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EFFECT OF BOARD OF DIRECTORS' INDEPENDENCE ON GROWTH OF TEACHERS' SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN WESTERN KENYA

Mkabane, A. I.,[1*] Okello, B.,[2] & Juma, D.[3]

[1*]MBA (Strategic Management) Candidate, Jomo Kenyatta University of Agriculture & Technology [JKUAT], Kenya

[2]Lecturer, Jomo Kenyatta University of Agriculture & Technology [JKUAT], Kenya

[3]Ph.D, Lecturer, Kenyatta University of Agriculture & Technology [JKUAT], Kenya

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ABSTRACT

This study sought to determine the effect of board of directors' independence on growth of teachers' SACCOs in Western Kenya. The study was grounded on the Stakeholder Theory. The study adopted a descriptive and explanatory research design. The target population study comprised of all the SACCO board members including supervisory committee members and the top senior management staff in the entire five teachers' based SACCO Societies found in the four counties that formed the Western Kenya. The study used primary data that was collected using structured questionnaire presented in Likert scale. The data was analyzed using percentages, mean and standard deviation. Correlation and regression analysis was used. The tables and figures were used to present the study findings. The inferential findings revealed that the relationship between board independence and growth of teachers' SACCOs in Western Kenya was positive and significant. The study findings recommended that that in order for teachers' SACCOs in Western Kenya to realize better growth in gross income, the teacher SACCOs should consider adopting board independence practices such as allowing the board members to monitor the financial performance of the SACCOs, also allowing the board to contribute to the strategic direction of the SACCO, and ensure that the board members have freedom to determine the financial status of the SACCO.

Key Words: *Board Independence, Teachers SACCOs*

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INTRODUCTION

The Savings and Credit Cooperatives (SACCOs) play a major role in resources mobilization to a larger population than the service offered by the formal financial services sectors. According to Mudibo, (2014), SACCOs are recognized as essential opportunities for economic growth; more than a billion people globally are connected with co-operatives. Over the past decade, the number of SACCOs in developing countries has increased significantly; they are progressively funding microfinance market today (Labie & Périlleux, 2008). The role of cooperative societies in the economy need has to be overemphasized. Cooperative societies are important for economic growth and development (Nyaga, 2015).

The organization board members are liable for care and attentiveness, they also ensure that financial controls are operational (Sharifah, Syahrina & Julizaerma, 2016). The other role of boards of directors is to determine the firms' strategic direction, they provide advisory role and improve the network into the corporate community, and they also act on behalf of shareholders by exercise a monitoring function over executive management (García, Meca & Ballesta, 2009). Omondi, (2010), argued that board independence is considered in terms of the ability of the board members to make independent decisions without any interference and/or influence from the external factors, be it political, duress, personal gain or conflict of interest.

According Tulung, & Ramdani, (2018), the main role of boards of directors is to determine the firms' strategic direction, they provide advisory role and improve the network into the corporate community, and they also act on behalf of shareholders by exercise a monitoring function over executive management. According to Gitari, (2008), the board independence will be considered in terms of the ability of the board members to make independent decisions without any interference and/or influence from the external factors, be it political, duress, personal gain or conflict of interest.

According Tulung, & Ramdani, (2018), the main role of boards of directors is to determine the firms' strategic direction, they provide advisory role and improve the network into the corporate community, and they also act on behalf of shareholders by exercise a monitoring function over executive management. Gitari, (2008) argued that board independence will be considered in terms of the ability of the board members to make independent decisions without any interference and/or influence from the external factors, be it political, duress, personal gain or conflict of interest. A study in Nigeria by Dauda, Akingbade, and Akinlabi, (2010) on influence of corporate governance and firm performance in Lagos metropolis established that good corporate governance practices promoted corporate performance within firms and at it also improved the firms' market share.

The first Sacco's in Kenya was formed in the year 1908 by the European settlers in Rift Valley; the cooperative was named Lubwa Farmers' Cooperative Society. In the year 1931, the law was passed requiring all cooperative society's to be registered. The Kenya Farmers Association (KFA) was the first cooperative society to be registered under the new Act (SASRA, 2010). Before Kenya attained independence, more than 600 primary co-operatives had been formed and registered (Maina, & Kibanga, 2014).

