EFFECT OF CO-OPERATIVES REFORMS ON CORPORATE GOVERNANCE IN SAVINGS AND CREDIT CO-OPERATIVES IN KAKA MEGA COUNTY, KENYA.

Obanda Andrew Owiye
Department of Business Administration and Management
Masinde Muliro University of Science and Technology

Dishon M. Wanjere
Department of Business Administration and Management
Masinde Muliro University of Science and Technology

Dr. Joseph W. Nasongo
Department of Educational Foundations
Masinde Muliro University of Science and Technology

ABSTRACT: *This paper made an attempt to establish the effect of co-operatives reforms on corporate governance in savings and credit co-operatives in Kakamega County; Kenya. The Kenyan Government has undertaken various legislative and policy reforms in the co-operative sector aimed at improving corporate governance. So far, there is limited information as to the outcome of this initiative. The objective of the study was to determine the effect of co-operatives reforms on corporate governance in the SACCOs in the county. The study adopted a correlational research design. The study population comprised of the 35 SACCOs in the county as at December, 2012. Cronbach's Alpha score was computed to establish the reliability of the results. The Alpha score was found to be 0.883 and was above the acceptable 0.7 for social sciences research. Descriptive and inferential statistics were used. The hypothesis was tested using simple regression coefficient at 95 percent confidence level. The study revealed that co-operatives reforms have a significant effect on corporate governance in SACCOs in Kakamega County. The study recommended that co-operatives should establish ways of how to fully adopt reforms. The findings of the study may help scholars and policy makers to understand and craft policies on reforms.*

KEYWORDS: Co-Operative Society, Corporate Governance, Co-Operative Reforms.

INTRODUCTION

Kenya's co-operative movement as at the end of 2010 comprised of 13,256 registered co-operatives with a total membership of 10.2 million. It is estimated that 63 percent of the Kenyan population derives its livelihood either directly or indirectly through co-operative based economic activities. The Savings and Credit Co-operatives (SACCOs) subsector of the co-operatives sector accounted for 40 percent of the total registered co-operatives with a total membership of over six million and funds mobilized amounted to about 378 billion shillings equivalent to 31 percent of the national savings (Republic of Kenya, 2011). With good corporate governance, SACCOs should flourish and place Kenya's co-operative movement at the forefront in mobilizing savings, enhancing productivity, fighting poverty and promoting equity.

Co-operatives reforms are not a new phenomenon. They have been undertaken in many parts of the world. Among the first documented reforms in the co-operatives sector was the enactment of the Industrial and Provident Societies Act of 1852 in England. This was a major development in the co-operative movement. Prior to the enactment of this law, the then Friendly Societies Acts of 1834 and 1846 that regulated co-operatives did not have proper legal protection essential for their business operations. The Acts also prevented co-operatives from selling to non-members. The Industrial and Provident Societies Act provided both important legal protection for the co-operatives while also imposing some operating restrictions (Kimberley & Cropp, 2004).

At international level, the most recent and authoritative reforms in the co-operatives sector are contained in Recommendation 193 of 2002 of the International Labour Organization's (ILO) International Labour Congress which replaced the previous Recommendation 127 of 1996 which had not emphasized enough the autonomous and independent nature of co-operatives (Birchall, 2004). Consequently, in many countries, the state restructured the legal framework to give complete autonomy to cooperatives as a means of enabling them fit in the emerging competitive market economy (Develtere, 1992). In Kenya, co-operatives reforms have been put in place by the government in order to transform the co-operative movement into vibrant, social and commercial entities (R.O.K, 2011 ibid). The policy environment in which co-operatives exist either support or hinder the growth and success of co-operatives. Laws and administrative policies at the national and local levels must therefore take into consideration the special character of co-operatives to ensure a fair and level-playing field for the co-operative enterprise (ICA, 2010).

