Relationship between Board Size and Performance of Deposit Taking Saccos in Nairobi City County, Kenya

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Abstract: The performance of deposit taking savings and credit societies has been dwindling with members seeking financial services from SACCOS in Kenya declining from 13.5% in the year 2009 to 9.1% in the year 2015. More than 100 deposit-taking Saccos did not meet the mandatory capital adequacy requirement in 2016 and 22% increase in loan loss allowance implying that more and more are providing for potential bad loans in their books of accounts raising questions over their fitness in the key credit market (SASRA, 2017). This study therefore, aimed at determining the relationship between board size and performance of deposit taking Saccos in Nairobi City County, Kenya. Descriptive cross-sectional survey was adopted by the study. Target population comprised staff at the managerial level employed at the head offices of licensed deposit taking savings and credit societies in Nairobi City County, Kenya who were selected using census sampling. The study used both primary and secondary data in obtaining information. The primary data was obtained by the use of semi-questionnaires. Descriptive statistics were used to provide summary measures of data observed and include frequencies, percentages, mean, coefficient of variation and standard deviation. Inferential statistics was conducted using correlation and simple linear regression analysis. Research findings were presented in form of graphs, charts, tables and descriptive statistics. Based on the findings obtained the study concluded that board size has a strong influence on the performance of the Deposit Taking SACCOS. The study recommends that lean or small board size but professional and qualified should be embraced among the SACCOS due to their efficiency and effectiveness in decision making, management, communication, coordination, monitoring and in operation cost.

Keywords: Board Size, Deposit Taking Savings and Credit Co-operative Societtes, Performance

1. INTRODUCTION AND BACKGROUND

According to OECD, (2014) performance may entail an organization’s success in achieving its set goals and targets through strong governance and sound management. Performance may also be termed as the rate and efficiency at which operations are undertaken in the organization. The initiative to measure the performance of a firm assists organization to mitigate against factors that may prevent it from achieving its mission and offer certainty. There is no standard measurement of an organization’s performance due to the varied opinion on the theoretical and practice assessment of a well performing entity (Mensah, & Maponga, 2017).

Performance evaluation is crucial for any organization due to the fact that it is an indicator of its growth and fulfillment of financial obligations. A firm is a voluntary association of productive assets which include capital resources, Physical and human for the sole reason of achieving a common purpose (Ismi, 2014). Organizational performance may be measured using product quality, employee satisfaction, innovation in new products and speed of response. Product quality relates to the how the customer perceives the product or service to fulfill their expectations. Quality of products therefore tends to influence customer satisfaction and loyalty which have an effect on the returns of the organization (Post, & Byron, 2015).

Regionally, Deposit Taking Saccos (DTS) continue to experience credit, interest, liquidity and operational risks which threaten their survival (Ogega, 2014). Studies conducted in Ethiopia, Zambia and Tanzania have revealed that these challenges hinder the exploitation of the full potential of DTSs leading to poor performance (Magali, & Lang’at, 2014). While a study conducted in Rwanda revealed that DTSs have come under spotlight for cases of mismanagement and a number of them have been liquidated (Muvuna, 2017). Inadequate managerial policies for risk mitigation have been also
established to negatively affect the profitability and financial stability of the DTSs (Elyasiani, & Jia, 2019).

In Kenya, the contribution of financial institutions towards financial inclusion and access cannot be ignored because of their support in financial resources allocation to other sectors of the economy (Anyanga, & Rotich, 2017). However, in spite of their growth in the past ten years, deposit taking savings and credit societies are faced with various challenges which limit their expansion which mainly occur as a result of poor governance and mismanagements (Wambua, 2011; Njenga, & Jagongo, 2019). Challenges bedeviling deposit taking savings and credit societies include improper regulations, lack of separation of ownership, inadequate experience in the management as well as lack of accountability of the board members which reduce their financial performance (Omwenga, 2019).

In Kenya Sacco Societies Regulatory Authority (SASRA) has been given the mandate of regulation of these SACCOs with a total of 177 DTS being licensed by 2017. The co-operatives have in the past successfully provided financial services to many sectors of the Kenya economy including salaried employees and Jua Kali artisans (Oseno, 2019). Saccos therefore offers similar products as banks. Their growth in customer base, market share and expansion level is not substantial as compared to banks. This performance and growth in those terms also varies among different Saccos. However, there also has been tremendous growth witnessed over the years with some societies expanding to deposit taking services and running Front Office Services Activities (FOSA), effective corporate governance practices are yet to be fully attained.