The fact that they tend to provide relatively less expensive forms of credit compared with bank loans to individuals on low incomes suggests that there is potential for the Co-operative sector to grow to even higher levels. SACCO Supervision Report (2015) by SASRA reported that there are over 6500 registered Co-operative Societies in Kenya with a total membership of 3.6 million. Their asset base stands at over KShs 360 Billion, an indication that the sector controls a substantial portion of Kenya's economy. They further noted that although the Co-operative movement will not necessarily develop along similar lines to the banking sector, it is already playing a pivotal role in providing banking facilities to the relatively poor and disenfranchised sectors of society (Wasike, 2012).

Statement of the problem

In many African countries, Savings and Credit Cooperatives have a significant role in mobilization finance to a larger population compared to other formal financial services sector. According to Mudibo, (2014), SACCOs are recognized as essential opportunities for economic growth; more than a billion people globally are connected with co-operatives. According to International Cooperative Alliance (2011) report, SACCOs are recognized as essential opportunities for economic growth; more than a billion people in the worldwide are associated with co-operatives. The Financial Services Deepening (FSD) 2013 report indicated issued warning that some of Kenya's SACCOs have higher risk of collapse due to weak governance structures.

According to Wanyama and Olweny (2013) relationship between corporate governance and financial performance of listed insurance firms in Kenya is positive and significant. SACCOs in Kenya have been marred with inadequate governance capacity and operational controls. In spite of research in various aspects of corporate governance in various sectors, there is no study to determine the effect of corporate governance on growth of teachers' SACCOs in Western Kenya, and this formed the general objective of this study which was carried in Western Kenya. Several past studies have been conducted in this field; however, they have presented research gaps.

For instance, Makai (2016) in Kirinyaga County, Kenya conducted a study to determine the influence of on the financial growth co-operative societies. Odera, (2012) study in Australia discussed the problems of corporate governance on Savings, Credit and Cooperative Societies. Another study by Kanyi, Kimani, & Kariuki, (2018) examined the influence of corporate governance on financial performance of savings and credit co-operatives in Embu County, Kenya. Flavia, (2015) in Tanzania studied the influence of corporate governance on the performance of Morogoro Municipal Teachers SACCO. Of the studies mentioned, none highlighted the effect of board of director's on growth of teachers' SACCOs in Western Kenya. This study therefore sought to fill these conceptual, contextual, and geographical knowledge gaps by focusing on the influence of effect of board of director's on the growth of teachers' SACCOs in Western Kenya.

Objectives of the study

The objective of the study was to determine the effect of board of director's on growth of teachers' SACCOs in Western Kenya.

The research was guided by the following research hypothesis;

- $\mathbf{H_{01}}$ Board of directors' independence has no significant relationship with growth of teachers' SACCO Societies in Western Kenya.

LITERATURE REVIEW

Stakeholder Theory

This theory was first proposed by Edward Freeman in the year 1984. The theory is an organizational management and business ethics theory that address both morals and values to manage a business. As argued by Freeman, (1984), a firm should generate value for all its stakeholders and not just shareholders only. The theory discusses the unified relationships between a business and those that have a stake in the organization which includes the investors, customers, suppliers, and employees (Gibson, 2000). The theory suggests that adoption a unified relationship between a business and the affected groups and individuals gives

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a firm a better chance of dealing with its problems effectively (Jones, 1995).

It helps to understand how in a business firm, customers, employees, financiers, customers, suppliers, communities and managers jointly interact to create and trade value. Understanding a business entails knowing how these business relationships work and change over time (Harrison, & Wicks, 2007). According to Harrison, Bosse, & Phillips, (2010), the duty of business executives is to manage and shape the business relationships so that to increase the stakeholders value as much as possible. As argued by (Freeman, 1984) board independence ensures good corporate governance practice firms.

The crucial and prevailing internal corporate governance mechanism is to monitor the management and aligns shareholders' interests are corporate boards (Fooladi, and Nikzad Chaleshtori, 2011). The firms' boards are liable for care and attentiveness; they also ensure that financial controls are operational. According to García, Meca & Ballesta, (2009) the boards of directors' role is to determine the firms' strategic direction, they provide advisory role and improve the network into the corporate community and they also act on behalf of shareholders by exercising a monitoring function over executive management. This theory is linked to board independence. Board independence is considered in terms of the ability of the board members to make independent decisions without any interference and/or influence from the external factors, be it political, duress, personal gain or conflict of interest (Freeman, Harrison, & Wicks, 2007).

Board Independence
- Freedom of decision making
- Executive/Non-executive

Independent Variable

Growth of Teachers' SACCO's
- Gross income
- Branch network
- Membership
- Loans issued
- Deposits

Depended Variable

Figure 1: Conceptual framework

Empirical Review

A study by Rashid, De Zoysa, Lodh, and Rudkin, (2010) in Bangladesh inspected the impact of board independence on firms' economic performance of listed firms. The study used both primary and secondary data. The primary data was collected by use of the questionnaire while secondary data was collected form the journals. The study results revealed that the relationship between board independence and the economic performance of listed firms in Bangladesh was positive and significant.

