International Journal of Academic Research in Business and Social Sciences
March 2015, Vol. 5, No. 3
ISSN: 2222-6990

Corporate Governance Challenge to Regulation Compliance by Deposit Taking Savings and Credit Co-Operative Societies in Kenya

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DOI: 10.6007/IJARBSS/v5-i3/1511 URL: http://dx.doi.org/10.6007/IJARBSS/v5-i3/1511

ABSTRACT

The aim of the study was to investigate the challenges to regulation compliance by Deposit Taking Savings and Credit Co-operative Societies (D.T.S) in Kenya. Further, since the D.T.S are ranked according to size, the study analysed the compliance level in these groupings. The objective was to establish the relationship between corporate governance and regulation compliance, and whether SACCO size moderated this relationship. The study recommends that SACCOs should separate the Board's role from that of the Chief Executive Officer. SACCOs should also educate members to empower them in vetting/voting in professional directors and provide continuous board training in corporate governance. Furthermore SACCOs should consider engaging only in their core business of saving and lending. In addition, SACCOs need to enhance professional management and transparency in their recruitment process. Lastly the study recommends that SACCOs set minimum qualifications for their board members. A sample of 139 respondents was selected using stratified random sampling but only 108 respondents were interviewed using the questionnaire method. The major finding from the study was that there is a relationship between corporate governance and regulation compliance. The study further established that while corporate governance influences regulation compliance, SACCO size has a significant moderating influence in this relationship.

Key Words: *Corporate Governance, Regulation Compliance, SACCO Size, Logistic Regression Model, Deposit Taking SACCOs*

1.0 Introduction

It is envisaged that the Deposit Taking Savings and Credit Co-operative Societies (D.T.S) have various challenges to regulation compliance. This study investigated corporate governance as a challenge to regulation compliance. Owen (2007) noted that a major innovation in the development of the sector in Kenya was the development of Front Office Saving Activities (FOSAs) or D.T.S which offered banking services to members and non members. In 2008, Kenya and South Africa became the first African nations to enact Savings and Credit Co-operative Society (SACCO)-specific regulation designed to strengthen the safety and improve the performance of deposit-taking financial co-operatives. At the law's passage, Kenyan authorities expected only 25% of those institutions to be able to comply with licensing standards (WOCCU, 2012a).

Governance relates to all processes of governing, whether undertaken by a government, market or network, whether over a family, tribe, formal or informal organisation or territory and whether through laws, norms, power or language. The word governance is used in a variety of contexts, but at a general level, it refers to all forms of social coordination and patterns of rule (Bevir, 2013). According to FRC (2012) corporate governance is the system by which companies are directed and controlled. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place but the primarily responsibility for the governance still remains with the boards of directors. The responsibilities of the board include setting the organisation's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulations and the shareholders in general meeting. Governance in this study shall be through the lenses of corporate governance which describes the manner in which boards direct a SACCO, the laws, customs and rules applying to that direction and the relationships among the stakeholders and the SACCO goals. The principal players include the shareholders, management, and the board of directors.

2.0 Statement of the Problem

The Kenyan SACCO sector is the largest in Africa and the seventh worldwide (Ademba, 2010). Kenya contributes up to 62% of total savings mobilised and 69% of loans advanced by SACCOs in Africa (WOCCU, 2012b). Furthermore about 63% of the Kenyan population depends on the SACCO related activities for their livelihood. The Kenyan SACCO sector contributes 45% of the country's GDP (Ondieki, Okioga, Okwena &, Onsase, 2011). The D.T.S contribute more than 70 percent of the assets, member deposits, loans and 78 percent turnover of the total SACCO sector. As at December 31, 2013, out of the 215 D.T.S in Kenya, 135 had fully complied and were licensed by the SACCO Societies Regulatory Authority (SASRA), the D.T.S that were yet to be licensed had also embarked on aggressive strategies to fulfil the SASRA requirements (SACCO, 2013).

Limited empirical literature with various research gaps exists in this area as the regulations came in force in the year 2010. Existing studies are restricted in scope as they are either case studies or focused on a particular region of a country only. Thus for these researches a problem of generalising the results to a whole country arises due to sample bias. The challenges to successful implementation of the new regulatory framework also differ significantly because of SACCO size but these studies did not consider its effect**.** This is despite the fact that according to SACCO (2013) D.T.S are ranked according to asset size. There is therefore need to identify and address the challenges to regulation compliance for the D.T.S to exploit their full potential and deepen financial access in Kenya.