2. STATEMENT OF THE PROBLEM

The performance of deposit-taking Saccos has been dwindling with members seeking financial services from SACCOS in Kenya declining from 13.5% in the year 2009 to 9.1% in the year 2015 (Kiragu, 2015). More than 100 deposit-taking Saccos did not meet the mandatory capital adequacy requirement in 2016 and 22% increase in loan loss allowance implying that more and more are providing for potential bad loans in their books of accounts raising questions over their fitness in the key credit market (SASRA, 2017). Despite the contribution to Kenyan economy, DTSs continue to experience huge losses with others even collapsing questioning the measures put in place in ensuring continued performance (Oseno, 2019). Similarly, most of the DTSs in developing have been riddled with financial scandals and management related challenges leading to dismal performance therefore the study sought to assess the relationship between board size and performance of deposit taking Saccos in Nairobi City County, Kenya.

3. THEORETICAL REVIEW

3.1. Balanced Scorecard

The study was anchored on Balanced Scorecard Theory. This theory was introduced and advanced by Kaplan and Norton (1992). It proposes performance measurement of a firm both tangible and intangible aspects ought to be placed into consideration. This acts in providing a comprehensive layout of how the organization is performing. Introduction of the balanced score card arose mainly after earlier performance metrics were inclined only to the financial aspect only. Balanced score card thus is used to track both financial objectives and strategic objectives; it encompasses both financial measures and complements these with operational measures.

The key assumption of the model is that in order to get an actual picture of the performance of an organization, a holistic review of all aspects of operation has to be undertaken. Therefore, the importance of this model to the study is that it provides a framework for comprehensive determination of performance in terms financial, non-financial, employee and customer perspectives (Kaplan and Norton, 1992). In this study, the balanced scorecard was employed in determining how the CG practices influence all the aspects of performance of the DTS.

3.2. Agency Theory

The study was also anchored on Agency Theory. The theory was introduced by Barley and Myers (1932) and later modified by Meckling (1976). According to the theoretical framework, organizations undergo separation during which agency problems may arise which may negatively affect the performance. The assumptions made by theory are that agents may divert from the realization of the
objectives of the firm. However, Hiebl (2018) argued from an individualistic view that agents tend to align more towards long term projects as opposed to the incentives. The relevancy of the theory is in describing a positivist approach where agents are controlled through rules designed by the principals that are aimed at maximizing stakeholder’s value. Thus, a more individualistic view is used in the theory. However, the theory fails to does not reduce or eliminate corporate misconduct.

The importance of the theory is describing how ownership, management and performance are interrelated. According to the agency theory, the employee model has great aspects of individualistic approaches and is bounded rationally with punishment and reward (Jensen, 2011). The proposition of the study is that well-functioning boards are a key functionality of organization in overseeing conduct and productivity of managers hence impact on organizational performance of the DTSs.

3.3. Empirical Literature Review

3.3.1. Board Size and Performance

The available literature is not conclusive on whether huge or small boards cause an increase in performance. According to a study by Yermack, (1996) having small but manageable board sizes will translate to effective leadership and governance. In this regard, large corporate boards are argued to increase operational costs and wrangles during decision-making processes. This coincides with Majid, (2012) who concluded that Board sizes of most companies reduced over the period of 1991-95. Wu, (2010) on the other hand suggest that market confidence increased with small boards.

Black, et al., (2002) in a study on the relationship between board size and performance established that increased in the board sizes led to reduced performance. This tends to contradicts Jensen, (2017) who studied Japanese and Australian firms established that board sizes are endogenous to how organizations’ returns annually. While Otieno et al (2015) studied the effect brought about by corporate governance. The study adopted Spearman rank correlation in analyzing the findings and presented in tables and figures.

Waithaka, (2014) utilized descriptive survey approach sampling 39 commercial banks in investigating the concept of board effectiveness. The study revealed that characteristics of the board played a great role on how the banks performed including expertise and experience. This current study narrowed the scope even further focusing on DTSs which are emerging to be crucial component of the financial sector.