Co-operatives reforms vary in magnitude from radical reforms like in the Tanzanian case in 1976 where radical changes in policy by the then Government of the United Republic of Tanzania (GOURT) on cooperatives resulted in the abolition of co-operatives, after the introduction of socialism in the country, to routine reforms like in Britain in 2010 when a Legislative Reform Order (LRO) was passed by Parliament to help put co-operatives on an equal footing with other forms of businesses (Theron, 2010; Co-operatives UK, 2011). Kenya on its part undertook co-operatives reforms in 2004 through legislative reforms. One of the stated reasons for the reforms was to address the important issue of corporate governance (Kibanga, 2004).The Co-operative Societies (Amendment) Act No.2 of 2004 (R.O.K, 2004 a) and the Co-operative Societies Rules, 2004 (R.O.K, 2004 b) are the main reference documents. These reforms in the co-operative sector are categorized as Management reforms; Investment reforms and; Property reforms (Obanda, 2014).

Corporate governance is a fairly new phenomenon in Kenya. However, its continued growing importance in the corporate world has also led corporate entities in Kenya - co-operatives included - to start embracing the concept. Basically, corporate governance is the system by which companies are directed and controlled (Cadbury Committee, 1992). More specifically it is the framework by which the various stakeholder interests are balanced, or, as the International Finance Corporation (IFC) states, "the relationships among the management, Board of Directors,

ISSN 2057-2611(Print), ISSN 2057-262X(Online)

International Journal of Community and Cooperative Studies

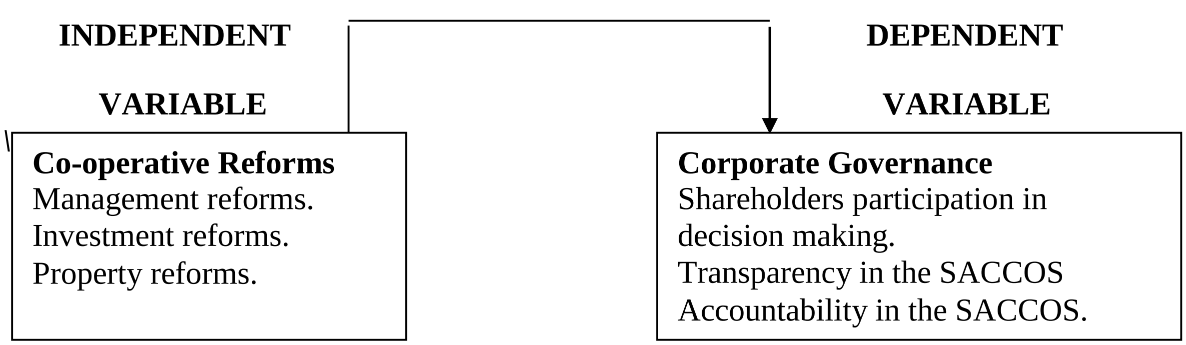
Vol.1, No.2, pp.59-66, December 2014

Published by European Centre for Research Training and Development UK (www.eajournals.org)

controlling shareholders, minority shareholders and other stakeholders" (OECD 2004). For purpose of the study, corporate governance is the system by which a SACCO is directed, controlled and held to account for the manner in which power is exercised in the stewardship of its assets and resources to increase and sustain shareholder value and satisfy the needs and interests of all stakeholders. Brown and Caylor (2004**),** as cited by Haddad, et al (2011), conducted a study on Corporate Governance and Firm Performance and the study's findings were that firms with weaker corporate governance were less profitable; firms with weaker corporate governance were riskier and paid out fewer dividends than firms with stronger corporate governance; firms with weaker corporate governance were riskier and had lower dividend payouts and lower dividend yields than did firms with stronger corporate governance (Haddad & Sufy, 2011).

A study on Effects of Corporate Reforms on Corporate Governance in Coffee Societies in Homa Bay County, Kenya found out that there is need for the Government through the relevant Ministry to sensitize the societies and ensure that they adopt the pillars of good governance since they contribute greatly to effective and efficient running of the societies (Nyanamba, 2013).Pillars of good corporate governance include transparency and accountability, efficiency and effectiveness, probity and integrity, predictability and participation (OECD, ibid). For purposes of this study, the components of corporate governance that were taken into consideration were shareholders participation in decision making; transparency and; accountability (Obanda, 2014).The objective of the study was to determine the effect of co-operatives reforms on corporate governance in the SACCOs .The study was guided by a conceptual framework consisting of co-operatives reforms as the independent variable and corporate governance as the dependent variable. The co-operatives reforms that were analysed were management, investment and property reforms while corporate governance was assessed in terms of shareholders participation in decision making, transparency and accountability in the SACCOs. The hypothesis of the study (Ho$_{1}$) was that co-operatives reforms do not have significant effect on corporate governance in the SACCOs.

