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Adoption of Corporate Governance Practices and Their Effect on Financial Performance of Savings and Credit Co-operative Societies in Nyandarua County, Kenya

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Abstract:
Corporate Governance Practice is a management tool that was introduced by Nairobi Securities Exchange (NSE) through the Capital Markets Authority (CMA) as statutory requirement for companies listed at NSE to improve their financial performance. Though corporate governance practices have been enforced in Kenya, it has in equal measure experienced cases of mismanagement of Savings and Credit Co-Operative Societies (SACCOs) that has led to collapse of a number of them and others have experienced liquidity challenges. A case in point was the mismanagement of the giant Harambee SACCO which put management of SACCOs on the spotlight. Despite several studies on Corporate Governance Practices, it is not clear how insider lending, an aspect of corporate governance, affected the financial performance of SACCOs. The study examined effect of adoption of corporate governance practices, aforementioned, on financial performance of SACCOs. Three theories guided the study, namely; Agency, Stewardship and Stakeholder theories. The study adopted descriptive research design that involved set of methods and procedures that described intended variables and how they relate to each other. The study adopted Israel, (1992) formula to sample 53 from the population of 61 SACCOs registered with the County Co-operatives Officer in Nyandarua County, and thereafter, from the 53 sampled SACCOs, two top managers were sampled. This led to a sample of 106 respondents. Primary data was collected using a structured questionnaire whereas; secondary data was collected through documentary analysis. Data was analysed using descriptive and inferential statistics and results presented in form of tables and charts. Of the 106 distributed questionnaires, 100 were duly filled and returned and therefore the response rate was 94.3%. The R square was equal to 0.778 while the adjusted R square value was 0.770 which means that 77.0% of the corresponding variation in financial performance of the SACCOs can be explained by corporate governance practices employed by the SACCOs. Multiple regression analysis indicated that insider lending had a great effect on financial performance of SACCOs with a coefficient of -0.391 while the appointment of internal auditor with a coefficient of 0.243. The variable on insider lending had a negative coefficient implying that a unit increase in insider lending led to a decrease in financial performance of the SACCOs by 0.391 units. The variables were all significant at p=0.000 and p=0.013 for the constant term. The study therefore fails to accept the null hypothesis that corporate governance practices have no statistically significant effect on the financial performance of SACCOs in Nyandarua County and states that corporate governance practices.

Keywords: *Corporate governance, insider lending and appointment of internal auditor*

1. Introduction

SACCOs are formed, not with an aim of making profit but to provide for the socio-economic welfare of its members (Odhiambo, 2015). According to World Council of Credit Unions (WOCCU), "the primary mission of a SACCO is to conveniently and affordably serve its membership alongside making profits for its shareholders". The Savings and Credit Cooperatives can only meet their goal if they inculcate the corporate governance practices in their operations so as to avoid overlooking the interests of the shareholders and other parties and stakeholders.

According to (Nguyen et al., 2015), from the investors view, corporate governance ensures that the SACCO pays a fair and commensurate return on investments. Further, corporate governance ensures commitment to efficient operation of the entity especially in developing markets where the oversight institutions are still developing.

According to the Capital Markets, corporate governance practices stipulate how SACCO affairs should be managed and outlines the structures and processes that should be in place for prosperity, corporate accounting aimed at giving shareholders long term value without compromising their interests.

On the other hand, according to the Centre for Corporate Governance in Kenya (2005), corporate governance is an avenue through which corporates are directed, managed and held into account; they characterize the widely acceptable definition of accountability by highlighting the nature of the relationship between SACCOs and important corporate stakeholders. Therefore, corporate governance practices stipulate the manner in which corporate entities should be managed, directed and controlled, through proper supervision and accountability of all those in charge of directing and controlling the management process. According to Uwuigbe and Fakile (2012), Corporate Governance Practices embody the manner in which financiers of corporate entities assure themselves of obtaining value from their investment.

In view of the above contributions, it can be stated that corporate governance is diverse and multifaceted subject which deals with accountability as an important aspect of modern corporate management which calls for adoption and implementation of guidelines and mechanisms that yield acceptable behaviour and protection of stakeholders, ensure economic efficiency, achieve maximum economic benefits and ensure shareholders welfare is upheld. However, Uwuibe et al. (2014) is of the idea that corporate governance practices should incorporate stakeholder views in pursuit for enhanced accountability of all the players. The proper governance of companies will become as crucial to the world economy as the proper governance of countries (Mudashiru et al., 2014).