3.0 Objectives of the Study

i. The main objective of this study was to assess the challenges to regulation compliance by Deposit Taking Savings and Credit Co-operative Societies in Kenya
ii. The specific objective of the study was to determine how corporate governance affects compliance of SASRA regulations in Kenya.

4.0 Justification of the Study

The findings of this study will be used to influence regulatory framework being advocated by the statutory regulator. It shall assist SASRA to increase compliance levels of the non-licensed D.T.S. The study will therefore assist the regulator in bringing on board the SACCOs that are yet to apply for Front Office Service Activities (FOSA) services. As the deadline for full compliance looms the study shall be significant to the shareholders of all D.T.S. Shareholders of non-D.T.S will also be interested in the study as they advocate for provision of FOSA services in their respective SACCOs.

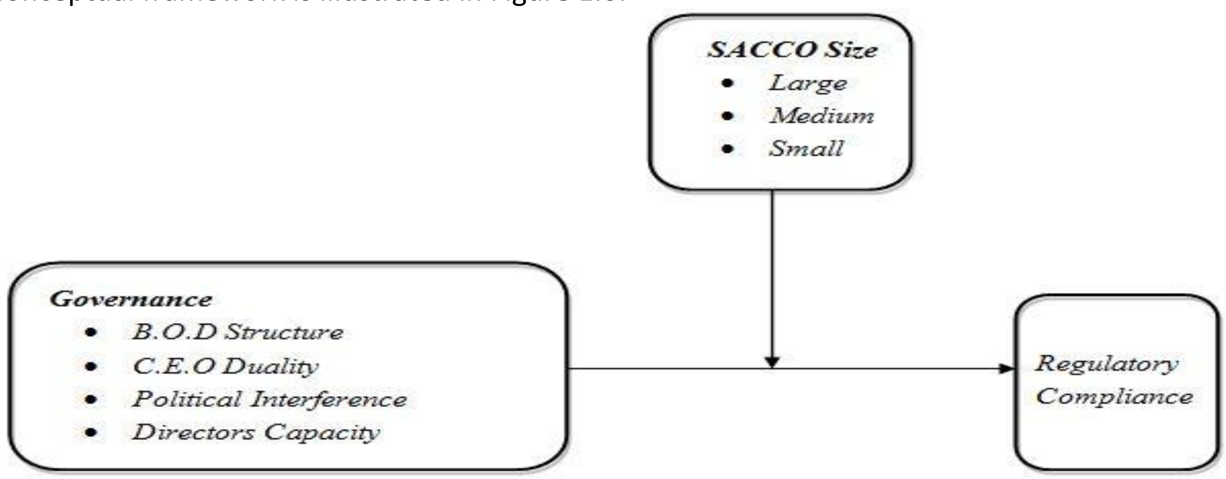
5.0 Limitations of the Study

Obscurity might arise in using survey questionnaires since they are based on the presumption that participants shall answer in a truthful and precise way. This might not always be the case especially when dealing with respondents such as the Chief Executive Officers (C.E.Os)/ General

Managers (GMs) who run organisations. The respondents might opt to give responses that they believe are socially desirable or politically correct, but which might be incorrect and untruthful.

6.0 Literature Review

A conceptual framework is a concise description of the phenomena under study accompanied by graphic or visual depiction of the major variables of the study (Mugenda, 2008). It is a basic structure that consists of certain abstract blocks which represent the observational, the experimental and the analytical/ synthetical aspects of a process or systems being conceived (Bogdan & Biklen, 2007). The conceptual framework thus explains the possible connection between the variables and answers the why question. It is a tentative theory of a phenomena that you are investigating relating to a conception or model of what is out there that you plan to study, and of what is going on with these things and why (Smyth, 2004). The study's conceptual framework is illustrated in Figure 1.0.