Figure 1: Conceptual Framework



METHODOLOGY

The study used correlational research design. Mugenda and Mugenda (2003) recommend the approach as appropriate for exploring relationships between variables because it allows one to analyze how several variables either singly or in a combination might affect a particular

ISSN 2057-2611(Print), ISSN 2057-262X(Online)

phenomenon being studied as was the case in this study where the researcher sought to determine the effect of co-operatives reforms on corporate governance in SACCOs in Kakamega County, Kenya. The population of the study was all the 35 Savings and Credit Co-operative societies in the county. The respondents of the study were all the 34,944 members of the 35 Savings and Credit co-operatives societies in the county. The researcher employed purposive sampling in collecting data. This is because some target respondents were picked because they are informative (Saunders, Lewis & Thornhill, 2009; Mugenda & Mugenda, 2003). Ability to fill a self-administered questionnaire also requires literacy skills. A sample of 383 from the respondents was selected. Data was collected from both primary and secondary sources. Primary data was collected through survey method by use of questionnaires and interview schedule. Secondary data was collected from the various published and unpublished reports and records by use of a document analysis guide for key informants. The target respondents were the key informants/CEOs of the SACCOs. Data was analyzed using descriptive and inferential statistics. The hypothesis was tested using simple regression coefficient at 95% confidence level.

RESULTS

Reforms in the co-operative sector

The respondents were asked whether they were in agreement that management, investment and property reforms were taking place in the co-operative sector. The respondents were asked questions that were rated on the 5 point Likert scale ranging from 1 = strongly disagree, 2 = disagree, 3 = neither agree nor disagree, 4 = agree, 5 = strongly agree. The results of data generated were subjected to descriptive statistics whose results are shown in Tables 1 to 3

Table 1: Mean and standard deviation of management reforms in the co-operative sector

Management reforms	Mean	Std. Deviation
Management members must be able to read and write	4.726	0.87399
Each management committee member must declare his wealth within 30 days of being elected	4.151	1.29156
The commissioner for cooperatives can suspend any management committee member facing a charge of fraud or dishonesty	4.227	1.16169
Removing a committee member from office requires a special resolution and not a simple majority as it was previously	3.851	1.06052
The commissioner for cooperatives can undertake an inquiry in your SACCO and give direction for its implementation	2.6527	1.14500
The commissioner for cooperatives can dissolve the management committee of your SACCO and have it replaced with an interim for a period of 90 days	4.170	1.23654
The commissioner for cooperatives can convene a special general meeting of your SACCO and give directives on the agenda of the meeting	3.802	1.05078
The commissioner for cooperatives can call for elections in your SACCO society	3.554	1.14074
The commissioner for cooperatives can attend a meeting of your SACCO	4.329	1.27043
Any amendment of your SACCO's by-laws effected through concealment or misinterpretation of a material fact can be cancelled by the commissioner of cooperatives	3.803	1.13700
The management committee of your SACCO can be in office as long as possible provided that one third of the committee members retire annually but are eligible for re-election	3.757	1.12046
The Minister for cooperative development can establish a regulatory body for SACCO societies	4.116	1.14084

Source: Research data 2013

ISSN 2057-2611(Print), ISSN 2057-262X(Online)

The items' mean and standard deviation measuring level of agreement were computed from the respondents' responses. From these results in Table 1 above, the overall mean of most reforms posed to the respondents are above 3, this is an indication that there is agreement of the respondents to the fact that management reforms are taking place in the co-operative sector.