Corporate Governance Practices have emerged as a major policy concern for many developing countries following the financial crisis in Asia, Russia, and Latin America. The collapse of Enron suggests that even the highly industrialized countries such as the USA are not immune to the disastrous effect of bad Corporate Governance Practices. Studies have shown that low Corporate Governance Practices Standards raise the cost of capital, lower the operating performance of industry, and impede the flow of investment. Following the corporate scandals of Enron, WorldCom, and Tyco, more and more countries have embarked on Corporate Governance Practices reforms to better protect the interests of investors (Stein, 2002).

In Africa, significant studies have been done on Corporate Governance Practices. The King's Committee Report and Code of Practice for Corporate Governance Practices in South Africa published in 1994 continues to stimulate Corporate Governance Practices in Africa(Gichure, 2005). Training, technical and awareness raising support has also been extended by the World Bank and the Commonwealth Secretariat to various African countries such as Botswana, Senegal, Tunisia, Mali, Mauritania, Cameroon, Gambia, Mozambique, Mauritius, Sierra Leone and Zambia to help them put in place appropriate mechanisms to promote good Corporate Governance Practices.East African Regional conferences were held in Kampala, Uganda, in June 1998 and September 1999 to create awareness and promote regional co-operation in matters of Corporate Governance Practices. At the June 1998 Conference, it was resolved that each member state of East Africa be encouraged to develop both a framework and a code of best practice, to promote national Corporate Governance Practices. Efforts are also underway to harmonize Corporate Governance Practices in the East African region under the auspices of the East African Cooperation, and through the establishment of a regional apex body to promote Corporate Governance Practices. In Kenya, the Private Sector Initiative for Corporate Governance Practices continues to liaise with Uganda and Tanzania towards the establishment of a Regional Center of Excellence in Corporate Governance Practices. On October 8, 1999, the Corporate Sector at a seminar organized by the Private Sector Initiative for Corporate Governance Practices formally adopted a national code of best practice for Corporate Governance Practices to guide Corporate Governance Practices in Kenya, and mandated the Private Sector Initiative to establish the Corporate Sector Foundation.

Issues of Corporate Governance Practices have been raised with regard to the manner in which countries and public corporations are managed. While emphasis has been on public corporations for a number of years now, attention has shifted to the cooperative movement where a number of studies are now being undertaken to determine the cause of apparent decline in the performance of SACCOs (Ngugi, 2014). There have been arguments that Corporate Governance Practices do not apply to SACCOs as they are not corporations. Turnbull (1977) states that Corporate Governance Practices include all types of firms whether or not they are incorporated under civil law. Firms can therefore exist as common or civil law for example companies, partnerships, joint venture, limited liability partnerships, cooperatives, mutual associations, building societies, friendly societies and trading trusts (Ngugi, 2014). With this description of firms as all institutions engaged in the production and sale of goods and services, then both public and private organizations are included. This therefore increases the scope of Corporate Governance Practices to all economic activities of a country.

Apart from the management aspect of SACCOs, integrity is highly emphasized in good Corporate Governance Practices. It creates a compliance and ethics culture so that employees feel that integrity is at the core of competitiveness while providing mechanisms for identifying risks and for planning for recovery when mistakes or problems occur (Trevino & Nelson, 2016). The integrity aspects in SACCOs should be demonstrated by the directors making decisions on merit and in the best interests of the SACCO rather than personal gain.

The inability of corporations in meeting the requirements of good Corporate Governance Practices results in Corporate Governance Practices irregularities. It's the aim of any corporate entity keen on corporate governance to ensure responsibility and accountability where the virtues of integrity, prudence, open administration and recognition as well as protection of stakeholders' rights prevails. The ideals are essential for countries that seek to attract investments from both local and foreign entrepreneurs but they must additionally ensure the investors are assured of management efficiency, investment security as well as processes which are transparent and accountable with properly managed entities which create jobs, wealth, remain competitive, sustainable and viable in the global market (Wanyonyi & Tobias, 2013).