Independent Variables Moderating Variable Dependent Variable

Figure 1.0: Conceptual Framework

Owen (2007) argues that governance in Kenyan SACCOs is typically weak because of their 'Management Board' system which results in the absence of clear division between roles of the board and management. The boards and management capacity of most SACCOs is weak with board membership largely seen as a stepping-stone into politics. This causes board membership to be occupied by individuals not necessarily interested in enhancing member interests. Okwee (2011) found that a significant number of SACCOs comply less with corporate governance guidelines which may explain the relatively poor financial performance of these SACCOs. SASCCO (2010) found that in some instance, an attempt to implement good corporate governance is perceived by leaders as an act of questioning their ability. Lari (2009) argued that mismanagement and corruption were two significant challenges facing SACCOs in Kenya today. According to Bwana and Mwakujonga (2013) SACCOs' board of directors (B.O.D) are not trusted by employees. Furthermore, there are no adequate guidelines on various stakeholders in SACCOs. For example, the authority of the Executive Committee and Credit Committee in comparison with staff authority is not properly defined. In addition, the board members in most cases are non-professional volunteers, yet they assume very highly technical issues such as loan analysis and disbursement, budgeting and financial expenditure control.

According to Bwana & Mwakujonga (2013) SACCOs frequently require very important decisions on urgent matters such as change in interest rates, introduction of new products and services to be done expeditiously, however most of this decisions have to await approval by the Annual General Meetings. The historical practice where the B.O.D comprising of elected officers heavily involved in the operational affairs of the SACCO, to the exclusion of the technical staff and the C.E.O, is deeply entrenched limiting the effectiveness of the Act and Regulations in D.T.S. SASCCO (2010) found that in some instance, an attempt to implement good corporate governance is perceived by leaders as an act of questioning their ability. The SACCO B.O.D is charged with the responsibility of ensuring sound and prudent management of SACCO affairs through implementation of sound and effective policy framework (SASRA, 2012). This however has been a key concern in a majority of SACCOs where there is need to improve on the corporate governance front to ensure realisation of the SACCOs full potential. The hypothesis to test therefore is.

$H_0 1$: Corporate governance does not significantly affect compliance of SASRA regulations.

7.0 Research Methodology

The study adopted a positivist research paradigm which advocates for the application of natural sciences to the study of social reality. Positivism is characterised by a belief in theory before research and statistical justification of conclusions from empirically testable hypothesis (Cooper & Schindler, 2011). This approach is very structured and clear, thus it is easy to be objective in this paradigm. The research incorporated a descriptive research design in soliciting information on challenges to regulation compliance by Deposit Taking Savings and Credit Co-operative Societies in Kenya. Initially, the research reviewed all the relevant theories. This was followed by an understanding of what was being studied which was necessary before any field contacts were made.

An investigation for the theoretical propositions that could be elaborated to cover study questions, propositions, unit of analysis, data-proposition links and criteria of interpretation was done. The research design incorporated the analysis of relevant academic journals and ensured that it linked the data collected and the conclusions drawn to the initial questions of the study. Reviewing literature and field study was followed by construction of the design/conceptual framework and an action plan for getting from questions to a set of conclusions. The preliminary theories were used as a template with which to compare the characteristics and empirical findings from the study. The selected study thus reflected the characteristics/problems identified in the underlying theoretical propositions and conceptual framework. The level of generalisation of this study results was equal to the appropriately developed preliminary theories / study design.

8.0 Population

Population is the total collection of elements about which inference is made to all possible cases which are of interest in the study (Sekeran & Bougie, 2010). The population of this study were the 215 D.T.S operating in Kenya. According to SACCO (2013) the D.T.S accounted for 78 percent of the total SACCOs turnover as at December 2013. In addition, the research stratified the population of D.T.S according to Counties. Kombo & Tromp (2009) define the target population as a group of individuals, objects or items from which samples are taken for measurement. Target population is the totality of cases conforming to the designated specifications as required by the study. In this study the target population were the 215 D.T.S in Kenya.

8.1 Sampling Frame

In statistics, a sampling frame is the source material or device from which a sample is drawn. The frame refers to the list of units in the survey population. Since the selection of the sample is directly based on this list, the frame is one of the most important tools in the design of a survey. It determines how well a target population is covered, and affects the choice of the data collection method. The sampling frame is a list of all those within a population who can be sampled, and may include individuals, households or institutions (Sarndal, Swensson, and Wretman, 2013). In this study the sampling frame consisted of the list of D.T.S per County.

8.2 Sample Size and Sampling Technique

The ever increasing demand for research has created a need for an efficient method of determining the sample size needed to be representative of a given population. The most effective formula to use is the Cochran's sample size formulae or the Krejecie and Morgan's formula (Bartlett, Kotrlik, & Higgins, 2001). This study made use of the Krejecie and Morgan's formula for determining sample size of 139 respondents. Given that the distribution of D.T.S per county is available through studies by SACCO (2013), this research therefore developed a stratified sample size of 139. The sampling frame is the D.T.S list per County and it was stratified to target 139 D.T.S spread out in all the Counties. The accessible population were the C.E.Os/ GMs of the 139 D.T.S. This was therefore a study of 139 D.T.S in Kenya. The number of respondents was 139 C.E.Os.