3.4. Conceptual Framework

![Conceptual Framework](image-url)

4. Research Methodology

A research design is viewed as a conceptual model within which research is conducted and contains a blueprint for measurement and analysis of observed data (Murerwa & Kinyua, 2021). This study used the descriptive cross-sectional survey. This design is concerned with establishing the way things are and thus aids in determination of the current nature of a phenomenon under study (Cooper & Schindler, 2012). The research design incorporates quantitative as well as qualitative approaches in establishing the underlying phenomenon. This is through gathering of required data in description of events, practices and activities therefore appropriate for the study. Unit of analysis for the study was
Nairobi based deposit taking SACCOs and target population were top managerial employees in the firms. The research design further enabled the analysis of the data collection using both inferential and descriptive statistics.

All the 177-registered deposit SACCOs in Kenya formed the population for this study (SASRA, 2017). As such the 35 licensed DTSs in Nairobi City County, Kenya formed the study target population as per appendix I. This target population was selected because of its proximity to the researcher and thus the most convenient for conducting the study on. The sample to be used in the study was selected using a census sampling approach so as to encompass all the 35 licensed DTSs. Census sampling approach entailed a complete enumeration of all items in a population (Lohr, 2019). The use of census sampling approach is recommended where the study population is small and manageable hence facilitate equal representation of the study elements (Creswell & Creswell, 2017). Census sampling is recommended where the entire group is to be used to enable comprehensive determination of the phenomena under study where variability within the population is high. The sample size of the 35-licensed deposit taking SACCOs therefore enabled large amount of data to be collected from an ideal population and in a highly economical way. This maximized reliability of the data collected and responding adequately to the objectives of the problem being studied while conforming to time, resources and skills availability of the researcher.

The study targeted 3 respondents from each firm comprised which comprised of the head of finance, head of operations and director or their equivalents which made a total of 105 respondents. This study used both primary and secondary data. The primary data was obtained from the research questionnaire. The questionnaires were structured into sections each section addressing the study variables on a 5-point Likert Scale. Secondary data on the other hand was collected for a period of 5 years (2015-2019). This related to the information pertaining to the financial performance of the DTS. The secondary data were collected using data collection sheets and were collected from the annually published commercial banks’ financial statements.

Transmittal letter obtained from Kenyatta University was used to process permit from the National Council of Science, Technology and innovation (NACOSTI). The research permit and transmittal letter were used to secure appointment with the management and target respondents of DTS. Administration of the questionnaires of the questionnaires was done through a drop and pick method to give the respondents ample time to fully complete the questionnaires and ensure a high response rate. Follow ups were then done using calls and emails to the respondents. The process continued until a reasonable number of questionnaires were collected. The collected questionnaires were then tracked using a register.

A pilot study was conducted with twenty respondents who were selected from the target population. The employees who were involved in the pilot test were excluded from the sample to be selected for the final research. This was done to ensure that the study instruments met the validity and reliability test. The instrument was evaluated for content, construct and face validity. Content validity was achieved by ensuring that the questionnaire had proper vocabulary, structure and relevancy. Coherence and accuracy of data collection tools and daily cleaning of data was also ensured. Construct validity was achieved from literature review and aligning the data collection instruments (Heale, & Twycross, 2015). Face validity further ensured validity of questionnaire based on respondent’s attitude and opinions and multiple-choice questions with adequate opinions were used. Reliability refers the nature of consistency of the data obtained by the research instruments (Mugenda & Mugenda, 2008). A pilot study was conducted and pretesting of questionnaires was done for reliability and rectifying inconsistencies that may arise.

Data collected was sorted, classified, coded into coding sheets and analyzed with the aid of SPPS Version 22. Measures of central tendencies including means, frequencies and standard deviations were utilized in calculation of the summarized quantitative data. In analyzing open ended questions, content analysis method was used. The results were presented using figures and tables. Inferential statistics made the use of simple linear regression analysis as shown in model 1 in establishing the relationship between the study variables.

\[ Y = \beta_0 + \beta_1 X_1 + \epsilon \]  

Model 1.
Where,

\[ Y = \text{Performance} \]
\[ X_1 = \text{Board Size} \]

5. **RESULTS AND DISCUSSIONS**

The study targeted managerial employees at the licensed DTSs in Nairobi City County, Kenya. The study attained a response rate of 78%

5.1. **Academic Qualification of the Respondents**

This section aimed at determining the respondent’s academic qualifications based on their education level. The results are shown by Table 4.1

<table>
<thead>
<tr>
<th>Highest level of education</th>
<th>Percentage</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diploma</td>
<td>32</td>
<td>39%</td>
</tr>
<tr>
<td>Undergraduate Degree</td>
<td>36</td>
<td>44%</td>
</tr>
<tr>
<td>Master/Postgraduate Degree</td>
<td>12</td>
<td>15%</td>
</tr>
<tr>
<td>PhD degree</td>
<td>2</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>82</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

**Source:** Research Findings 2020

The findings showed that 44% of the respondents had undergraduate degrees, 39% had diplomas 15% had post graduate degrees and 2% had PhD. Hence showing that all the respondents had advanced their education post-secondary level hence in a position to provide the current trends and dynamics in the organizations in comparison with expected norms.