The rights and responsibilities of all stakeholders and participants such as the board, managers, shareholders, and employees to any corporation should be well outlined and distributed so that the rules and procedures for decision

making are well understood. The importance of Corporate Governance Practices cannot therefore, be understated as they are strong determinants in the survival or collapse of corporate bodies (Kalui & Kamwaro, 2014). Therefore, corporate governance is a pre-requisite for national economic development. It was in view of this, that this study sought to determine the effect of the adoption of Corporate Governance Practices on the Financial Performance of SACCOs, with emphasis on the SACCOs in Nyandarua County.
The study was guided by two null hypotheses:

- H_{o1}: There is no statistically significant effect of Insider Lending on Financial Performance of SACCOs in Nyandarua County, Kenya; and
- H_{o2}: There is no statistically significant effect of Appointment of Internal Auditoron Financial Performance of SACCOs in Nyandarua County Kenya.

2. Theoretical Underpinning

The study was based on three theories, namely; Agency Theory, Stewardship Theory and Stakeholders Theory.As per Agency Theory, the introduction of limited liability and opening up of corporate ownership to the general public through share ownership had a dramatic impact on the way corporate bodies were controlled. The shareholding leads to a separation of ownership and control. The agency problem was first explored by Ross (1973), with the first detailed theoretical exposition of agency theory being presented by Jensen and Meckling (1976). The study defined the managers (who can be Officers or Board of Directors) of a SACCO as the agents and the shareholders as the principal. Fatma and Jensen (1983) stated that an organization has contracts both written and unwritten between the board of directors and the shareholders which stipulate the responsibilities, rights and obligations of each party in the organization as well as evaluate the benefits that accrue to each.

Jensen and Meckling (1976) argued that the agency theory identifies the agency stewardship relationship where one party, the principal (the Member of the SACCOs), delegates work to another party, the agent (Board of Directors). In the context of corporations and issues of corporate control, agency theory views Corporate Governance Practices mechanisms as being an essential monitoring device in ensuring that any problems that may be brought about by principal agent relationship are minimized. Jensen and Meckling (1976), developed the notion of Agency Theory which is important because expropriation, self-dealing and abuse of minorities are common manifestations of the agency problem. Secondly, this view resonates with lawyers from a common law background because it reminds them of shareholder and creditor remedies. Thirdly, from an agency perspective, the principal reason that investors provide external financing to firms is that they receive control rights in exchange (Claessens & Yurtoglu, 2012). If firm managers violate these rights (voting, duty of loyalty, creditor remedies) the financiers can ask a court to enforce them. This legal protection of officers is a central issue in Corporate Governance Practices and this varies from country to country. This theory is important to this study since it helps us to understand the relationships between agents and principals. Moreover, it helps us to understand the role in minimizing the agency problem and ensuring that management's interests are aligned with those of shareholders.

As per Stewards Theory, its proponents Donaldson and Davis (1991), the theory provides a means to understanding the relationship between owners and managers of a corporate entity. It counters the agency theory since it focuses on the role of stewards in protecting and maximizing shareholder benefits through superior firm performance which maximizes output. Therefore, organizations' managers are stewards who protect investors' resources and seek to maximize profits. The theory emphasizes the role of stewardship management and how their goals can be integrated as part of the organization. The stewards can only achieve satisfaction and motivation when their efforts make the organization to succeed. Further, governance structures are important because they empower, reward and offer autonomy which is built on trust between the parties who are stakeholders in the organization. It further stipulates that employees should perform their duties independently but towards maximizing returns to shareholders through cost minimization as well monitoring and controlling employee behaviour.

The theory further points out that managers should enhance and uphold their reputation as decision makers by ensuring that the firm is able to maximize financial performance as well as profits. This theory is important in this study since it helps us to understand which organization structure is required by organizations and how best to blend and harmonize managers and owners for effective and effective performance. Besides, the theory is important, as it helps to explain how an organization will enjoy the benefits of unity of direction, strong command and control.

The Stakeholder Theory was accepted in the field of management in the 1970s and grew gradually by inculcating issues of corporate accountability to a wide range of stakeholders (Freeman, 1999). The stakeholder theory originated from a combination of sociological and organizational disciplines and it is therefore regarded as being a less formal unified theory and more of a research tradition that incorporates political theory, philosophy, ethics, economics and law. According to Freeman (1999) any person or group of persons who can affect or be affected by the actions and fulfilment of the organizations objectives and goals is a stakeholder. Contrary with the agency theory where managers work for the stakeholders, the stakeholder's theory views managers as having working relationships or networks with suppliers, employees and business partners and that such network is beneficial as opposed to owner-manager-employee relationship only.