Another study by Diminah Chemakai & Ondiek, (2018) in Kakamega County examined the connection amid board accountability and performance of Sacco's. The study used explanatory survey research design. The study used stratified random sampling and questionnaire was used to collect data. The study findings revealed that board accountability and performance of SACCOs were positively related.

Mulili and Wong (2011) study revealed that gender imbalance in the management ranks at both board and secretariat level has been a major impediment for the growth of SACCOs. From the report in the Nairobi Business Monthly (2016), women are considered to be good leaders and managers who lead by example and through honest practices with an exception of few who sometimes connive with male colleagues to cover up for their weaknesses and ills within the SACCOs. There is a great feeling that the absence of women in top leadership of SACCOs – at both management and secretariat levels has left men to sit at the apex of most SACCOs thereby opening a floodgate of mismanagement of members' hard-earned funds.

METHODOLOGY

The research design that was adopted for this study was descriptive and explanatory research design. The study target population comprised of board members, supervisors of the committee members and top senior management staff of five teachers' based SACCO Societies found in the four counties that formed the Western Kenya. These were the people concerned with the formulation of policies, implementation, application, supervision and evaluation of the entire governance systems and structures in the teachers' based SACCO societies within the Western Kenya which were under study. The total number of respondents was 70 comprising of 60 board members, 5 CEOs and 5 deputy CEOs. This study applied the census to pick all the five SACCOs in the area of study. The study collection collected data using a questionnaire. Both structured and unstructured questions were adopted in the questionnaires. The data form the field was captured, edited, coded and analyzed by use of SPSS version 25. The study used both descriptive and inferential statistics. The content analysis was used to analyze the qualitative data.

FINDINGS

Board Independence and Growth of SACCO

The study sought respondents' opinions' on effect of board of directors' independence on the growth of teachers' SACCO Societies in Western Kenya. The results of the study were as in Table 1.

The majority of the respondents agreed the board of directors of their SACCO freely shared their views about shareholders' savings as presented by mean value of 3.6923. The response given by the respondents had small variation as indicated by a standard deviation value of 1.11212. The respondents also agreed the board of directors freely formed and implemented the employees SACCO standards as indicated by a mean value of 3.5577.

Table 1: Board Independence

Statement	N	Mean	Std. Deviation
The board of directors are free to air their views about shareholders investments in the SACCO	52	3.6923	1.11212
The board of directors are free to form and implement standards of conduct of SACCO employees	52	3.5577	1.01775
The board of directors are free to contribute to the management of uncertainties in the outside the SACCO	52	3.5	1.03848
The manager of the SACCO is free to make financial decisions in favour of stakeholders	52	3.5769	1.07277
Board resolutions are final and cannot be freely reversed by any other person either inside or outside the SACCO without the board approval.	52	3.7115	1.14338
Supervisory members are under an obligation to independently inform the SACCO members the SACCO affairs and operations.	52	3.6538	1.15274
The members of the supervisory committee are under an obligation to inform the SACCO members all the changes which may affect their status in terms of independence	52	3.6346	1.08517
The board is free to monitor the financial performance of the SACCO	52	3.6154	1.12291
The board freely contribute to the strategic direction of the SACCO	52	3.5385	1.03775
The board have freedom to determine the financial status of the SACCO	52	3.6923	1.09434
Average		**3.6173**	**1.087741**

The respondents who agreed that the board of directors freely contributed in the management of SACCOs uncertainties were majority as shown by a mean of 3.5; while standard deviation value of 1.03848 shows that the response from the respondents had small variation. The study results also directed that majority of the respondents agreed that the SACCO manager freely made financial decisions in favour of stakeholders (M=3.5769, Standard deviation=1.07277).

The study results also indicated that the board resolutions were final and could not be freely reversed by any other person either inside or outside the SACCO without the board approval (M=3.7115, SD=1.14338), supervisory members were under an obligation to independently inform the SACCO members the SACCO affairs and operations (M=3.6538, SD=1.15274), the members of the supervisory committee were under an obligation to inform the SACCO members all the changes which would affect their status in terms of independence (M=3.6346, SD=1.08517).