Table 2: Mean and standard deviation of Investment reforms in the co-operative sector

Investment reforms	Mean	Std. Deviation
Your SACCO cannot invest more than 25% of its share capital in real estate	3.497	1.32563
Your SACCO must first consult with the commissioner for cooperatives before investing in non-core business	3.760	1.17778
Any investment by your SACCO in non-core business must be approved by two thirds of the members present and voting in a general meeting	4.159	.94243

Source: Research data 2013

From these results in Table 2, the overall mean of reforms posed to the respondents are all above 3, this is an indication that there is agreement of the respondents to the fact that investment reforms are taking place in the co-operative sector.

Table 3: Mean and standard deviation of property reforms in the co-operative sector

Property reform	Mean	Std. Deviation
Requirement that if your SACCO wants to charge its property it must get approval of two thirds majority vote in a general meeting	4.386	.79967
Requirement that your SACCO must file with the commissioner for cooperatives particulars of charges created by it within 30 days	3.289	1.36771
Requirement that your SACCO must adhere to the Public Procurement and Disposal Act	3.851	.86492

Source: Research data 2013

From these results in Table 3, the overall mean of reforms posed to the respondents are all above 3, this is an indication that there is agreement of the respondents to the fact that that property reforms are taking place in the co-operative sector.

Testing the relationship between the variables.

The study further established the relationship that exists within the variables themselves. The variables were translated into questions and posed to the respondents. From the results in Table 7 below, management reforms had a statistically significant positive correlation with investment reforms ($r = 0.663$ and $p \leq 0.01$). This implies that the variables are linked together.

ISSN 2057-2611(Print), ISSN 2057-262X(Online)

Table 4: Correlations on reforms in the co-operative sector

Co-operatives Reform	management	investment	property
Management reforms	1	0.663**	0.634**
		0.000	0.000
Investment reforms	0.663**	1	0.497**
	0.000		0.000
Property reforms	0.634**	0.497**	1
	0.000	0.000	

**** Correlation is significant at the 0.01 level (2-tailed).**
Source: Research data, 2013

From the results in Table 4, management reforms had a statistically significant positive correlation with investment .This implies that the variables are linked together.

Test of Hypothesis

The corresponding hypothesis was stated as follows:
Ho_1 : Co-operatives reforms do not have significant effect on corporate governance in SACCOs.

Table 5: Regression results of reforms on corporate Governance

Model Summary

Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*
1	*0.753[a]*	*0.567*	*0.564*	*5.18363*

a. Predictors: (Constant), Reforms

ANOVA[a]

Model		*Sum of Squares*	*df*	*Mean Square*	*F*	*Sig.*
	Regression	*11742.069*	*2*	*5871.034*	*218.498*	*0.000[b]*
1	*Residual*	*8974.572*	*334*	*26.870*		
	Total	*20716.641*	*336*			

a. Dependent Variable: corporate Governance
b. Predictors: (Constant), Reforms

Coefficients[a]

Model		*Unstandardized Coefficients*		*Standardized Coefficients*	*t*	*Sig.*
		B	*Std. Error*	*Beta*		
	(Constant)	*5.743*	*0.923*		*6.225*	*0.000*
1	*Reforms*	*1.405*	*0.126*	*0.462*	*11.154*	*0.000*

a. Dependent Variable: Corporate Governance

Source: Research data 2013

ISSN 2057-2611(Print), ISSN 2057-262X(Online)

The results in table 5 show reforms in the co-operative sector have an effect on the corporate governance. The results indicate that 56.7% of corporate governance can be explained by reforms ($r^2 = 0.567$) and the relationship followed a simple regression model of the nature $CG= \alpha + \beta_1 F + e$ where CG is the corporate governance, α is the constant intercept of which in our case is 5.743 and beta $\beta_1= 0.462$, F is the reforms in the co-operatives sector and e is the standard error term. Therefore reforms in the co-operative sector affect the corporate governance of SACCOs since the beta value $\beta_1= 0.462\neq0$.

The hypothesis (Ho_1) was rejected showing that co-operatives reforms have significant effect on corporate governance in SACCOs.