The theory further explains that an effective organizational structure should ensure sustainable harmony between the key stakeholders such as the management and the shareholders. Greater levels of harmony can be achieved when the Chief Executive Officer also acts as the Chairperson of the Board so as to enhance performance since the CEO will exercise full authority over the organization in a manner that is not ambiguous and unchallenged. The organizational structure will ensure authority is concentrated on a single person making the expectations about organizational leadership to be clear and consistent to the management and other members of the Corporate Board hence leaving no room for ambiguity as to who wields the authority or is responsible for specific organizational matters. Therefore, the organization will enjoy the benefits of unity of direction and strong command of control. This theory is important to this study since it helps us to understand the organization management and business ethics responsibilities bestowed in any organization including SACCOs and the resulting implications to the surrounding entities.

3. Research Methodology

This study employed descriptive research design, which is a research method used to describe the existing phenomena as accurately as possible.

The sample was selected using simple random sampling technique to select fifty-three (53) SACCOs from the population of sixty-one (61) SACCOs registered with the County Co-operatives Officer in Nyandarua County. The sampling targeted two top managers, CEO and a General Manager, who are deemed to have sufficient information on Corporate Governance Practices issues, and Financial Performance was sampled in the study. Purposive sampling was applied to select two managers from each of the 53 SACCOs sampled. This gave a sample size of 106 respondents. The study applied the formulae suggested by Israel (1992) to compute the sample size of the SACCOs. The formula is as follows: -

$n = N/\{1 + N(e)^2\}$

Where: n = sample size, N = Target population = 61 SACCOs and e = Acceptable error (5% for this study).

When substituted in the formula above, the sample for officers will be;

n = 61 / $\{1 + 61 \times (0.05)^2\}$ which implies that n = 53 SACCOs

The data collected was analysed using descriptive statistics including mean and standard deviations. A multiple regression analysis was used to find out effect of adoption of corporate governance practices on financial performance of SACCOs. To investigate the effect of Corporate Governance Practices on financial performance of SACCOs, the study performed a test for a correlation between Corporate Governance Practices Variables and financial performance measures indicated by Return on Equity (RoE).

4. Discussion of Findings

The researcher administered 106 questionnaires to the selected SACCOs in Nyandarua County on a drop and pick later basis. Of the 106 questionnaires that were distributed to the respondents, 100 were duly filled and returned. Therefore, the response rate was 94.3%.

From the conducted research, 46% of the SACCOs in Nyandarua County had operated for between 5 and 10 years, 30% of them had operated for over 10 years while those with a life of less than 5 years were only 24% of the total. The information implied that most SACCOs had operated for a considerable amount of time and therefore were assumed to provide valid responses related to corporate governance aspects.

4.1. Descriptive Statistics of Insider Lending

The study sought to determine the effect of Insider lending on financial performance of Savings and Credit Cooperative Societies in Nyandarua County and the findings were as presented. The descriptive statistics in the form of frequencies, percentages, means and standard deviation were presented as follows; the respondents rated the Insider lending of financial performance with an overall mean of 4.1312. The construct with the highest rating having a mean of 4.667 was that related the SACCOs having procedure for loan approval process, while the condition that all SASRA requirements have to be met before a borrower can be given a loan or a credit facility was ranked second with a mean of 4.560. It was also indicated that the SACCOs advanced loans to their employees and board members as was indicated by a mean of 4.38 and 48% strongly agreed that loans were advanced to employees and board members, 46% agreed with the statement, 2% were neutral and 4% disagreed. Therefore, from the majority of the respondents, there was insider lending among the SACCOs.

As to whether the SACCOs adhered to the lending policies and conditions set by SASRA, the construct with a mean of 4.3137 was ranked fifth highlighting the SACCO conformity to the regulations set by oversight body SASRA and that was supported by 58% of the respondents who strongly agreed that the SACCOs conformed with SASRA regulations for lending and other operations, 40% agreed and only 2% were neutral. Therefore, the SACCOs from the responses conformed to a large extent to the SASRA regulations. On the aspect of whether the borrower needed to be present during loan application approval process, the respondents gave the construct a low score of 3.720, where 38% of the respondents strongly agreed that the applicant needed to be physically present, 26% agreed, 14% were neutral and another 14% disagreed with the statement. Only 8% strongly disagreed. That was followed by the aspect of directors and SACCO officers acting as guarantors to the borrowers with a mean of 3.180 where 24% strongly agreed, 20% agreed and 26% were neutral. Those who disagreed were 10% and another 10% strongly disagreed with the aspect that the SACCO officials acted as guarantors to the borrowers. From the responses on insider lending, the researcher was able to establish that it had effect on financial performance of the SACCOs since lending to directors, employees and members, adherence to the set rules and regulations by SASRA, having all loans secured by guarantors had effect on the financial performance of the SACCOs since it affected its financial prudence and profitability. These findings were in agreement with Maina (2019) who noted that the single biggest contributor to the bad loans of many of the failed local banks was insider lending and least half of the banks' failures, insider loans accounted for a substantial proportion of the bad debts.