9.0 Data Collection Instruments

According to Kothari (2009) the information obtained from questionnaires is free from bias and researchers influence, and thus accurate and valid data will be gathered. This study used multiple sources of evidence to collect data from the 139 D.T.S in Kenya. The study primarily used questionnaires that were administered by mailed questionnaires or the drop and later pick method. Additional secondary sources of collecting evidence were documents, journals and archival records. To encourage the richness and depth required for this research, the target audience was only the Chief Executive Officer or General Manager.

10.0 Pilot Study

Pilot study is carried out in order to establish the accuracy and appropriateness of the research design and data collection instruments (Saunders, Lewis, & Thornhill, 2009). A pilot study was undertaken in which the procedures used in pre-testing the questionnaire were identical to those used during the actual study or data collection. The number in the pre-test should be small, about 1% to 10% of the target population (Mugenda and Mugenda, 2003). In this study the questionnaire was tested on 10% of the target population of 215 D.T.S. This translated to 22 D.T.S and 22 Respondents. The D.T.S were chosen from the stratified target population purely on random basis.

11.0 Findings from the Study

11.1 Response Rate

This study targeted a population of 215 D.T.S in which a sample of 139 D.T.S all operating in Kenya as at December 31, 2013 was derived. The duration for administering the questionnaire was one month. The questionnaire was administered to all sampled C.E.Os/ GMs of Deposit Taking SACCOs in Kenya totalling to 139, of which 108 were returned. This represented a response rate of 77.7%.

The response rate is considered adequate given the recommendations by Rugg and Petre (2007) who suggest a response rate of above 50% as adequate for analysis. The pilot study tested the questionnaire on 22 D.T.S and 22 respondents. This represented 10% of the target population of 215 D.T.S. The D.T.S were chosen from the stratified target population purely on random basis. According to Mugenda and Mugenda (2003), the number in the pre-test should be small, about 1% to 10% of the target population.

11.2 Sample Demographics

The study distinguished between the genders of the respondents. Results show that the percentage of male C.E.Os/ GMs was higher than that of female. Male respondents were 79 (73%) while female were 29 which represented 27%. This findings supports Muriuki (2013) who found that out of 180 top management employees, 146 (81%) were men while 34 (19%) were female employees and Makori (2013) finding that 29 of the respondents representing 72.5% of the respondents were male while 11 of the respondents translating to 27.5% of the respondents were female. The findings of this study could indicate a lesser level of participation of females than male in the SACCO industry. Further, this contradicts the Constitution of Kenya requirement that there must be at least one third representation for any gender in public positions (Kenya Law Report, 2014). SACCOs therefore need to re-examine their hiring practices of C.E.Os/GMs to be in tandem with this gender equity requirement.

The study found that the majority of the respondents were aged 31 to 50 years with most (46%) of them being in the age group of between 31 to 40 years followed by those between ages 41 to 50 years at 33%. The rest of the respondents at 10% were 21 to 30 years and at 11% were 51 to 60 years. This compares favorably with Kiama (2014) finding that a majority of respondents were aged between 30 to 50 years with most (40%) being in the age group 30 to 40 years followed by those between 41 to 50 years at 26%. These responses portray a normal distribution of C.E.Os/ GMs in the industry with a few young respondents, a few older respondents and the majority middle aged respondents. This is therefore quite representative of all ages of the population.

The research found that the majority of respondents had a Bachelors and Masters Degree at 44% and 43% respectively. This was followed by those having a Diploma at 8%. Those with Certificate were at 3% while with Doctoral degree at 2%. This compares favorably to the findings of Mbui (2010) that found most respondents had Bachelors degree followed by those who had a Masters. It also compares favorably to Makori (2013) finding that 5% were Certificate holders, 17.5% Diploma holders, 57.5% Bachelors degrees and 20% had Masters degree. However on the number of Doctoral degree holders, this study contradicts that of Olando (2013) that found none of the respondents had a Doctoral degree. These findings therefore suggest that the quality of responses was high as the study dealt with educated respondents.