5.2. **Organization Position of the Respondents**

This section aimed at determining the category that the respondents fell under based on their current positions. The results are presented in Figure 4.1

**Source:** Research Findings 2020

As per Figure 4.2, 51% of the respondents were middle level managerial employees, 32% were top managerial employees while 17% were junior level employees. This implies that majority of the employees (83%) were managerial employees hence well conversant with the study operations. The managerial distribution of the respondents is considered essential in reflecting the level of involvement of the respondents in their respective firms.
5.3. Board Size

The study sought to determine the influence of board size on the performance of deposit-taking SACCOs in Kenya. To achieve this, a five-point Likert Scale was applied. The findings of the study are shown in Table 4.2.

Table 4.2. Board Size

<table>
<thead>
<tr>
<th>Board Size</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need for professional diversification in decision making influences the board size</td>
<td>3.04</td>
<td>0.3713</td>
</tr>
<tr>
<td>Large board size is essential to check the excesses of the CEO</td>
<td>3.50</td>
<td>0.5056</td>
</tr>
<tr>
<td>Large board sizes make the internal corporate governance mechanisms work better</td>
<td>3.20</td>
<td>0.4738</td>
</tr>
<tr>
<td>Large board sizes reduce risk of failure</td>
<td>4.02</td>
<td>0.8524</td>
</tr>
<tr>
<td>Board sizes affects the length taken in making corporate decisions</td>
<td>3.73</td>
<td>0.9098</td>
</tr>
<tr>
<td><strong>Average Score</strong></td>
<td><strong>3.50</strong></td>
<td><strong>0.6226</strong></td>
</tr>
</tbody>
</table>

Source: Research Findings 2020

The findings as per Table 4.5 show that a large extent was indicated on large board sizes reduce risk of failure and board sizes affects the length taken in making corporate decisions with means of 4.02 and 3.73. A moderate extent was further noted on need for professional diversification in decision making influences the board size, large board size is essential to check the excesses of the CEO and large board sizes make the internal corporate governance mechanisms work better having means of 3.04, 3.50 and 3.20 respectively. As shown, the sample means of the responses ranged between 3.04 and 4.02 approximating to a value of 3.50 on rating scale used by the researcher. The results thus confirmed that board size was crucial during board formation. Additionally, the aggregate scores of mean and standard deviation of 3.50 and 0.6226 respectively show the importance of board size in improving performance.

5.4. Organization Performance

This section aimed at determining the performance of DTSs in Nairobi City County, Kenya. To achieve this, a five-point Likert Scale was applied. The findings of the study are shown by Table 4.3. Additionally, financial performance was also sought from secondary sources including the financial statements and reports of the SACCOs.

Table 4.3. Performance of Deposit Taking SACCOs

<table>
<thead>
<tr>
<th>Measure of performance</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product quality</td>
<td>3.75</td>
<td>0.9993</td>
</tr>
<tr>
<td>Employee satisfaction</td>
<td>3.62</td>
<td>0.9731</td>
</tr>
<tr>
<td>New products</td>
<td>3.71</td>
<td>0.8027</td>
</tr>
<tr>
<td>Satisfaction of members</td>
<td>4.10</td>
<td>1.3219</td>
</tr>
<tr>
<td>Continuous organization improvement</td>
<td>3.90</td>
<td>0.9674</td>
</tr>
<tr>
<td>Financial viability</td>
<td>3.43</td>
<td>0.6081</td>
</tr>
<tr>
<td>Long term continuity</td>
<td>3.74</td>
<td>0.5007</td>
</tr>
<tr>
<td>Speed of response</td>
<td>3.32</td>
<td>0.9651</td>
</tr>
<tr>
<td><strong>Average Score</strong></td>
<td><strong>3.70</strong></td>
<td><strong>0.8923</strong></td>
</tr>
</tbody>
</table>

Source: Research Findings 2020

As shown, the respondents indicated a large extent on Satisfaction of members, Continuous organization improvement, Product quality, Employee satisfaction and New Products Long term continuity with means of 4.10, 3.90, 3.75, 3.62, 3.71 and 3.74 respectively. However, on Financial viability and Speed of response a moderate extent was indicated with means of 3.43 and 3.32. Data from the secondary sources further showed that over the study period, the performance of the DTSs measured using market share, members shares and output had increased moderately at an average of 15% within a five-year span.