4.2. Descriptive Statistics on Appointment of Internal Auditor

The fourth objective was to investigate the effect of Appointment of Internal Auditor on Financial performance of Savings and Credit Cooperative Societies in Nyandarua County. The descriptive statistics in the form of frequencies, percentages, means and standard deviation were presented, where the majority of the respondents at 46% strongly agreed that their Sacco had an internal auditor, 45% agreed with the statement and only 9% were neutral. These findings indicated that the SACCOs had an internal auditor who carried out the audit function of the SACCO. The respondents also strongly agreed (55%) that the internal auditor's appointment was done during the AGM as required by law while 45% agreed with the statement. It was also established from the responses that the internal auditor reported to the Board of Directors of the SACCO as was indicated by 50% of the respondents who strongly agreed, 36% agreed while only 13% were neutral on the matter. Only 1% disagreed with the statement. The findings were in agreement with the sentiments of Hespenheide (2003) who observed that the audit practices have a significant role to play in an SACCO's demonstration of good corporate governance and that; effective internal audit function embraces a broader concept of risk management and PWC (2013) who asserts that, management audit have developed as a means for evaluating the effectiveness and efficiency of various systems within an organization.

4.4. Test for Normality

The dependent and independent variables were tested for normality using the Kolmogorov-Smirnov as well as the Shapiro-Wilk test. If the p-value exceeds α- value of 0.05 then the data is normal. The p-values for the independent variables; Insider Lending and Appointment of Internal Auditor were 0.063 and 0.051 respectively and were above α-value of 0.05 and the data was found to be normal. According to the Shapiro-Wilk criteria, if the- value is greater than 0.900 then the data is normally distributed (Drezner et al., 2008).

4.5. Partial Regression Analysis

Analysis was done on the collected data to facilitate inferences and conclusions on the effect of adoption of corporate governance practices on financial performance of savings and credit co-operatives societies in Nyandarua County. The independent variables of the study were insider lending and appointment of internal auditor while the dependent variable was financial performance of SACCOs. The moderating variable was macroeconomic factors. The results of the regression analysis were presented in the form of regression model summary tables, Analysis of variance (ANOVA) tables and beta coefficient tables.

4.5.1. Regression on Insider Lending and Financial Performance

Regression analysis was carried out to determine the amount of variation in financial performance explained by insider lending. The calculated R value was 0.572. The R square was equal to 0.327 and adjusted R square was 0.326 which means that 32.6% of the corresponding variation in financial performance can be explained by change in insider lending. The rest 67.4% is explained by other factors not in the model.

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.572	.327	.326	.331

Table 1: Linear Estimation of Insider Lending and Financial Performance
Source: Research Data, 2018

The analysis of variance (ANOVA) results indicated that the model fit is appropriate for this data. The F-value was 10.329 with a p-value of 0.011 which was less than 0.05, implying that the overall model is significant in prediction of financial performance of SACCOs in Nyandarua County, Kenya. Hence, this study rejects the null hypothesis that insider lending has no significant effect on financial performance and confirm that there is a significant effect of insider lending on financial performance of SACCOs in Nyandarua County.

Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	29.046	1	29.046	10.329	.011
	Residual	34.975	99	0.3533		
	Total	64.021	100			

Table 2: Analysis of Variance (ANOVA) for Insider Lending
Source: Research Data, 2018

Analysis of regression model coefficients was carried out and showed that there is a negative beta coefficient of 0.511 as indicated in the coefficient's matrix with a p-value= 0.008 and a constant of 1.753 with a p-value of 0.012 which was less than 0.05. Hence, both the constant and insider lending contributes significantly to the model. The model can provide information needed to predict financial performance from insider lending. The regression equation is presented as: $Y = 1.753 -0.511X_1$ where Y is the financial performance and X_1 is the insider lending. This was further in agreement with Kiayai (2003) who noted that the single biggest contributor to the bad loans of many of the failed local banks was insider lending at least half of the bank failures, insider loans accounted for a substantial proportion of the bad debts.