11.3 Study Variables

The study looked at four indicators of Corporate Governance. These were; the Board of Directors structure, Chief Executive Officer duality, Political interference and Directors capacity. Respondents were asked various questions to operationalise the constructs. The results are presented as follows:

11.3.1 Board of Directors (B.O.D) Structure

The study queried whether the respondents considered B.O.D size as important in ensuring regulation compliance. 85.9% of respondents who were fully compliant answered yes while 73.0% of those non-compliant answered no. Cumulatively 34.3% of the total respondents answered no while 65.7% answered yes. This finding agrees with Adams and Mehran (2011) who found that that the overall effectiveness of the board tends to vary inversely with its size. The finding of this study means that B.O.D structure is a good indicator of corporate governance. The study queried on the respondents' opinion on whether the B.O.D composition of odd or even numbers as relates to voting mattered in regulation compliance. 83.1% of respondents who were fully compliant answered yes while 75.7% of those non-compliant answered no. Cumulatively 37% of the total respondents answered no while 63% answered yes. This finding agrees with Okwee (2011) who maintains that the board should be composed of an odd number of members in order to prevent tied votes and who found that only 27% of SACCOs had an even board number. This means that B.O.D composition of odd or even number as relates to voting is a good measure of B.O.D structure in this study. The study queried the respondents' thinking on the number of board meetings held and whether it affects regulation compliance. 64.8% of respondents who were fully compliant answered yes while 73.0% of those non-compliant answered no. Cumulatively 48.1% of the total respondents answered no while 51.9% answered yes. This finding agrees with Ademba (2012b) who found that the Board should meet regularly and that the number of Board and Board Committee meetings held in a year, as well as attendance of every Board member at the meetings, should be disclosed in the annual report. This finding therefore indicates that the number of board meetings is a good indicator of corporate governance. The study queried the respondents' opinion on the shareholders role in director appointment as being important in regulation compliance. 84.5% of respondents who were fully compliant answered yes while 59.5% of those non-compliant answered no. Cumulatively 30.6% of the total respondents answered no while 69.4% answered yes. This agrees with Ademba (2012b) who found that there is need to appoint such number of board members as may be necessary for SACCOs to effectively discharge their functions. It also agrees with FRC (2012) who found that all directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. It also agrees with Tache (2006) finding that the members elect a Board of Directors and other committees from among the members and even they have the right to drop out inefficient and unfaithful elected Board of Directors at any time. Shareholders role in director appointment is therefore a good measure of corporate governance.

11.3.2 Chief Executive Officer (C.E.O) Duality

C.E.O duality was the second indicator of corporate governance. The study sought the views of the respondents on whether the Committees authority in comparison to that of the C.E.O's affects regulation compliance. 73.2% of respondents who were fully compliant answered yes while 73.0% of those non-compliant answered no. Cumulatively 42.6% of the total respondents answered no while 57.4% answered yes. This is in agreement with Ademba (2012b) who found that lack of documented clear guidelines on governance with no clear distinction between executive functions and non-executive was a challenge facing SACCOs in Kenya. This also supports Mudibo (2006) who found that a key challenge facing SACCOs was lack of adequate guidelines on various stakeholders' roles in SACCOs where for example, the authority of Credit Committees should end, where the authority of Executive Committee should begin and what is the C.E.O's and staff members' authorities. This finding means that the committee authority in comparison to the C.E.O's is a good measure of C.E.O duality. The study sought the respondents' opinion on whether the distinction between the Chairman's and C.E.O's role was important in ensuring regulation compliance. 84.5% of respondents who were fully compliant answered yes while 56.8% of those non-compliant answered no. Cumulatively 29.6% of the total respondents answered no while 70.4% answered yes. This agrees with FRC (2012) who found that a key challenge in corporate governance is the distinction between the leadership of the chairman of a board, the support given to and by the C.E.O, where there should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. It also agrees with SASCCO (2010) finding that the failure to distinguish the roles of directors and management can pose a considerable challenge on good governance efforts. This means that the distinction between Chairman's and C.E.O's role in this study is a good measure of C.E.O duality. The study enquired on the respondents' thoughts on whether the founder syndrome or duration the board members have sat in the board affects regulation compliance. 81.7% of respondents who were fully compliant answered yes while 62.2% of those non-compliant answered no. Cumulatively 33.3% of the total respondents answered no while 66.7% answered yes. This agrees with Okwee (2011) that the dominant personality phenomenon has become one of corporate governance aspects of concern nowadays where most new cooperatives were started by individuals who wanted to manage them on their own. This means that founder syndrome or duration board members have sat in the board is a good measure of C.E.O duality in this study.