5.5. Correlation Analysis

The researcher conducted a correlation analysis to determine the existence and intensity of the associations between board size and performance of deposit-taking SACCOs in Kenya.
**Table 4.4. Effect of board size and performance of deposit taking SACCOs in Kenya**

<table>
<thead>
<tr>
<th>Board Size</th>
<th>Performance of Deposit Taking SACCOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>0.462**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.0024</td>
</tr>
<tr>
<td>N</td>
<td>82</td>
</tr>
</tbody>
</table>

*. Correlation is significant at the 0.01 level (2-tailed).

The findings revealed that the correlation coefficient for board size and performance was found to be 0.462 confirming that there was a moderate positive linear relationship with performance. This implies that an increase in board size would have the associated effect of increasing performance of the DTSs. These statistical findings have the implications that an increase in any of the four studied aspects of corporate governance would have the associated effect of increasing performance of the DTSs. The same positive relationship was obtained by Wepukhulu, (2016) who studied the relationship between corporate governance and performance of commercial banks in Kenya. In a similar manner, a study conducted by Grace, et al., (2018) on corporate governance and performance of financial institutions in Kenya also found a positive correlation between the research variables.

### 5.6. Regression Coefficient

The study conducted a regression coefficient to establish the mean change in board size for a unit change in the performance of deposit taking SACCOs in Kenya. The finding is shown in Table 4.5

**Table 4.5. Regression Coefficient**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>0.563</td>
<td>0.236</td>
<td>0.227</td>
<td>2.392</td>
</tr>
<tr>
<td>Board Independence</td>
<td>-0.211</td>
<td>0.071</td>
<td>-0.227</td>
<td>-2.978</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance of Deposit Taking SACCOs

Source: Researcher, 2020

The results illustrate a unit increase in board size would result to 0.251 times increase in performance of deposit taking SACCOs in Kenya

\[ Y = 0.563 - 0.211 + \ varepsilon \]

The study revealed that board size had a significant negative relationship with the performance of the deposit taking Saccos (β = -0.211, P =0.003). Hence a unit increase in the board size will result in decrease in the performance of the DTSs by a factor of 0.211. The negative effect could be largely due to problems of poor communication and decision-making undermine the effectiveness of large boards. Also, larger boards tend to be less committed, candid and engaged as compared to the smaller boards with extra expenses being incurred on the remunerations of the board. This is supported by Duc and Thus (2013) who analyzed CG practices among Vietnamese firms and found out that board size had a negative effect on how the firms performed. Whereas Otieno et al (2015) who studied the effect brought about by corporate governance and established a positive correlation between the research variables. While Waithaka, (2014) also revealed that characteristics of the board played a great role on how the banks performed including expertise and experience. This compares with Stakeholder Theory that argues that stakeholders are thus theorized to promote the success of the organization which may not always be the actual situation.

Further, on board size, the respondents indicated that the size of the board was largely determined by firm size, firm age, leverage ratio and profitability. As such the board size should be proportional to the firm capabilities and the intended objectives. These corporate governance practices were postulated to monitor the performance in terms of cost and benefit analysis as well as assessment of financial sustainability.

### 6. Conclusion and Recommendations

Based on the findings obtained the study concluded that board size has a strong influence on the performance of the Deposit Taking SACCOs. The study recommends that lean or small board size but professional and qualified should be embraced among the SACCOs due to their efficiency and
Effectiveness in decision making, management, communication, coordination, monitoring and in operation cost.

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Citation: Zephaniah C. Chesire, Dr Godfrey Kinyua. "Relationship between Board Size and Performance of Deposit Taking Saccos in Nairobi City County, Kenya" International Journal of Managerial Studies and Research (IJMSR), vol 10, no. 1, 2022, pp. 112-120. doi: https://doi.org/10.20431/2349-0349.1001010.

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