4.5.2. Regression Analysis on Appointment of Internal Auditor and Financial Performance

Regression analysis was carried out to determine the amount of variation in financial performance explained by appointment of internal auditor. The calculated R value was 0.669. The R square was equal to 0.447 while the adjusted R square value was 0.446 which means that 44.6% of the corresponding variation in financial performance of the SACCOs can be explained by change in appointment of internal auditor. The rest of 55.4% can be explained by other factors that are not in the model.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.669	.447	.446	2.8543

Table 3: Linear Estimation of Appointment of Internal Auditor and Financial Performance
Source: Research Data, 2018

The analysis of variance (ANOVA) results in table 4.20 indicate that the model fit is appropriate for this data since the F value was equal to 9.536 with p-value of 0.000 which was less than 0.05. This implies that the overall model is significant in prediction of financial performance of SACCOs in Nyandarua County, Kenya. Hence, this study rejects the null hypothesis that appointment of an Internal Auditor has no significant effect on financial performance and confirm that there is a significant effect of appointment of Internal Auditor on financial performance in SACCOs in Nyandarua County. These findings agreed with the sentiments of the Institute of Internal Auditors (2003) which points out that internal audit function is one of the cornerstones of good governance alongside the board, executive management and external audit. With right positioning in an organization and with professional staff and leadership, an Internal Auditor will provide independent and objective opinions on an operation, and will report these regularly to the board, audit committee and management.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	43.579	1	43.579	9.536	.000
	Residual	70.812	99	0.7153		
	Total	114.391	100			

Table 4: Analysis of Variance (ANOVA) for Appointment of Internal Auditor
Source: Research Data, 2018

Analysis of regression model coefficients was carried out and the results indicated that there is a positive beta coefficient of 0.632 as indicated in the coefficient's matrix with a p-value= 0.00 and a constant of 2.09 with a p-value of 0.000 which is less than 0.05. Hence, both the constant and appointment of an Internal Auditor contribute significantly to the model. The model can provide information needed to predict financial performance from appointment of an Internal Auditor. The regression equation is presented as: Y = 2.09+0.632X4 where Y is the financial performance and X4 is the appointment of an Internal Auditor.

Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	2.09	0.534		3.914	0.000
Appointment of internal Auditor	0.632	0.075	0.480	8.427	0.000

Table 5: Appointment of Internal Auditor and Financial Performance
Source: Research Data, 2018

4.4. Multiple Regression

Regression analysis was carried out to determine the amount of variation in financial performance explained by insider lending and appointment of internal auditor. The calculated R value was 0.882. The R square was equal to 0.778 while the adjusted R square value was 0.770 which means that 77.0% of the corresponding variation in financial performance of the SACCOs can be explained by change in the independent variables. The rest of 23.0% can be explained by other factors that are not in the model as shown below:

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.882	.778	.770	.4613686	1.870

Table 6: Model Summary
Source: Research Data, 2018

The analysis of variance indicated that the model fit is significant at p=.000, F=50.851 and 96 degrees of freedom. This shows that there is a significant effect of Corporate Governance practices on financial performance of SACCOs operating in Nyandarua County. The study therefore fails to accept the null hypothesis that corporate governance practices have no significant effect on the financial performance of SACCOs in Nyandarua County and states that corporate governance practices, namely, insider lending, submission of accounts, disclosure requirements and appointment of internal auditor have significant effect on the financial performance of the SACCOs. These findings were in agreement with those of the study conducted by Wanyonyi and Tobias (2013) on the relationship between corporate governance structures and the performance of insurance companies in Kenya which established that the effectiveness of a Board depends on the optimal mix of inside and outside directors and that inside directors are more familiar with the firm's activities and they can act as monitors to top management especially if they perceive the opportunity to advance into positions held by incompetent executives. The study concluded that an optimal board composition leads to better performance of the companies.