Moreover, the study findings showed that majority of the respondents agreed that the board was freely monitored the SACCO financial performance (M=3.6154, SD=1.12291). A good number of respondents of teachers' SACCO Societies in Western Kenya also agreed that the SACCO board freely contributed to the strategic direction (M=3.5385, SD=1.03775). Finally, the study results showed that the majority of board of teachers' SACCO Societies in Western Kenya determine the financial status of their SACCO (M=3.6923, SD=1.09434).

The conclusion of descriptive results on effect of board of directors' independence on the growth of teachers' SACCO Societies in Western Kenya was that the majority of the respondents agreed with the statements on the effect of board of directors' independence on the growth of teachers' SACCO Societies in Western Kenya as indicated by average mean value 3.6173. The variation in the responses was also small as indicated by the average standard deviation value of 1.087741

The findings concurred with study findings by Sharifah, Syahrina and Julizaerma (2016), in Malaysia revealed that board independence ensures good corporate governance practice in Malaysian firms. As argued by Rose, (2005), Brennan, (2006) the crucial and prevailing internal corporate governance mechanism that monitors the management and aligns shareholders' interests are corporate boards. The firms' boards are liable for care and attentiveness; they also ensure that financial controls are operational. The findings are similar to García, Meca & Ballesta, (2009) study results that showed that the main role of boards of directors is to determine the firms' strategic direction, they provide advisory role and improve the network into the corporate community, and they also act on behalf of shareholders by exercise a monitoring function over executive management. Wandabwa (2010), study results also had similar findings, that the board independence is considered in terms of the ability of the board members to make independent decisions without any interference and/or influence from the external factors, be it political, duress, personal gain or conflict of interest.

SACCO Growth

The study sought to find out the trend of the following parameters in the SACCOs for the last five years. The respondents were therefore required to rate the stated dimensions based on a five point Likert scale where; 1-greatly decreased, 2-decreasing, 3-constant, 4-Improved and 5-Greatly improved. The study result was as shown in table 2.

The majority of respondents indicated that the gross income of their SACCO had remained constant as shown by a mean of 3.2885. The findings also showed that majority of the respondents indicated the branch network of their SACCO had improved, a good number of respondents also indicated that the membership of their SACCO had improved as shown by a mean value of 3.6346. The study results also revealed that the loans performance majority teachers' SACCOs in Western Kenya had improved as shown by a mean value of 3.5577.

The results finally showed that the deposits and interest on deposits of the teachers' SACCOs in Western Kenya had also improved as shown by the mean value 3.500 and 3.673 respectively. These findings were similar to SASRA 2016/2017 report that revealed that the Kenyan Deposit Taking SACCO recorded total assets of Kshs.342.84 Billion in 2015; this amount grew to about Kshs.393.49 billion is the year 2016 representing a growth rate of 14.8%. This increase was attributed to the better strategic management practices that led to efficient service delivery amongst Kenyan SACCOs (Katela, 2017). The SASRA 2016/2017 report also indicated that most SACCOs had better liquidity levels, but this could not shield the institutions from facing the volatility in their financial safety. The lack of financial performance stability of the SACCOs in the country was lack of proper corporate governance and lack of strategic management practices that can enhance the performance of Kenyan SACCOs.

Table 2: SACCO Growth

SACCO growth	N	Mean	Std. Deviation
Gross income	52	3.299	1.160
Branch network	52	3.539	1.228
Membership	52	3.635	1.085
Loans performance	52	3.558	1.092
Deposits	52	3.500	1.019
Interest on deposits	52	3.673	1.133
Average		**3.534**	**1.120**

Inferential Analysis

The hypothesis of the study was analyzed by carrying out regression analysis in testing the hypothesis. The hypothesis was;

H_0 Board of directors' independence does not have a significant relationship influence on growth of teachers' SACCO Societies in Western Kenya**.**

The criteria was set such that the study accepts the hypothesis if the value $\beta \neq 0$

Simple regression $Y=\alpha+\beta_1X_1+\mathcal{E}$ where Y is the growth of teachers' SACCO Societies in Western Kenya α is the Y-intercept, X_1 is Board of directors' independence, β_1 is the beta value and $\mathcal{E}$ is the standard error value. The interpretation of the results involved using a significance of R^2 and a regression coefficient at 95.0% confidence level. Summing of results was as presented. The regression analysis was carried out and the following outcomes presented in Table 3.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.493	0.243	0.228	0.44592

The model summary results presented in table 3 revealed R value of 0.493, this implied that link between board of directors' independence and growth of teachers' SACCO Societies in Western Kenya was slightly moderate. The R^2=0.243 showed the that board of directors' independence accounted for 24.3% of the variation in growth of teachers' SACCO Societies in Western Kenya other influences held constant.