11.3.3 Political Interference

Political interference was the third indicator of corporate governance. The study asked the respondents whether they consider independence of directors from voting members/ delegates as affecting regulation compliance. 77.5% of respondents who were fully compliant answered yes while 54.1% of those non-compliant answered no. Cumulatively 33.3% of the total respondents answered no while 66.7% answered yes. This agrees with Mudibo (2006) who found that very important decisions on urgent board/ management matters such as change in interest rates, introduction of new products and services have to await approval by the Annual General Meeting. This means that independence of directors from voting members/ delegates is a good measure of political interference. The study inquired from the respondents on their thoughts as to whether the B.O.D commitment in enhancing member interest influences regulation compliance 84.5% of respondents who were fully compliant answered yes while 59.5% of those non-compliant answered no. Cumulatively 30.6% of the total respondents answered no while 69.4% answered yes. This supports Mudibo (2006) who found that the challenge encountered by Kenyan SACCOs involves the board of directors not being trusted by employees and members. This also agrees with FRC (2012) who found that while in law the organisation's primarily accountable is to its shareholders, the relationship between the organisation and its shareholders should also be the main focus of any governance code, where organisations are encouraged to recognise the contribution made by other providers of capital and to confirm the board's interest in listening to the views of such providers insofar as these are relevant to the company's overall approach to governance. This means that commitment in enhancing member interested is a good measure of political interference.

11.3.4 Directors' Capacity

Directors' capacity was the last indicator of corporate governance. The study asked the respondents whether they thought the skills and education level of the directors influences regulation compliance. 83.1% of respondents who were fully compliant answered yes. 54.1% of those non-compliant also answered yes. Cumulatively 26.9% of the total respondents answered no while 73.1% answered yes. This agrees with FRC (2012) finding that the board and its committees should have appropriate balance of skills and education of the organisation to enable them to discharge their respective duties and responsibilities effectively. This means that the skills and education level of directors is a good measure of director capacity in this study. The study further inquired from the respondents whether they considered having non-professional volunteers assuming highly technical roles as influencing regulation compliance. 77.5% of respondents who were fully compliant answered yes while 56.8% of those non-compliant answered no. Cumulatively 34.3% of the total respondents answered no while 65.7% answered yes. This is in agreement with Ademba (2012b) who found that having elected members who are usually non-professional volunteers but expected to assume technical responsibilities as a challenge impacting on regulation compliance of SACCOs. This also supports Mudibo (2006) view that board members in most cases are non-professional volunteers, yet they assume very highly technical issues such as loan analysis and disbursement, budgeting and financial expenditure control. It further supports SASCCO (2010) view that the challenge on SACCO sustainability is the use of volunteer credit committees instead of a technical loan committee. This means that non-professional volunteers assuming highly technical roles is therefore a good indicator of corporate governance. The study inquired from the respondents whether in their opinion the directors' knowledge to question information provided influences regulation compliance. 90.1% of respondents who were fully compliant answered yes while 67.6% of those non-compliant answered no. Cumulatively 29.6% of the total respondents answered no while 70.4% answered yes. This agrees with FRC (2012) finding that the board and its committees should have appropriate balance of experience, independence and knowledge of the organisation to enable them to discharge their respective duties and responsibilities effectively. This means that directors' knowledge to question information provided is a good measure of directors' capacity. The study sought to know from the respondents in their view, how can SACCOs improve in corporate governance. 36.1% responded that SACCOs should separate the role of the B.O.D from that of the C.E.O. 16.7% each responded that SACCOs should educate members to be empowered in vetting/voting in professional directors and provide continuous board training in corporate governance. 12% wanted SACCOs to only engage in their core business of saving and lending. 11.1% preferred that SACCOs enhance professional management and transparent recruitment process while 7.4% wanted SACCOs to set minimum qualifications for their board members.