CONCLUSIONS

The study concluded that reforms have a significant effect on the corporate governance of SACCOs. The study established that the specific effects that reforms have on governance are accountability in leadership; transparency and reduced corruption/embezzlement of funds; better informed/critical leaders and; increased investment in SACCOs.

POLICY IMPLICATIONS

With the results indicating that reforms in the cooperative sector have an effect on corporate governance, the co-operatives should establish ways on how to fully adopt co-operatives reforms because they positively affect corporate governance. The Government should also come up with ways on how to improve adoption of co-operative reforms because they have an effect on corporate governance.

REFERENCES

Birchall, J. (2004), "Co-operatives and the Millennium Development Goals," ILO; (http://www.ilo.org/public/english/support/lib/resource/subject/coop/birchallbook_2004.pdf; accessed on 3-12-2011).

Cadbury Commission (1992), "Report of the Committee on the Financial Aspects of Corporate Governance, (http://www.ecgi.org/codes/documents/cadbury.pdf; accessed on 10-12-2011).

Co-operatives UK (2011), "Legislation helps put cooperatives on a more equal footing," (http://www.uk.coop/press-release/legislation-change-helps-put-co-operatives-more-equal-footing; accessed on 5-10-2011).

Develtere, P. (1992), "Co-operatives and Development: Towards a Social Movement Perspective."ILO;(http://www.usaskstudies.coop/pdf-files/publications/1992/Co-ops%20%26%20Development.pdf; accessed on 3-12-2011)

Haddad, W. Alzurqan S and Sufy, J. (2011), "The Effect of Corporate Governance on the Performance of Jordanian Industrial Companies: An Empirical Study of Amman Stock Exchange," International Journal of Humanities and Social Sciences Vol.1 No. 4, April,

ISSN 2057-2611(Print), ISSN 2057-262X(Online)

2011; (http://www.ijhssnet.com/journals/Vol._1_No._4;_April_2011/8.pdf; accessed on 3-3-2012)

International Co-operative Alliance, (2010), "Cooperative Issues," (http://www.ica.coop/coop/issues.html; accessed on 16.1.2012).

Kibanga, M., (2004), *Co-operative Law in Kenya*. Rock Graphics. Nairobi:

Kimberley A. Zeoli and Robert Cropp. (2004), "Co-operatives: Principles and Practices in the 21stCentury," (http://learningstore.uwex.edu/assets/pdfs/A1457.PDF; accessed on14-1-2012).

Mugenda, O.M. and Mugenda, A.G.(2003), *Research Methods and Qualitative Approaches.* Revised Edition. Nairobi. Acts Press.

Nyanamba, S.O. (2013), "Effects of Corporate Reforms on Corporate Governance in Coffee Societies. A Case of Homabay County," Interdisciplinary Journal of Contemporary Research in Business Vol. 5 No. 6 Pg. 248 – 268.

OECD (2004), "Principles of Corporate Governance," (www.oecd.org/dataoecd/32/18/31557724.pdf*; accessed on 3-12-2011)*

Obanda, A.O. (2014), "Effect of Co-operatives Reforms on Corporate Governance in Savings and Credit Co-operatives in Kakamega County, Kenya." Unpublished MBA Thesis. Masinde Muliro University of Science and Technology.

Republic of Kenya, (2004 a), *The Co-operative Societies (Amendment Act) No.2 of 2004.*

Republic of Kenya, (2004 b), *The Co-operative Societies Rules, 2004*. Government Printers. Nairobi.

Republic of Kenya, (2011), *Sessional Paper No 5 of 2011 on Expanding the Enabling Environment for Sustainable Cooperative Developme*nt. Nairobi, Government Printer.

Saunders, M; Lewis, P. and Thornhill, A. (2009), *Research Methods for business students*. Pearson Education Ltd.5th Edition

Theron, J. (2010), "Co-operative Policy and law in east and southern Africa: A Review," (http://www.ilo.org/public/english/employment/ent/coop/africa/download/wpno18cooperativepolicyandlaw.pdf, accessed on 21-1-2012)

ISSN 2057-2611(Print), ISSN 2057-262X(Online)