Table 4: Analysis of Variance (Model Significance)

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	3.191	1	3.191	16.047	0.000
Residual	9.942	50	0.199		
Total	13.133	51			

Dependent variable: growth of teachers SACCOs

Predictors: (Constant), Board of directors' independence

The results in Table 4 showed that F-statistic for the model was 16.047 which was significant (Sig = 0.000, < 0.05). This implied that model has a good fit which further confirmed that board of directors' independence is a good predictor of growth of teachers' SACCO Societies in Western Kenya.

Table 5: Regression coefficients

	B	Std. Error	Beta	t	Sig.
(Constant)	2.77	0.175		15.789	0.000
Board independence	0.214	0.053	0.493	4.006	0.000

Dependent Variable: growth of teachers SACCOs

The results in Table 5 showed that board independence has a positive and significant influence on the growth of teachers' SACCO Societies in Western Kenya (Beta=0.214, Sig. =0.000). This implied that a unit increase in board independence practices leads to 0.214 units increase in growth of teachers SACCO Societies in Western Kenya. The following univariate regression model was developed,

$$Y=2.77+0.214X_1$$

Given that the p=0.000<0.05, we rejected the null hypothesis and accept alternative. The study concluded that board independence has a statistically significant influence on growth of teachers SACCO Societies in Western Kenya. The findings concurred with study findings by Sharifah, Syahrina and Julizaerma (2016), in Malaysia revealed that board independence ensures good corporate governance practice in Malaysian firms. As argued by Rose, (2005), Brennan, (2006) the crucial and prevailing internal corporate governance mechanism that monitors the management and aligns shareholders' interests are corporate boards. The firms' boards are liable for care and attentiveness they also ensure that financial controls are operational. The findings are similar to García, Meca & Ballesta, (2009) study results that showed that the main role of boards of directors is to determine the firms' strategic direction, they provide advisory role and improve the network into the corporate community, and they also act on behalf of shareholders by exercise a monitoring function over executive management. Wandabwa (2010), study results also had similar findings, that the board independence is considered in terms of the ability of the board members to make independent decisions without any interference and/or influence from the external factors, be it political, duress, personal gain or conflict of interest.

CONCLUSION AND RECOMMENDATIONS

The study sought to determine the effect of board independence on the growth of teachers' SACCO Societies in Western Kenya. The descriptive findings revealed that the majority of respondents agreed with the statements concerning the effect of board independence on the growth of teachers' SACCO Societies in Western Kenya. This implied that the majority of teachers' SACCO boards in Western Kenya are independent. The members of board of directors are free to contribute to the management of uncertainties within and outside the SACCO. The findings also indicated that the manager of the SACCO is free to make financial decisions in favour of stakeholders, board resolutions are final and cannot be freely reversed by any other person either inside or outside the SACCO without the board approval, supervisory members are under an obligation to independently inform the SACCO members the SACCO affairs and operations, the members of the supervisory committee are under an obligation to inform the SACCO members all the changes which may affect their status in terms of independence. Further findings show that the board is free to monitor the financial performance of the SACCO, contribute to the strategic direction of the SACCO and to determine the financial status of the SACCO.

Moreover, the correlation results revealed that the relationship between board independence and growth of teachers' SACCOs in Western Kenya is positive and significant. This implies that an improvement in board independence practices leads to a significant improvement in growth of teacher based SACCOs in Western Kenya. The regression study results further revealed that the board of directors' independence has a positive and significant influence on the growth of teachers' SACCO Societies in Western Kenya.

This study concluded that an improvement in board independence practices such as ensuring that the board monitors the financial performance of the SACCO, ensuring the board participates in making the strategic decision of the SACCO, and giving the board freedom to determine the financial status of the SACCO leads to growth of teachers' SACCOs in Western Kenya.

The study recommended that in order for teachers' SACCOs in Western Kenya to realize better growth in gross income, membership size, increased deposits and interest on deposits, and increased Sacco's branches, the teacher SACCOs in Western Kenya should consider adopting board independence practices such as allow the board members to monitor the financial performance of the SACCOs, also allow the board to contribute to the strategic direction of the SACCO, and ensure that the board members have freedom to determine the financial status of the SACCO.

Areas for Further Research

Future researchers should find out the other elements that affects the growth of teachers' SACCO Societies in Western Kenya. The researcher suggests that other studies can also be conducted to establish other strategic factors that affect the growth of teachers' SACCO Societies in Kenya other than board independence.

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