11.3.5 SACCO Size

The study looked at SACCO size as the moderating variable. SACCO size was determined by the asset base and as such was categorised into large, medium and small. Respondents were asked various questions regarding SACCO size. The study asked the respondents whether in their view they think size of the SACCO affects regulation compliance. 97.2% of respondents who were fully compliant answered yes while 86.5% of those non-compliant answered no. Cumulatively 31.5% of the total respondents answered no while 68.5% answered yes. This agrees with Makori (2013) who noted that challenges to the successful implementation of the new regulatory framework differ significantly both because of the size and diversity of the SACCOs. This means that the size of SACCO is a good measure of SACCO size in this study. The study asked the respondents whether in their opinion SACCO size was regularly discussed as of the important agendas in board meetings.. 95.8% of respondents who were fully compliant answered yes while 83.8% of those non-compliant answered no. Cumulatively 31.5% of the total respondents answered no while 68.5% answered yes. This supports SASCCO (2010) view that among the noticeable concern within the SACCO sector is how to encourage viable SACCOs by understanding the relevance of size on their sustainability. This means that the regular discussion of SACCO size as an agenda in board meetings is a good measure of SACCO size. The study asked the respondents whether in their opinion they classified there SACCOs as large, medium or small. 57% (61) of respondents classified their SACCOs as small, 31% (34) as medium and 12% (13) as large. This supports SACCO (2013) that found out of 135 D.T.S, 11% were large, 30% medium and 59% small. It also supports Owen (2007) finding that 20% of the SACCOs were large, 30% medium and 50% small. This means that for this study the sample represented the population well.

11.4 Conclusions

11.4.1 Corporate Governance

The study reviewed both theoretical and empirical literature. The study sought to investigate the state of corporate governance in D.T.S and found that D.T.S considered corporate governance as significantly affecting compliance of SASRA regulations in Kenya. The respondents scored highly on the indicators of corporate governance in that a majority of respondents considered that B.O.D Structure, C.E.O Duality, Political Interference and Directors Capacity as affecting regulation compliance of D.T.S in Kenya. In addition the probability of the Wald statistic for the variable corporate governance was 0.047, less than the level of significance of 0.05. The null hypothesis that the b coefficient for corporate governance was equal to zero was rejected. This supports the relationship that corporate governance significantly affects compliance of SASRA regulations. The value of Exp (B) was 27.281 and implies that a one unit increase in corporate governance increased the odds by approximately twenty seven times and a half that survey respondents belong to the fully compliant group.

11.4.2 SACCO Size

The respondents scored highly on whether SACCO size affected regulation compliance and whether in their opinion SACCO size was regularly discussed as one of the important agendas in their board meetings. In addition the probability of the Wald statistic for the variable size was 0.028, less than the level of significance of 0.05. The null hypothesis that the b coefficient for resource availability was equal to zero was rejected. Hence this supports the relationship that size significantly affects compliance of SASRA regulations. The probability of the Wald statistic for the variable small size was 0.334, more than the level of significance of 0.05. The null hypothesis that the b coefficient for small size was equal to zero was accepted. Hence this does not support the relationship that small size significantly affects compliance of SASRA regulations. The probability of the Wald statistic for the variable medium size was 0.015, less than the level of significance of 0.05. The null hypothesis that the b coefficient for medium size was equal to zero was rejected. Hence this supports the relationship that medium size significantly affects compliance of SASRA regulations. The value of Exp(B) was 53.472 and implies that a one unit improvement in medium size increased the odds by approximately fifty three and a half times that survey respondents belong to the fully compliant group.

The study further established that while corporate governance influences regulation compliance, SACCO size has a significant moderating influence in this relationship. This was demonstrated by the increase in the value of both the Cox & Snell and Nagelkerke R^2 at the introduction of the SACCO size in the moderated logistic regression analysis done in order to establish the moderating influence of SACCO size in the relationship between the regulation compliance and the corporate governance. However, small SACCO size was not found to be significant as compared to large and medium SACCO size.

12.0 Recommendations of the Study

On corporate governance the study recommends that SACCOs should separate the role of the B.O.D from that of the C.E.O. The SACCOs should also educate members to be empowered in vetting/voting in professional directors and provide continuous board training in corporate governance. Furthermore SACCOs should consider engaging only in their core business of saving and lending only. In addition the SACCOs need to enhance professional management and transparency in their recruitment process. The study also recommended that SACCOs set minimum qualifications for their board members. These recommendations if implemented will improve the overall level of corporate governance within the SACCOs which will ultimately lead to a higher level of regulation compliance in the industry. In addition the study recommends that SACCOs focus on growing their size as this will have an impact on their ability to meet requirements of regulation compliance.

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