ANOVA						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	57.330	4	14.333	50.158	.000[b]
	Residual	28.992	96	0.302		
	Total	86.322	100			

Table 7: Analysis of Variance of Independent Variables and Financial Performance
Source: Research Data, 2018

From the coefficients matrix, insider lending had great effect on financial performance of SACCOs with a coefficient of -0.391 which implied that insider lending and financial performance of SACCOs have an inverse relationship such that an increase in insider lending by a unit will lead to a decrease in financial performance, the appointment of an Internal Auditor had a beta coefficient of 0.243 implying that adhering with the provisions of appointment of Internal Auditor will lead to an increase in financial performance. The variables were all significant at p=0.000 and p=0.013 for the constant term. The multiple regression equation was modelled as $Y = 0.455 - 0.391X_1 + 0.228X_4$ Where; Y= Financial performance, β_0 = 0.455, X_1 = Insider Lending and X_4 = Appointment of an Internal Auditor. These findings are in tandem with those of the study conducted by Ongore and K'Obonyo (2011) who examined the interrelations among ownership, board and manager characteristics and firm performance among 54 firms listed at the Nairobi Securities Exchange and established a positive relationship between managerial discretion and performance; while Njogu (2014) who focused on the board size, internal audit function and frequency of meeting the board members had similar findings that such corporate characteristics affect financial performance of the firms. Similarly, the study done by Wanyonyi and Tobias (2013) and focused on the board composition, size of the board, transparency and disclosure established that those factors affect the financial performance of the firm.

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.455	.047		9.681	.013
	Insider Lending	-.391	.075	.231	5.213	.000
	Appointment of Internal Auditor	.029	.103	.277	2.816	.000

Table 8: Multiple Regression Analysis
Source: Research Data, 2018

Analysis of regression model coefficients was carried out. The result indicated that there was a negative beta coefficient of 0.632 for insider lending with a p-value= 0.00 and a constant of -1.38 with a p-value of 0.026 which is less than 0.05. The beta values for appointment of an Internal Auditor were 0.038 and hence significant with p -values of 0.000 and 0.010 which were all less than 0.05. Therefore, the constant, insider lending and appointment of an Internal Auditor all contribute significantly to the model. The model can therefore provide information needed to predict financial performance from the independent variables and the moderation of macroeconomic factors. The regression equation after moderation is presented as; Y= -1.38-0.268X1+0.038X4 where Y is the financial performance and X1 and X4 refer to insider lending, and appointment of an Internal Auditor respectively as shown below:

Coefficients						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	Std. Error	Beta		
1	(Constant)	-1.38	.064	-1.28	-21.56	.026
	Insider Lending	-.268	.037	.242	7.243	.000
	Appointment of Internal Auditor	.038	.035	.168	1.085	.010

Table 9: Multiple Regression after Moderation
Source: Research Data, 2018

5. Conclusion

5.1. Effect of Insider Lending on the Financial Performance of SACCOs

The analysis of variance results for the effect of insider lending on financial performance of the SACCOs, implied that insider lending was counterproductive to the SACCOs since it indicated a conflict of interest when the SACCOs' employees and directors are given loans at the expense of the shareholders and may lead to circumvention of the SASRA lending regulations. Secondly, the fact that SACCO directors, employees and officers acted as guarantors in cases of insider lending, this further leads to conflict of interest and reduced financial performance of the SACCOs. Hence, this study rejects the null hypothesis that insider lending has no significant effect on financial performance and confirm that there is a significant effect of insider lending on financial performance of SACCOs in Nyandarua County.

5.2. Effect of Appointment of Internal Auditor on the Financial Performance of SACCOs

The fourth objective sought to examine the effect of the appointment of an Internal Auditor on financial performance of SACCOs in Kenya and the findings indicate that having an Internal Auditor will contribute positively to the financial performance of the SACCO since they will monitor all the internal affairs and provide an independent view of the state of affairs of the SACCO. Hence, this study rejects the null hypothesis that appointment of an Internal Auditor has no significant effect on financial performance and confirms that there is a significant effect of appointment of an Internal Auditor on financial performance in SACCOs in Nyandarua County.

6. Recommendations

Based on the conclusion on objective one, insider lending has a significant effect on financial performance of the SACCOs. From the conclusion on objective two, submission of financial statements to SASRA as required by law on a timely basis and in the recommended form had a significant effect on the financial performance of the SACCO. From Objective three, disclosure requirements where the SACCOs made all the mandatory disclosures had a significant effect on the financial performance of the SACCOs. From the conclusion of objective four, the appointment of an Internal Auditor with the requisite qualifications and experience during the AGM who conducts all the internal audits and makes reports and recommendations had a significant effect on the financial performance.

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