arimi Sacco Society Ltd						
Siraji Sacco Society Ltd						
Solution Sacco Society Ltd						
Times U Sacco Society Ltd						
Yetu Sacco Society Ltd						

Appendix IV: Publication

Journal of African Interdisciplinary Studies (JAIS): **ISSN 2523-6725** (online)
September 2024 Vol. 8, No. 9
Citation: Tharamba, E. K; Waweru, G & Shano, M. (2024). Influence of Audit Committee on The Financial Performance of Deposit Taking Saccos in Meru County, Kenya. *Journal of African Interdisciplinary Studies*, 8(9), 37 – 51.

Influence of Audit Committee on the Financial Performance of Deposit-Taking Saccos in Meru County, Kenya

By

Tharamba Eva Kanini,[1]* Waweru Gabriel,[2] Mohammed Shano[3]
[123] Meru University of Science & Technology, Meru, Kenya.

Corresponding Author Email: evakanini_2007@yahoo.com

Abstract
Audit committee is a critical tool for enhancing the performance of Deposit-taking Savings and Credit Cooperative Societies (SACCOs) and ensuring they meet their members' economic and social needs. Properly structured cooperatives can contribute to equitable development and justice. However, a significant challenge facing these SACCOs is the issue of audit committee. Some have faced mismanagement problems, resulting in the cessation of their operations. This study aimed to establish the relationship between audit committee and the financial performance of Deposit-taking SACCOs in Meru County. This study aimed to investigate the relationship between audit committee and the financial performance of deposit taking SACCOs in Meru County. The study design involved 92 directors from all the eleven deposit taking SACCOs in Meru County, with a sample of 75 directors selected using stratified random sampling with proportional allocation. The questionnaire's reliability was validated through a pilot study. Data collection employed questionnaires containing close-ended questions and secondary data collected from the SACCO supervision annual report; the analysis encompassed descriptive and inferential statistics, including multiple regression analysis using SPSS software (Version 29). The results were presented in tables, highlighting the significant associations discovered between the audit committee and the performance of Deposit-taking SACCOs in Meru County. Correlation and multiple regression analysis were carried out to establish the relationship between the study variable. The findings disclosed a significant association between the audit committee and financial performance of Deposit Taking SACCOs. The research's main contribution revealed that the audit committee members were transparently selected and held frequent meetings. The implications of these findings are substantial, particularly for the directors of Deposit-taking SACCOs and other cooperative organizations. Directors of SACCOs can employ strategies to enhance audit committee within their societies, ultimately improving their overall performance. The study recommends that audit committee members maintain regular meetings to assess the SACCOs' performance, ensuring smooth operations from the findings. These recommendations contributed to better governance and improve SACCO's financial performance.

Key Words: Audit committee, Deposit-taking SACCOs, economic and social needs, equitable and financial performance

Appendix V: Plagiarism Report

DrillBit

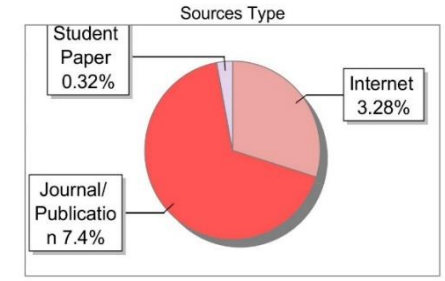
The Report is Generated by DrillBit Plagiarism Detection Software

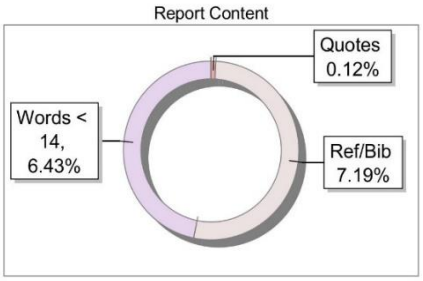
Submission Information

Author Name	EVA KANINI THARAMBA
Title	CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF DEPOSIT TAKING SAVINGS AND CREDIT COOPERATIVE SOCIETIES IN MERU COUNTY
Paper/Submission ID	2208522
Submitted by	mmusungu@must.ac.ke
Submission Date	2024-08-06 15:54:10
Total Pages, Total Words	95, 25425
Document type	Thesis

Result Information

Similarity **11 %**





Exclude Information

Quotes	Excluded
References/Bibliography	Excluded
Source: Excluded < 14 Words	Not Excluded
Excluded Source	**8 %**
Excluded Phrases	Not Excluded

Database Selection

Language	English
Student Papers	Yes
Journals & publishers	Yes
Internet or Web	Yes
Institution Repository	Yes

A Unique QR Code use to View/Download/Share Pdf File